



TECHNICAL ASSISTANCE REPORT

INDONESIA

Subnational Government Endowment Funds

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Authoring Department

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Abbreviations and Acronyms

APBD	<i>Anggaran Pendapatan dan Belanja Daerah</i> – Regional Annual Financial Plan
BI	Bank Indonesia
BPK	<i>Badan Pemeriksa Keuangan</i> – Audit Board of Indonesia
BLUD	SNG Public Service Agency
BUD	SNG General Treasurer
CG	Central Government
IDR	Indonesian Rupiah
IGWF	Intergenerational Wealth Fund
IGFT	Intergovernmental Fiscal Transfers
DAD	<i>Dana Abadi Daerah</i> – Regional Endowment Fund
DAK	<i>Dana Alokasi Khusus</i> – Special Allocation Funds
DAU	<i>Dana Alokasi Umum</i> – General Allocation Funds
DBH	<i>Dana Bagi Hasil</i> – Revenue Sharing Funds
DGFB	Directorate General of Fiscal Balance
HKPD	<i>Hubungan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah</i> – Decentralization Law
IDR	Indonesia Rupiah
KUA	<i>Kebijakan Umum Anggaran</i> regional revenue and expenditure budget
LPDP	<i>Lembaga Pengelola Dana Pendidikan</i> – Endowment Fund for Education
MBFF	Medium-term Budget Financing Fund
MoF	Ministry of Finance
MoHA	Ministry of Home Affairs
PAD	<i>Pendapatan Asli Daerah</i> – Own-sourced Revenue of SNG
PPAS	<i>Prioritas dan Plafon Anggaran Sementara</i> – Provisional budget priorities and ceilings
RPMK	Draft Minister of Finance Regulation on Procedures for Establishment and Management of DAD
SiLPA	<i>Sisa Lebih Perhitungan Anggaran</i> – Excess of revenue receipts over expenditure payments
SNG	Sub-National Government
SPM	<i>Standard Pelayanan Minimum</i> – minimum service standards
SWF	Sovereign Wealth Fund
TKD	Transfers from the Central government
UPD	Fund Management Unit of the DAD
UPP	Program Management Unit of the DAD

Preface

At the request of the Indonesian authorities, an IMF Fiscal Affairs Department (FAD) mission visited Jakarta during August 14 to 29, 2023 to deliver a technical assistance mission on the establishment of local government endowment funds in Indonesia. The mission also delivered a three-day workshop on “Local Government Endowment Fund” for the staff of the Ministry of Finance (MoF), the Indonesia Endowment Funds for Education (LPDP) and the Ministry of Home Affairs (MOHA). Both the workshop and the technical assistance mission were led by Sailendra Pattanayak (Deputy Division Chief in FAD) and comprised Majdeline El Rayess, Gemma Preston and Clement Ncuti (all Senior Economists in FAD) and John Gardner (FAD expert).

During the mission, the team met with the Minister of Finance Ms. Sri Mulyani Indrawati, Mr. Febrio Kacaribu, Deputy Minister and Chairman of the Fiscal Policy Agency, Mr. Luky Alfirman, Director General of Fiscal Balance, and held several technical meetings with the officials of the Directorate of Fiscal Balance, including Mr. Radies K Purba, Mr. Muhammad Hijrah, Mr. Rizki Muliawan, Mr. Gribig Darodjat, Mr. Kindy Rinaldy Syahrir, Mr. Aan Prianto, Mr. Brama Yudha, Mr. Adi Saputra, Mr. Rian Kelana Ednur, Ms. Amelia, Mr. Danang, Mrs. Layyinatus Shifah, Mr. Purwadi, Mr. Muhammad Farid Yusuf, Ms. Taruli Christovina, Mr. Pangeran Hutagaol, Mr. Agus Nugroho, Mr. Ryan Kun. At the Directorate of Investment Management in the Directorate General of Treasury, the team met with Mr. Noor Faisal Achmad, Director, Ms. Tio Novita Efriani, and Mr. Dedy Hermawan. At the Ministry of Home Affairs, the team met with Mr. Rooy John Erasmus Salamony and Mr. Hilman Rosada. The team also held meetings with officials from local governments and met with: Mr. Ramzi from Aceh Province, Mrs. Luluk Alifah from Bojonegoro District; Mr. Andi from Riau Province; and Mr. Rahmat Ramadhan from East Kalimantan Province. Officials that attended the workshop included officials from the Directorate General of Fiscal Balance: Mr. Bhimantara, Director, Mr. Radies K Purbo, Mr. Muhammad Hijrah, Mr. Nasrullah, Mr. Catur Panggih Pamungkas, Mr. Britany A. Sembiring, Mr. Adi Saputra, Mr. Efrizawar, Ms. Amelia Putri Imanda, Mr. Rian Kelana Ednur, Mr. Ananta Sugiyarto, Mr. Rossi Rizki Bestari, Mr. Purwandi Santoso, Mr. Surya Horisonta, Mr. Dudi Hermawan, Mr. Gribig Darodjat, Mr. Harry Kurniawan, Mr. Didin Solahudin, Mr. Ananta Sugiyarto, Ms. Anggun Nadia, Mr. Brama Yudha Kusmara, Mr. Irawan Wijaya, Ms. Pradita Agustina, Mr. Tedy Kurniawan, Ms. Sajidah Putri, Mr. Slamet Riyadi, Mr. Sastrodirjo, Ms. Noviyanti, Ms. Nabila Rahma all from the Directorate of Regional Financing and Economy; Mr. Rizki Muliawan and Ms. Poppy Suprpti from the Directorate of Special Transfer Fund; Mr. Ganjar Prihatmoko from the Directorate of General Transfer Fund; Mr. Kindy Rinaldy Syahrir, Mrs. Layyinatus Shifah and Ms. Taruli Christovina from the Secretariat of the Directorate General of Fiscal Balance. The workshop was also attended by officials from the LPDP: Mrs. Millenia Aulia Susanti, Mr. Salman Al Farin, and Ms. Sri Widianingsih; and from the Directorate General of Treasury: Mr. Fajar M.

The mission team would like to thank the Indonesian authorities for their cooperation, active participation during the workshop and constructive discussions on all topics during the mission. The team would like to thank Mr. Dennis Botman, the IMF Resident Representative in Indonesia, and Staff from the Resident Representative office: Ms. Dessy Kusumawardani, Ms. Dyah Handayani and Ms. Putri Fadilah for their excellent support in organizing the mission and coordinating the meetings. The mission is also grateful for the excellent interpretation services provided by Ms. Rika Agusmelda and Ms. Yulia Fitri Utami.

Executive Summary

While Indonesia is a unitary state under its 1945 Constitution, the Constitution also recognizes the authority of sub-national governments (SNGs) that include provinces (led by a governor) divided into regencies or cities (led by a regent) and municipalities or districts (led by a mayor). Various laws have been enacted for implementing the provisions of the Constitution on intergovernmental fiscal relations. A new Law No.1 was enacted in 2022 (called HKPD) to further improve the legal framework underpinning fiscal relations between central government (CG) and SNGs; and ensure effective resource allocation and optimal welfare distribution. Many SNGs have been carrying forward unspent resources (excess of budget revenue over expenditure), called SiLPA. The SiLPA of SNGs have been significant for a long period with the accumulated funds lying idle in banks. For SNGs where SiLPA is high and there is high quality of public service delivery, the HKPD foresees the establishment of a regional endowment fund (*Dana Abadi Daerah - DAD*) to optimize the use of accumulated SiLPA.

In Indonesia, the motivations and objective for establishing an endowment fund at SNG level are mixed and diverge across various SNGs and other stakeholders. Clarity of the objective and purpose of DAD will be critical for informing the features of its architecture. For example, if the objective is to protect the intergenerational wealth, the DAD should have the characteristics and features of a sovereign wealth fund in the form of an Intergenerational Wealth Fund (IGWF). On the other hand, if the purpose is to meet development objectives broadly or in a sector, the DAD would mainly adopt the characteristics and features of an endowment, stabilization or sinking fund. These disparate objectives should be clarified in the Ministry of Finance (MoF) regulations. International experience has clearly shown that, unless the objective of the fund is understood and specified precisely, problems arise in the operations of the fund which create unnecessary risk.

When DADs are established, they should take account of the fiscal context and align well with the national fiscal policy objectives. Establishing such funds at a time of fiscal deficit entails a 'borrowing-to-save' approach which is not optimal from a fiscal policy perspective. Such funds should only be established when true fiscal surpluses exist. The structure of DAD can evolve as its objectives change or as experience with its management matures. Regardless of the structure of the DAD, it needs to be fully integrated within the budget. Consideration should also be given to the operational characteristics of DAD should fiscal circumstances change. For example, the inflow rules should not be so rigid requiring continued capital contribution to DAD if the fiscal position moves to a deficit scenario. Saving budget surpluses (for example from natural resource wealth) to establish a fund at a time when significant development needs exist at the SNG level requires careful consideration of the fund's features and characteristics. Where the source of funds for DAD is multi-year fiscal surpluses, the underlying reason of these surpluses is also an important consideration. If surpluses exist as a result of weak budget execution, unrealistic revenue forecasts or untimely transfers, these are not true surpluses that should be saved, especially not in an IGWF against a backdrop of elevated development needs.

Currently, there is a misalignment between the design of inflow and outflow rules, the DADs' objectives and the fiscal/economic context. Therefore, the MoF regulations should consider allowing DAD capital to be withdrawn under certain conditions that are aligned with the objectives. Apart from the restriction on the outflow of principal, the draft MoF regulations define a multi-year budget financing vehicle reasonably well. The MoF regulations should, however, separate the disparate objectives of the multi-year budget financing type of fund from that of a sovereign wealth fund concept. Where, however, a SNG does

maintain, or plans to maintain, a genuine fiscal surplus while performing its social responsibilities suitably, a different fund structure should be defined as part of an evolutionary approach. A multi-year budget financing fund (MBFF) would operate along similar lines to those defined by the existing draft MoF regulations. For an MBFF, since there will be no need to restrict the use of the investment yield for the benefit of a single sector, it should be managed directly through the budget. Since the SNG budget managers prepare the budget in accordance with the overall social spending priorities, there should be no need for the function or formation of a Program Management Unit of the DAD (UPP).

The current draft MoF regulations restrict the investment policy of the DAD to conform with HKPD and the Government Regulation and ensure that the investments are free from any risks of impairment loss. Such restrictions suit the objectives of the proposed DADs which are classified as MBFFs. Investment policy guidelines should also ensure that these funds are not allowed to encumber their assets in any way. This would preclude the fund from such activities as providing guarantees, borrowing, entering into derivative contracts, and pledging assets. Once the financial skills and the size of these funds are sufficiently well developed, the investment policy should be amended to allow for internationally diversified instruments and the need to engage professional investment managers, free from conflict of interest.

At present, the draft MoF regulations allow for withdrawal of capital from a DAD only under an 'emergency' situation as defined in HKPD. The concept of financial assets being locked away forever does not conform well with practical operations or act as an incentive for SNGs to invest in these vehicles. The primary need for the establishment of an MBFF appears to be to pool cash resources which have not been spent through budget execution owing to lack of SNG capacity. This lack of capacity may be through overestimation of its ability to make the planned expenditures or underestimation of the amount of revenue it would obtain in the fiscal year. Both sources of budgetary forecast error should be capable of improvement over time. Once the SNG has the capacity to make the requisite socially beneficial spending and forecast its annual revenue reasonably accurately, its budget execution should become sufficiently precise that it does not generate SiLPA or unplanned surpluses. At this point, not only does it make sense to utilize the yield from the DAD on social programs, but also the capital it has accumulated owing to low spending capacity. This would particularly be the case in many SNGs where social needs remain high. A crucial additional element to broadening the scope of the 'emergency' capital withdrawal would be to ensure that repayment will not be immediately requested.

The successful implementation of DAD will demand several other considerations. While reporting requirements are well covered in the draft MoF regulations, strengthening accountability and transparency of DAD will require further support during implementation. A review of the public accounting standards at the SNGs level will ensure that current accounting architecture supports the transparent implementation of DAD. Disclosure of the information to the public should also be specified. The frequency and timeliness of the reports could be clarified in the MoF regulations or subsequent technical guidelines. Monitoring risks related to the functioning of the DAD will require further strengthening of the fiscal risk management framework. A more holistic approach to managing risks should be undertaken by both SNGs and CG. Strengthening coordination among relevant ministries or agencies is crucial to successful implementation of the DAD. During the initial phases of the establishment of the DAD, it will also be important to communicate the objectives, structure and functioning of the DAD to key stakeholders and the public to avoid any ambiguity and set the right expectations. The key recommendations of the report are grouped into assessing the full cost of the DAD, its design and implementation, as summarized below. The report also provides specific suggestions in Annex 6 for improving the current MoF draft regulations.

Recommendations

Recommendation on assessing full cost of specific DAD proposal	
2.1	The rules governing the budget process should be amended in consideration of DAD proposals involving a balance sheet or below-the-line impact, so that the full cost of such proposals (including the hidden cost) is presented upfront to decision makers as part of the evaluation of the policy merits (including its costs, benefits, and risks).
2.2	If cash surpluses leading to SiLPA exist as a result of weak budget execution, unrealistic revenue forecasts and untimely transfers, the underlying weaknesses in budget execution and management should be identified and remedied.
Recommendation on the design of the DAD	
3.1	Replace the requirement to establish a DAD specifically for support of a particular budget sector with the choice of establishing either a multi-year budget financing fund or an intergenerational wealth fund.
3.2	Include the requirement of the forecast of medium-term budget surpluses derived from natural resource revenues in the eligibility criteria for establishment of an Intergenerational Wealth Fund (IGWF).
3.3	Ensure that all income from the DAD is prioritized and utilized through the normal budget planning and execution channels and remove the provision for creation of a UPP from the RPMK.
3.4	Direct SNGs to take advice from the MoF and the Bank Indonesia (BI) when considering withdrawing more than a specified amount from their local banks within a relatively short timeframe.
3.5	Envisage in the RPMK the future need to amend the requirement for risk-free portfolio investments in an IGWF in order to meet its different objectives from a MBFF-type of DAD.
3.6	Ensure that emergency withdrawal approvals from a MBFF by the Minister of Finance include consideration of the enhanced budget implementation capacity of the SNG and that replenishment should only occur when the SNG is in a fiscal position to do so without difficulty.
3.7	Include an evolutionary framework for establishment of an IGWF which includes the ability to expand its investment policy from purely risk-free instruments; to consider its use as a financing fund; and to envisage budgetary use of its capital as the associated natural resources are depleted.
Recommendation on the Implementation issues for the DAD	
4.1	Update and review, where needed, the accounting standards for SNGs to ensure meeting the reporting requirements and increasing transparency.
4.2	DG Fiscal Balance should have a holistic approach to monitoring fiscal risks from SNGs in general, not only those related to the DAD.
4.3	Ensure that IT systems and human capacity at the SNGs would support the implementation of DAD – this could be a prerequisite for establishment of the DAD.
4.4	Establish a framework for evaluating proposals for DADs that take account of hidden costs and present the full cost of the proposal to decision makers.
4.5	Develop a dissemination strategy to communicate to the public both the design and concept of the DAD, as well as the reports related to the performance and function of the DAD.

I. Legal Framework for the Establishment of Endowment Funds in Sub-National Governments

A. Current Legal Context

- 1. Indonesia's legal framework include a hierarchy of laws with the constitution (*Undang-Undang Dasar Negara Republik Indonesia*) at the highest level.** The types and hierarchy of laws below the constitution include the people's consultative council decrees (*Ketetapan Majelis Permusyawaratan Rakyat or Tap MPR*); followed by laws (*Undang-Undang*) and government regulations in lieu of laws (*Peraturan Pemerintah Pengganti Undang-Undang or Perppu*), then Government regulations (*Peraturan Pemerintah or PP*) followed by Presidential regulations (*Peraturan Presiden or Perpres*) then Provincial regulations (*Peraturan Daerah or Perda*), and finally Regency or Municipality regulations (*Peraturan Daerah Kabupaten/Kota or Perda Kabuten/Kota*). Other legal instruments include among others, Ministerial decrees, regulations, and circulars; and regulations issued by heads of institutions and agencies.¹
- 2. The 1945 Constitution of the Republic of Indonesia recognizes Indonesia as a unitary state but also recognizes the authority of sub-national governments (SNG).**² SNG include provinces (lead by a governor) divided into regencies or cities (lead by a regent – *Bupati*) and municipalities or districts (led by a mayor – *Wali Kota*). SNG are granted regional autonomy in that they have the right, authority, and obligation of an autonomous region to govern and manage state affairs and interests of the local people on their own in accordance with existing laws.
- 3. Legislations have been promulgated, implementing provisions of the 1945 Constitution on fiscal relations matters.** In implementing provisions of the constitution, and in particular those related to the relations between the central government (CG) and SNG in finances, public services, and the use of natural and other resources (article 18A paragraph 2), laws were passed concerning revenue sharing between CG and regional governments (law n° 33 of 2004) and concerning local taxes and levies (law n° 28 of 2009).
- 4. A new law was promulgated in 2022 to further improve the legal framework of financial relations between CG and regional governments.** Law n° 1 of 2022 concerning financial relations between the CG and SNG or *Hubungan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah* (HKPD) was promulgated, aiming at improving effective and efficient resource allocation and achieving optimal welfare distribution. It is expected that implementing regulations of the HKPD are promulgated no later than two years after the Law comes into effect. Pre-existing laws and regulations on financial relations between the CG and SNG, including law n° 33 of 2004, law n° 28 of 2009 and the law on regional governments (law n° 23 of 2014) all as amended to date remain valid, to the extent they do not

¹ Article 7 of Law of the Republic of Indonesia No. 12 of 2011 concerning making rules.

² Chapter VI of the Constitution is dedicated to "Regional Authorities," guaranteeing their autonomy and article 18 defines the administrative division of the country and provides for relations between the central government and the regional authorities regarding finances, public services; the use of natural and other resources are regulated and administered with justice and equity according to law.

conflict with HKPD law. HKPD comprises four main pillars aimed at: (i) reducing vertical and horizontal inequality; (ii) improving the quality of spending; (iii) strengthening local taxing capacity; and (iv) harmonizing central and regional spending. HKPD makes provisions for the use of SNG performance indicators in the design of intergovernmental fiscal transfers (IGFT), a strengthening of the alignment of CG and SNG fiscal policies, a restructuring and rationalization of local taxes and fees, and the establishment of regional endowment funds or *Dana Abadi Daerah* (DAD). The next headings discuss IGFT and SNG's surplus/deficit in Indonesia, and the Indonesia Endowment Fund for Education or *Lembaga Pengelola Dana Pendidikan* (LPDP) to which the proposed DAD are modelled, before moving to discussions on provisions in draft implementing regulations of HKPD.

Transfers to Sub-National Governments

5. The legal framework in Indonesia provides for distribution of responsibilities (government affairs) at different levels of government.³ Three types of government affairs are recognized:

(i) absolute government affairs, (ii) concurrent government affairs, and (iii) general government affairs. Responsibilities devolved to SNG represent concurrent government affairs which are government affairs divided between the CG and SNG. Concurrent government affairs handed over to the SNG become the basis for the implementation of regional autonomy.

6. Provisions are made in the law for concurrent government affairs attributed to either; (i) the CG, (ii) provinces, or (iii) districts and cities with specific boundaries for specific attributions for each level of government. Concurrent government affairs attributed to SNG consist of mandatory government affairs (that relate to basic public service) and elective government affairs (that are not related to basic public service). Mandatory government affairs related to basic public services include: (i) education, (ii) health, (iii) public works and spatial arrangements, (iv) public housing and residential areas, (v) community law and order, and (vi) social affairs whereas mandatory government affairs not related to basic public services include women empowerment and child protection, land, environment, population control and family planning, and population administration and civil registration among others. Basic public services are guided by minimum service standards or *Standard Pelayanan Minimum* (SPM) set by CG that stipulate the type and quality of basic public services that every citizen is entitled to at a minimum.^{4,5}

7. The legal framework further makes provisions for the allocation of financial resources to SNG in the conduct of government affairs under their authority. Besides the SNG's own revenue or *Pendapatan Asli Daerah* (PAD) that form part of their source of funding are transfers that include transfers from the central government or *Transfer Ke Daerah* (TKD) and inter-regional transfers. The TKD comprises: (i) revenue sharing funds or *Dana Bagi Hasil* (DBH), (ii) general allocation funds or *Dana Alokasi Umum* (DAU), (iii) special allocation funds or *Dana Alokasi Khusus* (DAK), (iv) special autonomy funds; (v) privilege funds; and (vi) village funds. The DBH, DAU and DAK are all equalization funds. Revenue sharing of the DBH stems from taxes (income tax, property tax, excises on tobacco) and natural resources revenue (including oil and gas revenue) that are redistributed to SNG at the province, regency, municipality, and district level using percentages determined by the law. The DAU is allocated with the

³ Law no 23 of 2014.

⁴ Ibid.

⁵ Government regulation n° 2 of 2018.

aim of equitable distribution of financial capacity between regions to fund regional needs in the context of implementing decentralization and is allocated to each SNG based on the fiscal gap for a year, calculated as the difference between the regional fiscal needs and revenue potential weighed at provincial and district/city level. The DAK is allocated to achieve regional performance targets and comprises a physical DAK (for capital spending), a non-physical DAK (for current spending) and grants from abroad. Special autonomy funds are allocated to SNG with a special autonomy status (these are currently the provinces of Aceh, Papua, West Papua, and Jakarta). Privileges funds are allocated to the special region of Yogyakarta. Village funds are allocated to villages to fund community development and village affairs in accordance with provisions in the law on villages.^{6,7}

Sub-National Governments' surplus/Deficits and Financing

8. The annual budget, comprising revenue, expenditure, and financing operations at the SNG is included in the regional annual financial plan or *Anggaran Pendapatan dan Belanja Daerah (APBD)*. In instances where the identified revenue (including SNG own revenue and transfers) exceed identified expenditure (including expenditure for mandatory and elective government affairs) in *above the line* operations of the APBD, the resulting surplus can be used for *regional financing expenditure* including: (i) payment of principal installments on outstanding debt obligations; (ii) investment in equity financial assets; (iii) formation of a reserve fund; and (iv) other financing expenditure as determined by the regional regulations on the APBD. In instances where there is a deficit in *above the line* operations of the APBD, the deficit can be financed using *regional financing revenue* including: (i) resources carried forward from the previous fiscal year representing the excess of revenue receipts over expenditure payments or *Sisa Lebih Perhitungan Anggaran (SiLPA)* during the budget period, (ii) drawdowns on the reserve fund; (iii) proceeds from the disposal of financial assets; (iv) borrowing; and (v) other financing revenue as determined by the regional regulations on the APBD.^{8,9}

9. SNG's SiLPA have been significant for a long period with the funds seating idle in banks (Figure 1). SiLPA usually accumulate as a result of: (i) excess receipts in PAD and DBH, (ii) excess of actual revenue receipts over expenditure payments, (iii) excess financing, (iv) spending efficiency gains, (v) any unpaid amounts at the end of the year for goods/services which will paid next year, or (vi) unused expenditures allocated to achievement of performance targets. From analysis conducted by the Audit Board of the Republic of Indonesia or *Badan Pemeriksa Keuangan (BPK)*, the Ministry of Finance found out there had been an increase in SiLPA from 2009 to 2015 as a result of increases in SNG's PAD and TKD not accompanied by the ability to plan and execute spending due to weaknesses in budget planning and implementation.¹⁰

⁶ Ibid.

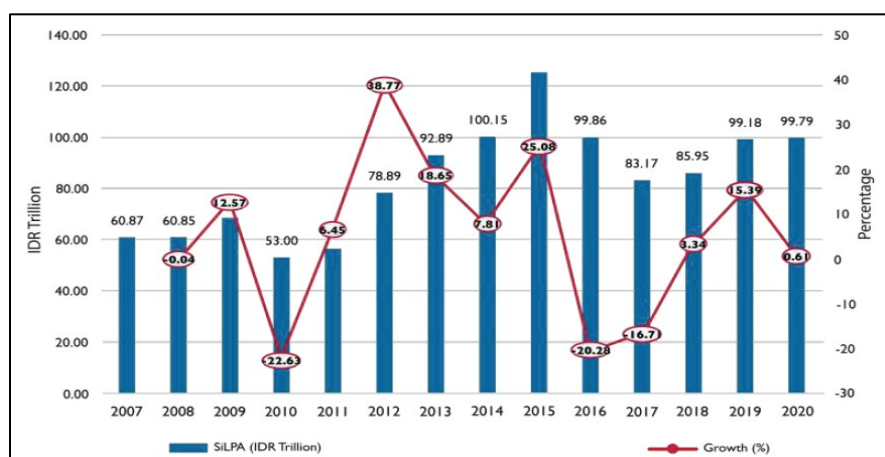
⁷ Law n° 1 of 2022.

⁸ Government regulation 12 of 2019.

⁹ Law n° 23 of 2014.

¹⁰ Ministry of Finance and USAID (2022), Two decades of fiscal decentralization implementation in Indonesia.

Figure 1. Indonesia – Evolution of SNG SiLPA (2007–2020)



Source: Indonesia Ministry of Finance and USAID.

10. Provisions have been made in HKPD for optimization of accumulated SiLPA. HKPD recognizes three circumstances for the use of SiLPA. For a SiLPA whose use has been earmarked for spending based on laws and regulations in the previous fiscal year, the SNG is required to budget for the said SiLPA according to its use. For SNG where SiLPA is high and public service delivery is low, the Government can direct the use of SiLPA for regional public service in infrastructure that is oriented towards regional economic development. For SNG where SiLPA is high and there is high public service delivery, SiLPA can be invested and/or used for the establishment of DAD with due regard of the SNG priorities that must be met. The authorities indicated modeling DAD to the LPDP that has grown substantially in size over the last decade (see [Box 1](#)).¹¹

B. Draft Regulations for the Establishment of Endowment Funds in Sub-National Governments¹²

11. The authorities are drafting implementing regulations for the HKPD. A draft government regulation on harmonization of national fiscal policy has been finalized and awaits promulgation while a draft Minister of Finance regulation on procedures for establishment and management of DAD (RPMK) is being finalized. The draft government regulation includes broad provisions on the establishment of DAD while the draft RPMK goes more in details on the establishment, institutional arrangements and governance, the investment policy, utilization of yields, increases to and withdrawals from the fund, reporting and accountability, risks management, and monitoring and evaluation.

¹¹ Law n° 1 of 2022.

¹² See Annex 1 for a detailed description of the draft regulations.

Box 1. Indonesia Endowment Fund for Education

Indonesia has been operating an endowment fund for education for over a decade. Consistent with the 1945 Constitution of the Republic of Indonesia that mandates allocation of at least 20 percent of the national budget to education, the authorities established a permanent national education development fund in 2010 through allocations from the national budget. The fund was formalized as an organ, the LPDP, within the Ministry of Finance to which annual allocations are made from the budget. Through the Presidential Regulation Number 111 of 2021, LPDP received a mandate to become the manager of the Endowment Fund in the Education Sector comprising four separate funds: (i) Education Endowment, (ii) Research Endowment, (iii) Higher Education Endowment Fund, and (iv) Culture Endowment Fund.

The LPDP principal had grown to about IDR 134.1 trillion (about US\$ 8.9 billion) as of July 2023 from a starting allocation of IDR 1 trillion in 2010. The LPDP investment policy provides for allocation of its assets into debt securities (60 percent), time deposits (36 percent) and equities for the rest. A large portion of yields from LPDP investment is being used for education-related programs (scholarship, research, etc.). LPDP receipts are reflected in the budget as transfers to the entity and spending are also reflected on the budget as either from direct spending by the LPDP for or through line ministries.

The governance structure of the LPDP includes three organs. While the ultimate oversight rests with the Minister of Finance, LPDP governance include three organs: (i) a board of trustees that provides the strategic policy directions, (ii) a board of supervisors that supervises and advises the board of directors; and (iii) a board of directors. A government investment committee at the national level oversees LPDP's investment performance.

The LPDP prepares and publishes various reports. The reports published include an annual government investment management report including financial statements that is audited by the BPK; a quarterly long term investment implementation report, an annual report, a performance report and a business plan and budget reported annually.

12. The DAD would be established as a perpetuity fund aimed at enabling regional governments to manage finances for intergenerational benefit and sustainability, as well as to improve the quality of regional finance management. The process of establishing a DAD involves three stages: preparation, assessment, and stipulation. The preparation stage involves drafting regional regulations about the fund, determining the sources and amount of funds to be used, preparing a fund manager, and setting up management facilities. The assessment stage involves evaluating the application for fund establishment, both administratively and substantively, to ensure it aligns with criteria like fiscal capacity and mandatory government affairs. The Minister of Finance would approve or reject SNG proposal for establishing a DAD alongside the recommendation from MoHA, and approval would be granted within a specific timeframe.

13. Certain criteria must be met for establishing a DAD. The SNG should have a high or very high fiscal capacity (see also Box 1 in Annex 1 on computation of fiscal capacity) and should have fulfilled the needs of mandatory government affairs related to basic public services. The fiscal capacity is determined based on the Ministerial Regulation regarding regional fiscal capacity, considering the previous five years' fiscal capacity (this is not final and is still under discussion). Once approved, the DAD would be stipulated in a regional regulation and allocated as financing expenditure in the APBD (i.e., by identifying the sources and amounts of funds to be used for the establishment of DAD as included in the SNG's budget framework, the investment of DAD, and use of the investment yields).

14. Provisions are made for funds management. The fund management includes various aspects such as planning, implementation, utilization of yields, additional funds, reporting, supervision, accountability, and emergency withdrawals. The functions of fund management and program

management would be established under the supervision of the head of the SNG. The head of the SNG holds the authority to manage the fund and appoint managers of the fund management unit (UPD) and program management unit (UPP).

15. The fund's investments would be carefully selected to balance risk and return, with a focus on financial instruments that safeguard the principal while optimizing returns. The yields from the fund are utilized to improve and expand public services aligned with regional priorities, such as education, health, environment, and tourism.

16. Reporting, monitoring, and evaluation play vital roles in overseeing the fund's management. Reports detailing the fund's performance, program achievements, and other relevant information would be prepared by the UPD and UPP. Supervision of the DAD would be conducted by the SNG internal supervisory organs. The DAD management would be subject to risk analysis and risk management. These would cover operational, market, liquidity, compliance, legal, reputation, and strategic risks. Monitoring and evaluation would be conducted by different entities, including the Minister of Finance, the Minister of Home Affairs, the Regional Head, and the DAD management unit, to ensure proper governance and effective utilization of the fund.

II. Regional Endowment Funds – Issues Arising

A. Motivations and Objective

17. The motivations and objective for establishing regional endowment funds at the sub-national level in Indonesia are mixed and diverge across various stakeholders. HKPD suggests that the purpose of the fund is for ‘intergenerational benefit’. The Government Regulation suggests that the Fund is for the ‘benefit and sustainability of future generations and to improve the quality of regional financial management’. Various stakeholders – the Ministry of Finance (MoF), Ministry of Home Affairs (MoHA) and individual sub-national governments themselves – have also articulated additional objectives. These include helping local governments to understand the concept of saving, protecting against wasteful spending, better utilization of idle cash balances at the regional level to support national development goals, emulating the experience with the LPDP at national level, and providing extra revenue for the delivery of public services – or simply just to improve, incrementally, the status-quo (such as in the case of Aceh where the main benefit of Fund establishment would be allowing that earnings could be spent).¹³

18. Such mixed and often competing objectives make it challenging to select the appropriate characteristics of the regional endowment fund that will best serve the intended purpose. Sovereign wealth funds established with an intergenerational objective have very different set of characteristics and features as compared to Development Funds established to mainly meet development objectives. These are also different from the characteristics and features of an endowment (MTFF), stabilization or sinking fund. [Annex 2](#) provides a summary of various types of funds and their structures and objectives along with the characteristics and features that best fit the achievement of these different objectives.

19. International experience also suggests that Funds established to serve mixed objectives don’t tend to be very successful. This is because the specific objective of a fund is the main determining factor for its features and characteristics, such as the structure, the source of funding, inflow/outflow rules, and investment policies. When multiple objectives come into conflict with each other, this often leads to poor design choices that can be detrimental to the success of the fund. The Alberta Heritage Savings Trust Fund of the Alberta State of Canada is a clear example of a misalignment between the characteristics and features of the Fund (in this case the investment policies and drawdown rules) and the ultimate objective of the Fund to preserve intergenerational wealth ([Box 2](#)).

20. Clarity of objective and purpose of the fund, alongside the motivations for its establishment, are critical to informing many other features and characteristics of the Fund’s architecture. This includes, for example, the type of fund to be established, its structure, funding source, the inflow outflow rules and investment policy which are further discussed in the following sections.

¹³ Aceh currently has their accumulated surpluses of IDR 1.3 trillion secured in term deposits in regional banks. The earnings on these deposits cannot be used for spending, as in the authorities’ view, there is no government regulation that gives them such authority. Finalizing the enabling regulations at the national level would allow Aceh to establish a regional endowment fund. While their stated intention is to keep the accumulated surpluses in term deposits, establishing the fund would legally allow them to spend the earnings on public service provision.

Box 2: Alberta Heritage Savings Trust Fund

The Alberta Heritage Savings Trust Fund was established in 1976 to receive 30 percent of the province's non-renewable resource revenue. It was created with three objectives: "(i) to save for the future, (ii) to strengthen or diversify the economy, and (iii) to improve the quality of life of Albertans." The objectives all seemed very rational, but they would require different design features and characteristics to be achieved. The Fund would also accumulate interest on the principal.

The investment mandate allowed the Fund to invest in projects that would contribute to the economic development of the State of Alberta. This investment policy choice is one better suited to a Development Fund than an Intergenerational Fund - because of the higher than desirable risk and potentially low return associated with development projects and the lack of opportunity to diversify investment risks offshore. In the case of Alberta, the investments made were not overly successful and losses were involved.

In addition, the inflow rules were modified quickly after establishment to lower contributions to 15 percent in 1983 and then eliminated in 1987. Lower contributions over time is not necessarily problematic but so soon after establishment was not consistent with the idea of preserving non-renewable wealth for generations. This combined with the fact that in 1983, only six years after establishment, outflows were approved from the Fund to meet budget spending pressures. This was reportedly on a temporary basis – but these were never replenished. All interest income from the fund was also withdrawn.

Source: IMF Staff.

B. Fund Structure

21. Given the lack of consensus on the objective of the proposed regional endowment fund in Indonesia, its structure appears unorthodox and needs to be clearly defined.

- For example, the fund objective as per the law and regulations is intergenerational. To establish a fund for the objective of preserving intergenerational equity, typically it is expected that the source of funds is from the exploitation/extraction of non-renewable wealth (usually natural resource wealth) and that such contributions to the fund are preserved to be available for future generation (not necessarily in perpetuity) when the natural resource assets are depleted, or any associated liabilities fall due. In addition, given intergenerational funds have a longer-term perspective, the risk tolerance is generally higher to facilitate investments in assets that could provide higher earnings, unlike government bonds and cash deposits that are low yielding, reflecting their low-risk nature.
- Instead, if the objective of the fund is to provide extra revenue for delivering public services or national economic development, e.g., in a context where significant development needs exist, funds that are perpetual in nature are not well suited to this objective. This is especially so given the foreseeable need to access these funds in the nearer term. As an international example, [Annex 3](#) compares the characteristics and features of a fund established with an intergenerational objective (the Future Fund) with another fund established with an endowment objective (Medical Research

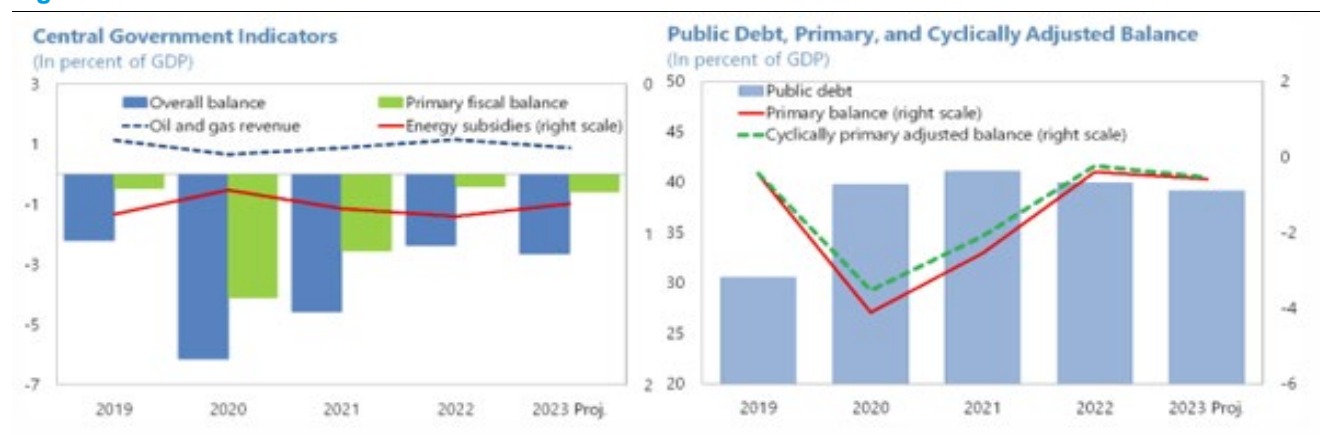
Future Fund) in Australia. Of note is the differences in the inflow/outflow rules, expected benchmark rate of return, and investment policy and asset allocation.

22. The structure of a fund can evolve as its objectives change or as experience with its management matures. There are provinces in Indonesia with natural resources wealth where it might make sense to establish an intergenerational fund over time. However, as experience grows, there may be opportunity for an endowment style fund that is currently proposed, to evolve into an intergenerational wealth fund. At this time, this would mean a reconsideration of the appropriate benchmark rate of return and investment policies, compared with the current proposal, to better balance the risk-reward trade off. This would allow a broader mix of investment instruments beyond term deposits and government bonds, that could attract a higher yield.

C. Fiscal Context and Alignment with Fiscal Policy Objectives

23. Indonesia’s national fiscal policy currently operates from a deficit position and has moderate levels of government debt. Figure 2 shows that in 2023, the overall deficit at the central level is around 3 percent of GDP and public debt is around 40 percent of GDP. Spending needs in excess of revenue collected (including capital contributions to endowment funds) are met through additional government borrowing. While there is some variation, at the sub-national level most governments are experiencing budget surpluses. The majority of their revenue originates from central government transfers that is subject to a transfer mechanism that is not easily adjusted.

Figure 2: Indonesia’s Fiscal Stance and Debt Levels



Source: IMF 2023 Article IV Consultation Staff Report.

24. When regional endowment funds are established, they should take account of the fiscal context and align well with the fiscal policy objectives. In principle, to optimize fiscal policy objectives, a fund should only be established when fiscal surpluses exist and there are low levels of government debt. For example, the Australian ‘Future Fund’ in 2006 and the ‘Alaska Permanent Fund’ in 1976 are funds that were established in accordance with this principle. In the Australian example, consecutive budget surpluses existed, and the debt level was 4.9 percent of GDP. More information on the characteristics and features of these funds, including the fiscal context, is provided in Annexes 3 and 4 respectively.

25. Consideration should also be given to the operational characteristics of the Fund should fiscal circumstances change. This means, for example, that inflow rules should not be so rigid requiring continued capital contribution if the fiscal position moves to a deficit scenario. In the example of the Australian Future Fund, no further contributions were made to the Fund when the fiscal balance shifted to a deficit. This was not the case at the sub-national level, where contributions to the New South Wales (NSW) Generations Fund established in 2018 continued, even though there was a shift in the fiscal balance to a deficit position to deal with the pandemic. After heavy scrutiny of this approach, capital contributions to the NSW Generations Fund ceased in 2021.

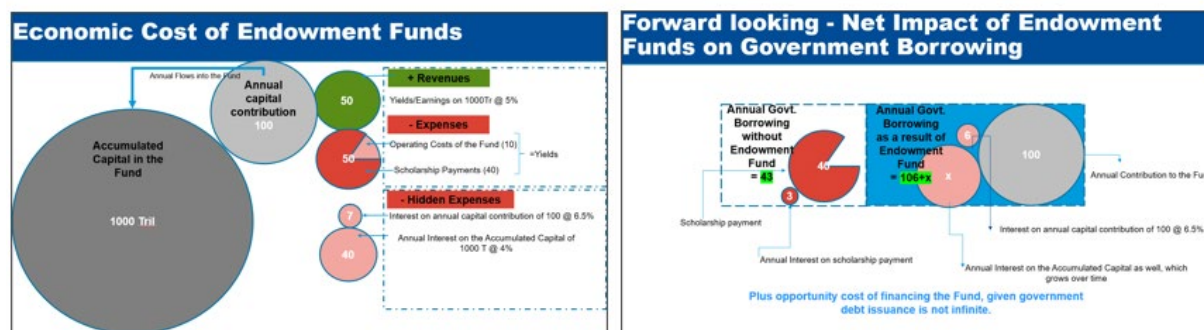
26. In the absence of fiscal surpluses, it is sub-optimal for the government to borrow to finance its capital contributions to the Fund. That is to say that establishing a Fund (and also continuing to contribute capital to the Fund) at a time of fiscal deficit, leads to the ‘borrowing-to-save’ principle.¹⁴ Such an approach, from a fiscal policy perspective, is not optimal. It is inefficient and has both direct and indirect costs that add up. The trade-off from this approach becomes even more acute amid rising yields and levels of debt. In addition, it expands the balance sheet for both financial assets and gross debt, increasing the gross financing task and risks from associated assets and liabilities.¹⁵

27. It also increases borrowing costs which is often a ‘hidden cost’ of such mechanisms. The government would be paying interest on borrowings to capitalize the fund – not only in the current year but also on an ongoing basis, as demonstrated by the hidden expenses on the left-hand side of [Figure 3](#). Given recent experience, Australia has recently established a principles-based framework to help guide decision making when it comes to establishing investment fund and considering the full cost of such investment. This includes the opportunity cost of borrowing to fund these types of initiatives, as opposed to other initiatives where prioritization normally occurs through the budget process (See [Annex 5](#) for further discussion). In Indonesia, the rules governing the budget process could be amended when it comes to the consideration of policy proposals involving a balance sheet or below-the-line impact, so that the full cost of such proposals (including the hidden cost) is presented upfront to decision makers as part of the evaluation of the policy merits (including its costs, benefits, and risks).

¹⁴ In general, it is almost always not advisable for countries to borrow in order to save the proceeds. This ‘borrow-to-save’ (BTS) rule is rooted in the reality that there is usually a high financial cost to borrowing that will exceed the return on the assets that are invested, leading to a financial net loss.

¹⁵ Gross financing task includes the fiscal deficit plus debt rollovers plus transactions in financial assets or below-the-line items (for example equity injections to SOEs, capital contributions into Fund, government funded loans).

Figure 3: Hidden Costs of Investment Funds Financed with Borrowed Capital



Source: IMF Staff.

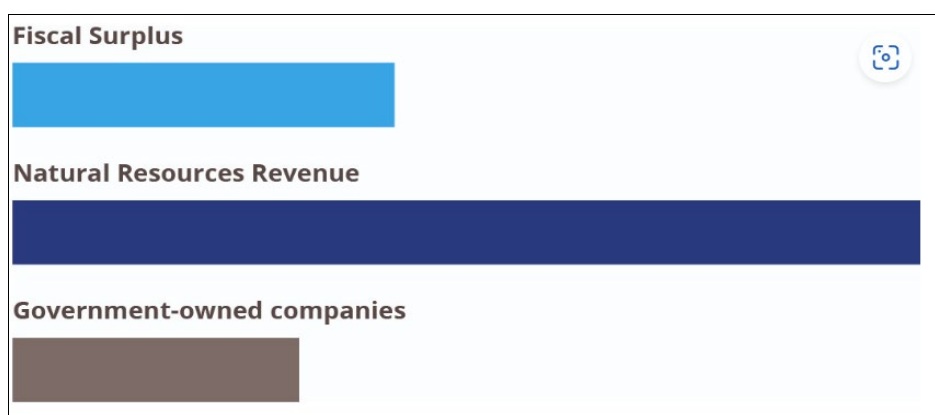
28. The decentralization architecture and function of the transfer mechanism in Indonesia complicate the application of the borrow-to-save principle at the sub-national level. While the central government is borrowing to fund the fiscal deficit, pre-determined transfers to sub-national government are required, even if these transfers are unable to be spent. As a result of this constraint, considerable surpluses accumulate at the sub-national level, leaving potentially large 'idle' cash balances, that do not support an optimal fiscal outcome.

29. Against this background, the economic context also matters. Saving budget surpluses (for example from natural resource wealth) to establish a fund at a time when significant development needs exist also require careful consideration of fund features and characteristics. Some considerations include that a part rather than all the revenues from natural resources are preserved in the Fund so that part of the resource revenue is available to fund development today. Other consideration is to think about under what conditions capital could be utilized to fund development needs as opposed to locking it within the Fund in perpetuity.

D. Sources of Funding

30. Despite the objective of the Fund being identified in the legislation as intergenerational, there are limited regions that could take advantage of such an objective. This is because only a limited number of regional governments have resource wealth that they could preserve for future generations. Bojonegoro may be one; however, a fund with characteristics that could serve intergenerational objective in its case has not been proposed. In addition, significant development needs remain. Internationally, the majority of funds established have natural resource revenues as the source of their funding, see Figure 4. Unique to Indonesia, declining special revenue streams for some regions related to their 'special autonomous status' – e.g., Aceh – could argue that their declining source of funding from the central government needs to be saved, akin to the idea of an intergenerational fund.

Figure 4: Sources of Wealth for IFSWF Members in 2018 (includes 23 members)



Source: About the IFSWF Membership | International Forum of Sovereign Wealth Funds - <https://www.ifswf.org/about-ifswf-membership>

31. Where the source of funds is multi-year fiscal surpluses, the underlying reason of these surpluses is an important consideration. For example, if surpluses exist as a result of weak budget execution, poor/ unrealistic revenue forecasts and untimely transfers, these are not true surpluses that should be saved – especially not in an intergenerational-type fund against a backdrop of elevated development needs.¹⁶ In fact, they point to underlying PFM weaknesses in budget execution and management that should be remedied. Addressing the underlying PFM weakness will take time, and in the meantime, the question is how to best deal with such surpluses in the most efficient way until they could be spent. In the case of such surpluses, it would be important to ensure that a solution is temporary and enables access to resources to fund development needs as capacity to spend improves.

E. Inflow and Outflow Rules

32. Capital contributions being preserved in perpetuity is not well suited to the objectives of the Fund and may act as a disincentive for regional governments. The Indonesian proposal suggests that inflows to the fund are permanent in nature and therefore, outflows extend only to the earnings generated from the fund's investment. This feature is not well suited to a fund with an intergenerational objective or as mentioned earlier in a context where significant development needs exist. Where such objectives exist, there is an expectation that a drawdown of capital from the fund is possible at some future point. For example, when a certain milestone, target asset level or other condition is reached – capital can be withdrawn from the fund to either to allow the next generation to benefit from the wealth accumulated or to fund pressing developmental spending needs.

33. Given the misalignment between the design of inflow/outflow rules, the Fund objective and the current economic context, consideration should be given in the draft regulations to allow capital to be withdrawn from the fund under certain conditions that are aligned with the objectives. This might also include better defining the outflows for 'emergencies' clause in the

¹⁶ Development needs in this context does not refer to development projects as would be expected by a Development Fund but instead refers to the provision of basic goods and services ordinarily provided by governments to its citizens.

regulations and the required replenishment of drawdowns from the Fund which again do not fit well with the achievement of the overall fund objectives.

F. Investment Policy

34. The investment policy proposed is highly conservative and may limit incentives for regional governments to establish a Fund. The spectrum of investment instruments covers term deposits, government guaranteed project loans,¹⁷ and government securities. The yield on these instruments is very low compared to other types of investments and may not adequately compensate sub-national governments for having to 'lock away' capital in perpetuity (e.g., East Kalimantan). This is especially the case for those that have an intergenerational objective to preserve natural resource wealth (e.g., Bojonegoro) or those that have large, accumulated surpluses and the financial capacity to manage them (e.g., Jakarta).

35. Those with natural resource wealth could, in absence of any other factors, afford to take on a higher level of risk over time given the longer-term nature of the investment. International experience also demonstrates the differences in asset holdings by asset class depending on the investment mandate and policies which inevitably is linked to the fund's objective and investment horizon. As [Box 2](#) shows, different funds with different objectives have different investment policies and, therefore, different asset allocations. This can also be seen in further detail in [Annex 2](#).

36. At the same time, regional government financial capacity in Indonesia is not consistently at the required level to invest in more complex but higher yielding arrangements. This may evolve over time to include more sophisticated instruments and tolerate a higher level of risks as experience grows. Indeed, this was the experience in the US State of Alaska with the Alaska Permanent Fund. As the Fund became more established, the investment portfolio broadened, and the level of risk appetite increased with experience. As shown in [Figure 5](#), the Alaskan Permanent Fund moved from 100 percent bonds in 1980 to 60 percent in 1990 to 20 percent in 2002. Important instruments to safeguard against more risky arrangements are also transparency in management, reporting and disclosure practices. In addition, given the longer-term nature of the investment, there is a need to deploy a strategy that allows for inflation protection. As demonstrated in [Annex 3](#), both the Future Fund and Medical Research Future Fund in Australia have provisions in their investment mandates to take account of the impact of inflation, to ensure the purchasing power of the capital contributed is also preserved.

¹⁷ While low risk for the SNG, there may be risks for the central government if the projects and their associated guarantees aren't assessed appropriately.

Box 2. Example of Differences in the Asset Allocation of Funds with Different Objectives

The figure below shows the differences in the asset allocation of different funds established in Australia. The intergenerational fund (the Future Fund) and the Endowment Fund (the Medical Research Future Fund) have different objectives – which leads to differences in the benchmark rate of return, risk tolerance and therefore the investment policy.

In the case of the Future Fund and the longer-term horizon (intergenerational) it is able to take on more risk than the Medical Research Future Fund. As result, we see the Future Fund has low cash and government securities holdings (20 percent) while having a higher developing markets equities allocation (17 percent) and a higher propensity to hold illiquid assets. By contrast the endowment fund has a high cash and government securities holdings (55 percent) and much lower developing markets equities allocation (7 percent). It also has a lower propensity to hold illiquid assets given the need to finance outflows from earnings.

Box Figure 1

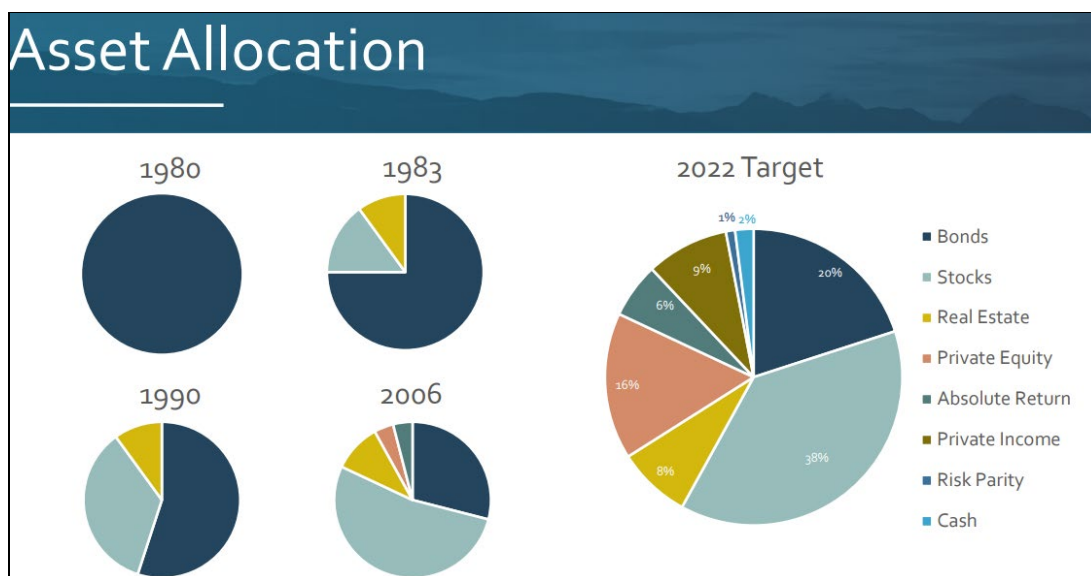
Asset class	Intergenerational Fund Future Fund		Endowment Fund Medical Research Future Fund	
	\$m	% of Fund	\$m	% of Fund
Australian equities	17,913	8.8	794	3.7
Global equities				
Developed markets	34,536	17.0	1,349	6.2
Emerging markets	11,955	5.9	552	2.5
Private equity	33,320	16.4	1,200	5.5
Property	13,118	6.5	1,082	5.1
Infrastructure & Timberland	19,166	9.4	1,254	5.8
Debt securities	16,706	8.2	2,621	12.1
Alternatives	34,616	17.1	3,573	16.5
Cash	21,488	10.6	9,291	42.8
TOTAL	202,818	100.0	21,716	100.0

Source: IMF Staff, [Future Fund | Portfolio updates](https://www.futurefund.gov.au/investment/investment-performance/portfolio-updates) - <https://www.futurefund.gov.au/investment/investment-performance/portfolio-updates>.

G. Eligibility Criteria

37. The eligibility criteria for regional endowment funds in Indonesia is currently very broadly defined and are interpreted differently by different stakeholders. Even among government agencies, there is a range of estimates (between 1 and 31) as to how many of the 546 subnational governments would be eligible for such an arrangement. A certain level of capacity will be required to manage these funds structures along with the additional reporting and governance needed to ensure the credibility of the Fund. The criteria should be strengthened to ensure that only those with the capacity to manage these funds should be able to establish them. At the same time, it is also the case that those regional governments that might be interested in especially establishing a fund (Aceh and Bojonegoro) do not meet the current eligibility criteria – even though a fund like structure may be quite helpful to them – in the

Figure 5: Evolutionary Aspects of Investment Policy: Alaska Permanent Fund



Source: Alaska Permanent Fund, Home - Alaska Permanent Fund Corporation (apfc.org).

case of Aceh to improve the status quo and allow earnings to be spent on development needs, and in the case of Bojonegoro to save some component of natural resource wealth for future generations. There could be some provision in the eligibility criteria that makes an exception for regions with natural resource wealth where the objective is to preserve this wealth for future generations. However, as discussed above, allowing a fund to be established to achieve such an objective would also require the fund's and features to evolve over time.

H. Consideration of the Financial Stability of the Local Banking Sector

38. Sub-national governments reportedly hold their accumulated surpluses in term deposits with regional banks and the establishment of regional endowment funds would entail moving away these deposits for investment in other instruments. Lessons from international experience show that large withdrawals of cash from banks that occur without notice and without consultation can cause banks to come under financial and liquidity pressure with potential risk of collapse. If a sub-national government decides to move accumulated surpluses from term deposits held with local or regional banks to other allowable financial instruments (government bonds or government-guaranteed project loans), this could have significant implications for local bank stability if the right measures are not in place.

39. Large and rapid flows of capital out of bank accounts held with regional banks to the endowment fund could be destabilizing to the local banking sector and should be avoided. A provision could be included in the regulations that stresses the importance of considering the impact on the financial stability of regional banks before cash is transferred to the endowment fund. It should involve discussion between the regional government and the local bank on the planned timing and size of withdrawals and emphasize a gradual approach. The regulations as currently drafted also include a

provision that is helpful to mitigate against this risk, i.e., allowing regional governments to transfer a component of their surplus (as opposed to all) to the fund.

I. Recommendations

2.1. The rules governing the budget process should be amended when it comes to the consideration of DAD proposals involving a balance sheet or below-the-line impact, so that the full cost of such proposals (including the hidden cost) is presented upfront to decision makers as part of the evaluation of the policy merits (including its costs, benefits, and risks).

2.2. If cash surpluses leading to SiLPA exist as a result of weak budget execution, unrealistic revenue forecasts and untimely transfers, the underlying weaknesses in budget execution and management should be identified and remedied.

III. Improving the Draft Regulation of Ministry of Finance

A. General Considerations

40. As discussed in detail in the preceding sections, HKPD and the Government Regulation provide confusing objectives for the proposed DADs. International experience has clearly shown that, unless the objective of the fund is understood and specified precisely, problems arise in the operations of the fund which create unnecessary risk. The inflow and outflow rules for the fund should follow directly from the objective and, once these are specified, the investment policy and parameters will define the acceptable degree of risk that can be undertaken.

41. The draft RPMK continues with this confusion. Currently, the stated objective remains one of both financially supporting the provision of public services and saving surplus cash for future generations. Since HKPD and the Government Regulation are effectively in place and cannot readily be amended at this point, the draft RPMK needs to ensure that it can incorporate the requisite objectives through separate and targeted channels as described below.

42. The draft RPMK comprises the following chapters which are analyzed here with a broad overview:¹⁸

- i. **General provisions.** These are mostly workable but need to be clarified to address the confusion of objectives in Article 3 where an additional aim of the DAD should be stated as maintaining cash resources for multi-year budget availability.
- ii. **Establishment.** This provides the prescriptive eligibility criteria for most regions and excludes the Special Autonomy Regions from the need to meet these criteria. These criteria are reasonably well defined. The chapter goes on to detail the administrative requirements for applying for, obtaining Ministerial approval for, and establishing the DAD. These requirements ensure that the local government has defined the inflow and specific outflow rules for the DAD, the appropriate management and administrative functions can be established, and these can be specified in a regional regulation. It provides the necessary steps for the MoF and the MoHA to assess and approve the establishment of DAD, including checking the eligibility of the region and the inclusion of the DAD in the local budget. This section is reasonably well defined although it appears to restrict any DAD to a single sectoral financing purpose, e.g., education, health, or tourism.
- iii. **Management.** This specifies the requirements for operating the DAD in detail. Much of this is fine but parts will need to be amended if the objectives are to be clearly separated. Areas discussed in greater detail below include (a) the type of DAD being considered, (b) the need for a Program Implementation Unit (UPP), (c) the restrictions on investment instruments, (d) the specified uses of DAD yield income, and (e) fund withdrawal capabilities and repercussions.

¹⁸ Small detailed suggested amendments to the text are contained in Annex 6.

iv. **Risk management.** Here the risks incumbent on the portfolio are excessively considered given the highly constrained scope of the proposed portfolio investments.

v. **Monitoring and evaluations.** These are analyzed/commented on in later sections of this report.

43. The main medium-term DAD objective is to pool regional government cash resources which have not been used for public service delivery in a fiscal year.¹⁹ The DAD should be set up to collect these funds which can derive from SiLPA or budgeted surpluses but exclude specific and earmarked expenditures not yet made. The present draft MR handles this objective reasonably comprehensively and defines the inflow and outflow rules accordingly. The draft MR, interestingly, refrains from incorporating the concept of future generation saving at all after the first chapter. It describes the use of the DAD yield for a specified sector of public service delivery and deals with the outflow of any of the principal capital only under the emergency withdrawal section.

44. Apart from this restriction on the outflow of principal, the draft RPMK performs the task of defining a multi-year budget financing vehicle reasonably well. Such an objective has an inflow of any non-earmarked budget surplus of whatever nature – especially SiLPA – and restricts the portfolio investment policy to one of maximizing its yield while accepting minimal capital risk. It allows the use of some or all this yield to be utilized for budgetary purposes when budget execution capacity is available. The only connection with the Law #1 objective of managing ‘finances for intergenerational benefit and sustainability’ is the inability to utilize the principal except under the emergency definition contained in Law #1 and the strict requirement to reimburse the DAD if such a withdrawal is approved by the Minister of Finance.

45. The RPMK should, in some way, separate the disparate objectives of the multi-year budget financing type of fund from that of a sovereign wealth fund concept. For the former objective, it should continue to define all operations as it does at present but devise a way of withdrawing capital once the regional government has proved that it has the capacity to use the resources for suitable social benefit without creating artificial surpluses.

46. Where, however, a local government does maintain, or plans to maintain, a genuine fiscal surplus while performing its social responsibilities suitably, a different fund structure should be defined. This will be particularly relevant to local governments which have surplus natural resource wealth through the revenue-sharing arrangements with central government. Such a SWF-type of fund has the clear objective of maintaining intergenerational equity whilst the local government’s existing natural resources are depleted.

47. Several clarifications within the draft RPMK are suggested in the outline below to address the issues discussed above. Additionally, [Annex 6](#) provides suggestions as to the specific wording changes in the RPMK which might be used to encapsulate these suggestions.

¹⁹ The source of funds for DAD can also come from other APBD revenues.

B. Type of Fund

48. The draft RPMK currently deals with the establishment of a single fund with a single financing purpose but, whatever its objective, specifies rules and investment policies which are the same for all types of funds. It would be more concise if the RPMK required SNGs to set up either a multi-year budget financing fund (MBFF) as described above or an intergenerational wealth fund (IGWF) which have very different objectives leading to differing rules and policies. One or other of this type of fund should be specified at the outset of the establishment process.

49. An MBFF would operate along similar lines to those defined by the existing draft RPMK. However, there should be no need for the SNG to restrict the use of the fund's yield to benefit a single specified sector.²⁰ The fund's objective should be to provide financing for any socially beneficial expenditure undertaken within the SNG budget framework and should be incorporated in the annual budget in the same way as all other SNG financial activities.

50. An IGWF would operate very differently to the DADs described in the draft RPMK. This type of fund would receive *planned* budget surpluses – particularly those arising from natural resource revenue sharing – and invest these with a time horizon matching the forecast lifetime of the natural resources' availability. The returns from the investment of such funds would be reinvested with the objective of maintaining and increasing the real value of the fund over the long-term as a replacement to the lost value of the depleted natural resources.

C. Eligibility Criteria

51. The existing eligibility criteria for a SNG to establish a DAD would remain the same as in the draft RPMK. The eligibility criteria for establishment of an IGWF would need to ensure that the SNG, in addition to meeting the current proposed criteria, is also expected to maintain a budget surplus for the medium- to long-term through the receipt of substantial natural resource revenue sharing inflows.

D. Utilization of Fund Yield

52. For an MBFF, since there will be no need to restrict the use of the yield as being for the benefit of a single sector, it should be managed directly through the budget. Estimation of the amount available from the fund over the following year would be shown as a revenue in the SNG budget. It would not be earmarked against specific expenditures but would be utilized through the normal budget process of prioritization in line with relevant guidelines.

53. Since the SNG budget managers prepare the budget in accordance with the overall social spending priorities, there should be no need for the function or formation of the UPP.²¹ This function should be removed completely from the RPMK since it makes for unnecessary administrative

²⁰ For SNGs, it would be too needlessly complex to set up separate funds for each sector.

²¹ If a UPP exists as part of the existing budget process, it can still be utilized for this purpose, but there is no need for one to be specifically created to manage the DAD expenditures outside the budget execution process.

complexity and risks fragmenting the budget process. Similarly, the RPMK wording should be amended to ensure that the DAD Management Unit (UPD) has no role in determining the use of the fund yield.

54. For an IGWF, there should be no use of the fund yield since this should be reinvested in the fund over its expected lifetime.

E. Portfolio Investment Policies

55. The current draft RPMK restricts the investment policy of the funds which it defines to conform with Law #1 and the Government Regulation. These state that the investments should be free from any risks of impairment loss. Confining the fund investments to Government Securities, government-guaranteed project bonds, and deposits at 'healthy' banks satisfies this requirement if the definition is expanded to ensure that the investments are denominated only in IDR. Such restrictions suit the objectives of the proposed DADs which are classified as MBFFs. Investment policy guidelines should also ensure that these funds are not allowed to encumber their assets in any way. This would preclude the fund from such activities as providing guarantees, borrowing, entering into derivative contracts, pledging assets etc.

56. The legislation describes the classification of 'healthy' banks as those which are approved on a list at the MoF. This classification may not, however, take account of very large withdrawals which could be made to establish or manage a DAD. The RPMK should prescribe that any withdrawals proposed over a certain amount (e.g., IDR 75 billion or USD 5 million, say)²² from a single bank within a relatively short timeframe should be discussed with the Ministry of Finance and, if appropriate, the BI in case they consider the action to pose a banking stability risk.

57. The objectives of an IGWF are significantly different from those of the MBFF and consequently require different investment policies. In addition to reinvesting the yields, in order to protect the assets over the long-term from inflation, credit, and political risks, investments need to be highly diversified, made internationally, and therefore subject to capital risk. International experience and numerous studies have shown that investing funds in such a way over the long-term should increase their value in line with, or in excess of, inflation.

58. Given the low investment management and financial skills at the local level, the RPMK should initially restrict the investment policies of IGWFs to the same risk-free instruments it specifies for the MBFFs. However, it should specify in some way that, once the skills and the size of the IGWF are sufficiently well developed, the investment policy should be amended to allow for internationally diversified instruments and for the need to engage professional managers. The selection of investment managers should be free from conflict of interest. This would be the main focus of incorporating an evolutionary approach in the RPMK (see below).

²² This limit should be agreed with the BI before including in the MR.

F. Fund Lifetime and Withdrawals

59. At present, the draft RPMK allows for withdrawal of capital from a DAD only under an ‘emergency’ situation as defined in HKPD. Additionally, any such withdrawals must be replenished, or else such replenishment will be made by the central government through deduction from transfers. This fits with the description of DADs in legislation as eternal or perpetual without reducing the principal funds.

60. The concept of financial assets being locked away forever does not conform well with practical operations or act as an incentive for SNGs to invest in these vehicles. It is suggested that interpretation of the emergency definitions be widened and that, under specified circumstances, the withdrawn amount does not need to be replenished within any rigid timeframe.

61. The primary need for the establishment of an MBFF appears to be to pool cash resources which have not been spent through budget execution owing to lack of SNG capacity. This lack of capacity may be through overestimation of its ability to make the planned expenditures or underestimation of the amount of revenue it would obtain in the fiscal year. Both of these sources of budgetary forecast error should be capable of improvement over time. Once the SNG has the capacity to make the requisite socially beneficial spending in full and has the skill to forecast its annual revenue reasonably accurately, its budget execution should become sufficiently precise that it does not generate SiLPA or unanticipated surpluses. At this point, not only does it make sense to utilize the yield from the DAD on social programs, but also the capital it has accumulated owing to low spending capacity. This is clearly evident in many SNGs where social needs remain high.

62. An ‘emergency’ situation is described in the notes to HKPD in terms of fiscal difficulty. This description includes a ‘significant increase in regional spending’ so that operation of the local budget is ineffective or inefficient. This type of definition would appear to include the need to provide basic socially beneficial services when insufficient revenues were available. When a SNG has the capacity to implement all its social programs but not the cash resources, it then should be able to withdraw principal funds from the DAD. If it maintains such implementation capacity over time, it should not need, or be able, to replenish this capital amount. It may intend to repay the withdrawn amount when it derives a sufficient budget surplus but will not do so if this is at the detriment to basic service provision. This should meet the requirements of HKPD as long as the Minister of Finance approves the withdrawal and does not force repayment at a particular time through threat of deducting it from transfers.

63. A SWF-type fund such as the IGWF has a natural lifetime and a pre-defined methodology for withdrawal. Its lifetime coincides with depletion of the natural resources which provide its capital. This implies that the normal business of the government or SNG runs at a surplus due to natural resource revenues until these are reduced to the extent that the budget surplus is extinguished. At that point, the budget will need to be continually supported by withdrawals from the fund if it is to operate in the same capacity as before the resource depletion.

64. During the lifetime of the IGWF, it can be set up to operate as a ‘financing fund’ which is a budget stabilization mechanism. This means that the IGWF automatically receives all non-earmarked budget surpluses as they are generated through high resource revenues. However, when natural resource prices fall, and the budget is likely to go into deficit, expenditures are directly supported by withdrawals from the fund. For this type of fund, the legislation should make it clear that this financing

fund withdrawal operation is within the emergency definition so as to be approved by the Minister. Withdrawals would be expected to be automatically replenished once resource prices had risen sufficiently again.

G. Evolutionary Aspects

65. The RPMK should make it clear that LGs will be able to develop more flexibility in their DAD management as they improve their public financial management capacity. As described above, if a LG has the necessary surpluses to build up sufficient financial resources in an IGWF, the RPMK should specify that it may relax the investment management restrictions once the LG can show that it has sufficient knowledge and experience. This experience would not need to be in investment management directly. However, the LG would need to demonstrate that it understood the risks inherent in such an approach; it was able to contract, monitor and manage relationships with professional fund managers which are free from any conflicts of interest; and convince its populace that such long-term wealth preservation measures were in their interests.

66. The RPMK should show that once a LG develops the public financial management capacity to execute its budget without creating any SiLPA, it could utilize DAD principal. The MR should direct that the Minister of Finance, when considering withdrawal requests under the 'emergency' category, would give approval to LGs which had a recent record of little or no SiLPA generation and clear socially beneficial expenditure needs above their projected revenues. Such consideration would also apply to LGs which owned an IGWF and wished to operate it as a financing fund or were experiencing the final stages of resource depletion.

67. A crucial additional element to broadening the scope of the 'emergency' category would be to ensure that repayment was not immediately necessary. The RPMK should imply that the Minister would not require replenishment of any approved withdrawal until such time as the LG was generating budget surpluses which were not SiLPA-related. For IGWFs, it is envisaged that by the time the resources had been depleted, HKPD would be amended to ensure that no replenishment was necessary or expected.

H. Recommendations

68. The principal amendments to the draft Ministerial Regulation should be to:

- 3.1 Replace the requirement to establish a DAD specifically for support of a particular budget sector with the choice of establishing either a multi-year budget financing fund or an intergenerational wealth fund.
- 3.2 Include the requirement of the forecast of medium-term budget surpluses derived from natural resource revenues in the eligibility criteria for establishment of an IGWF.
- 3.3 Ensure that all income from the DAD is prioritized and utilized through the normal budget planning and execution channels and remove the provision for creation of a UPP from the RPMK.

- 3.4 Direct SNGs to take advice from the Ministry of Finance and the BI when considering withdrawing more than a specified amount from their local banks within a relatively short timeframe.
- 3.5 Envisage in the RPMK the future need to amend the requirement for risk-free portfolio investments in an IGWF in order to meet its future-generation wealth preservation objective.
- 3.6 Ensure that emergency withdrawal approvals from a MBFF by the Minister of Finance include consideration of future the enhanced budget implementation capacity of the SNG and that replenishment should only occur when the SNG is in a fiscal position to do so without difficulty.
- 3.7 Include an evolutionary framework for establishment of an IGWF which includes the ability to expand its investment policy from purely risk-free instruments; to consider its use as a financing fund; and to envisage budgetary use of its capital as the associated natural resources are depleted.

IV. Implementation Considerations

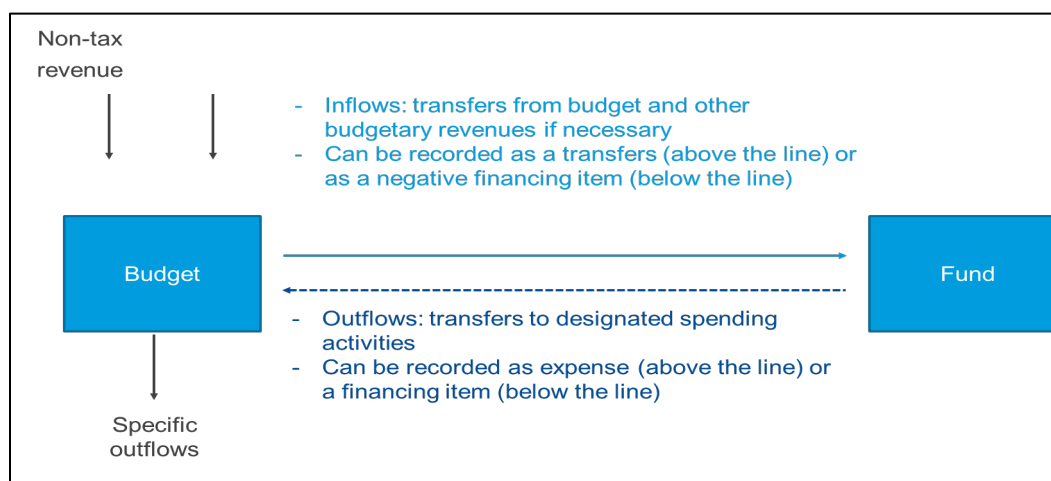
69. These are mainly: (a) management structure of the fund, (b) transparency and reporting requirements, (c) fiscal risks monitoring and management, and (d) supporting systems.

A. Management Structure

70. The draft Government Regulation on Harmonization of National Fiscal Policies clearly defines the options for management structure of DAD. Article 7 states that the “management of DAD is carried out by the regional general treasures or regional public service agency. This is further detailed in part 2 “Management of the Fund” of the draft RPMK.

71. Regardless of the structure that would carry out the functions of the DAD, the process needs to be fully integrated within the budget (Figure 6). The fragmentation of the process and any off-budget activity would undermine the governance and the accountability of these types of funds. All the inflows and outflows of the DAD should be integrated within the budget processes regardless of the type of investment and follow the same rules of control and accountability (i.e., internal control, audit procedures, etc.). Narrowing and clarifying the objectives would facilitate the integration process within the budget framework limiting the additional administrative burden. In the case where the DAD are to be established as separate institutional units, they should follow the same public financial management processes deployed at the SNG level.

Figure 6. Illustration of the Integration with Budget Processes



Source: IMF Staff.

B. Transparency and Reporting

72. While reporting and accountability requirements in the draft RPMK are well established, strengthening transparency of the DAD would require further support during implementation. The areas that would need more attention are related to accounting standards, and disclosure of information.

73. A review of the implementation of the public accounting standards at the SNGs level is needed to ensure that current accounting architecture supports the transparent implementation of the DAD. While government regulation n°71/2010 indicates that both central and SNG would move to accrual basis of reporting with a phased approach, currently the SNG budget units operate with double entry, modified cash-based accounting system but not on accrual accounting. The MoHA regulation n°90/2019 that organizes the classification of the chart of accounts and the production of financial statements, includes a codification of the chart of accounts that has the full set of accounts (assets, liabilities, equity, revenue, expense) and require the production of financial statements including balance sheet. However, currently the SNGs are not fully complying with these requirements. Ensuring a proper accounting standard is crucial for implementing the reporting requirement of the DAD. In particular:

- **Valuation of the assets:** Financial statements of the DAD need to ensure that the assets are reported at market value or fair value as opposite to just nominal value.
- **Time of recording:** For example, recording the yield on accrual versus cash basis has implications beyond just transparency requirement affecting the budget execution (cash mismatching).

74. Disclosure of the information to the public is not specified in the draft RPMK. While reporting requirement to the central government or to the SNG are clear, the regulation doesn't include any provision for dissemination of the information to the public, nor it indicates the government sector in charge of the dissemination (central government vs. subnational government). As indicated in the first bullet, the principle 3.3.1 "Fiscal coordination" would require publication of fiscal condition and performance of the subnational government. In addition, Santiago principle 18 indicates that assets and investments performance reports are often disclosed monthly. A webpage with a determined summary of indicators for each endowment fund could be set up either on the MoF website or disclosed by each subnational government separately.²³

75. Furthermore, the frequency and timeliness of the reports could be further clarified in the draft RPMK or any subsequent technical guidelines. While other government regulations namely government regulation n°12/2019 related to SNGs' financial management and MoHA regulation n°90/2019 on the classification and chart of accounts of SNGs include provisions on the type of reporting and frequency to be prepared, these could be clarified in any subsequent MoF technical guidelines, in particular regarding the dissemination of data. For example, the indicator 3.3.1 "Fiscal coordination – Subnational government" of the IMF's Fiscal Transparency Code states that the good practice would require that financial condition and performance of subnational government is published annually. Furthermore, according to Santiago principle 11, annual report of a SWF should be published containing financial statements on the SWF operations and performance, and externally audited financial statements.

C. Fiscal Risks

76. Monitoring risks related to the establishment and functioning of the DAD would require further strengthening of the fiscal risk management framework. While the draft RPMK discusses in

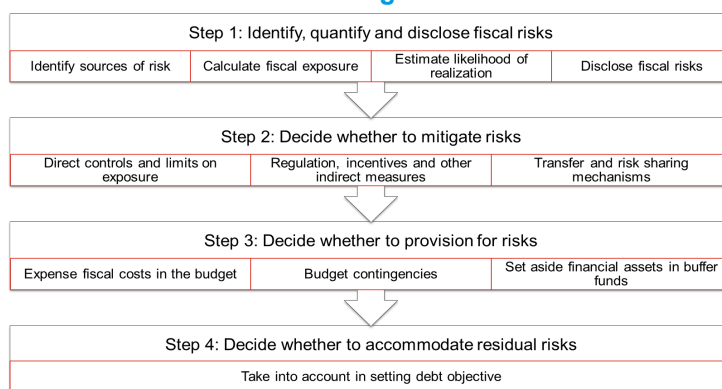
²³Example of disclosure of information for the Medical Research Future Fund in Australia [Medical Research Future Fund | Department of Finance](#).

Chapter V the potential risks, their management and disclosure, this perspective is only limited to the DAD fund management and doesn't address further consideration of the SNG and the central government perspectives.

77. A more holistic approach to managing risks should be undertaken by both SNGs and central government:

- Central government perspective:** a framework to monitor risks related to SNGs is needed at the level of DG fiscal balance. While it is important to monitor the risks related to the DAD to ensure that it won't directly or indirectly impact the central government finances, this would only provide a partial overview of this impact, since many risks at the SNGs are entwined and could have a spillover impact. Establishing a fiscal risk management framework to monitor the impact of macroeconomic shocks or the contingent liabilities could be realized following the generic framework illustrated in **Figure 7**. More specific to the DAD, the analysis of the macroeconomic shocks would be important to assess the impact of the fluctuation of the commodity prices and the depletion of the natural resources on the revenues of the relevant SNGs. Also, it would be important to evaluate in the proposals of establishing these funds the hidden cost (borrowing to fulfill the inflows requirement of the DAD). On the contingent liabilities side, many SNGs have their surpluses placed with regional state-owned banks. Any substantial withdrawal from these accounts to invest in government securities might have a negative impact on these banks, and therefore, would require further financial support from SNGs. Another example would be the fiscal risks arising from the public-private partnerships (PPPs) project executed at the subnational level.
- SNG perspective:** Similar to central government, SNGs should have a comprehensive overview of the risks impacting their budgets. For example, more prominently monitor risks that would affect the DAD whether related to the inflows, outflows rules, the integration with the budget, the institutional arrangements risk, and the operational risks.

Figure 7. Generic Framework for Fiscal Risk Management



Source: IMF Staff.

D. Other Considerations

78. Strengthening coordination among relevant ministries or agencies is crucial to a successful implementation of the DAD. Many SNGs have limited human capacity, and any additional

reporting requirement that is not harmonized among relevant stakeholders would increase the administrative burden on already constrained capacities. Harmonizing the reporting templating and using of channel of communication to report these data to all relevant agencies would ease that burden.

79. The relevant IT systems deployed by the SNG need to include features supporting the establishment and functioning of the DAD. As a prerequisite, a review of the IT systems deployed, and assessment of the gaps is essential prior to the establishment of the DAD. Any gap needs to be addressed accordingly to allow the DAD to be fully functional and fulfill its mandate related to proper integration with the budget process and the reporting requirements.

80. During the initial phases of the establishment of the DAD, a support function needs to be established at the national level. It would mainly aim to address:

- Capacity development at the SNGs level: DG Fiscal Balance or any other relevant Directorate needs to take measure to establish a support function for SNGs to assist them and provide them capacity development regarding the implementation of the DAD whether on training the human resources, revising the IT systems, or ensuring the existence of the relevant PFM processes in place.
- Communication with the public: providing support or guidelines to develop a communication strategy to be used by the SNGs to communicate with the public on the design of the DAD. It is very important to communicate the objectives, structure and functioning of the DAD at an early stage of the implementation to clarify any ambiguity related the purpose of the DAD and set the right expectations.

E. Recommendations

81. The following recommendations would help ensure a successful implementation of the DAD:

- 4.1 Update and review, where needed, the accounting standards for SNG to ensure the reporting requirements and increase transparency.
- 4.2 DG Fiscal Balance should have a holistic approach to monitoring fiscal risks from SNGs in general, not only those related to the DAD.
- 4.3 Ensure that IT systems and human capacity at the SNGs would support the implementation of DAD – this could be a prerequisite for establishment of the DAD.
- 4.4 Establish a framework for evaluating proposals for DAD that take account of hidden costs and present the full cost of the proposal to decision makers.
- 4.5 Develop a dissemination strategy to communicate to the public both the design and concept of the DAD, as well as the reports related to the performance and function of the DAD.

Annex 1. Draft Government and Ministerial Regulations for the Establishment of DAD

Background and Objectives

- 1. The draft regulations (i.e., the draft government regulation on harmonization of national fiscal policy and the draft Minister of Finance regulation on procedures for establishment and management of DAD (RPMK)) have identified objectives for the establishment of DAD.** Two objectives have been identified with the establishment of the DAD, namely to: (i) manage finances for intergenerational benefit and sustainability; and (ii) improve the quality of regional finance management. The yields from DAD investment aim to derive social-economic benefits and other benefits previously determined, add to regional revenue, and organize intergenerational public benefits. The HKPD mentions that DAD is permanent, and definitions of DAD in the draft regulations highlight that it is perpetual in nature. However, the authorities indicated that interpretations could be made of the provision in the HKPD on the duration of the DAD in stipulating the duration in the regulations.
- 2. HKPD or the draft regulations do not mandate SNG to establish a DAD.** The authorities indicated that establishment of DAD would be voluntary subject to SNG meeting the eligibility criteria for establishing one.

Eligibility Criteria

- 3. The draft regulations stipulate that SNG would need to meet specific criteria for establishing a DAD.** The requirements include: (i) high or very high regional fiscal capacity; and (ii) the needs of mandatory government affairs related to basic public services have been met.
- 4. The regional fiscal capacity of SNG is calculated based on a formula stipulated in a Ministerial regulation (Box 1).** Fiscal capacity is calculated both at the provincial and at the district and city level as the difference between regional revenue (i.e., PAD plus TKD plus miscellaneous legitimate revenue) excluding specific revenue that have been earmarked (i.e., tobacco products excises, physical and non-physical DAK that excludes teachers' professional allowance and additional income funds, DBH from forestry natural resources, special autonomy funds, privilege funds, and oil and gas DBH) and specific expenditure (i.e., compensation of employees, interest expenses, and profit sharing expenditures).²⁴
- 5. Mandatory government affairs related to public basic services refer to those used in the calculation of DAU allocation.** Though not explicitly referred to in either the draft government or ministerial regulations, discussions with the Ministry of Home Affairs (MOHA) highlighted that eligibility of SNG in fulfillment of mandatory government affairs related to basic public service would entail APBD spending allocation for education of at least 20 percent, health of at least 10 percent, infrastructure of at least 40 percent, fulfillment of the budget on SPM, fulfillment of the budget for stunting reduction and extreme poverty elimination. In addition, the inflation control would need to be fulfilled, i.e., control of price levels at the SNG to allow that once there is an increase in general price levels, measures in the form of

²⁴ Minister of Finance Regulation 120/PMK.07/2020.

subsidies and grants are put in place to preserve vulnerable tranches of the population from price increases (these measures have been in place since 2022, aiming at preserving the population from increases in prices). The SNG would also need to fulfill the budget for general elections for 2023/24 since SNG not managing the election budget and spending well would have no potential to establish a DAD.

6. The draft regulations outline stages for the establishment of DAD. The specified stages for the establishment of DAD are: (i) preparation, (ii) evaluation, and (iii) determination. At the **preparation stage**, SNG would be expected to draft regional regulations for the establishment of DAD, identifying the sources and amounts of funds to be used for the establishment of DAD as included in the SNG's budget framework, i.e., the general policy of regional revenue and expenditure budget or *Kebijakan Umum Anggaran* (KUA) and provisional budget priorities and ceilings or *Prioritas dan Plafon Anggaran Sementara* (PPAS); the investment of DAD and use of the investment yields. The SNG would also need to arrange for the institutional arrangements for establishing the DAD in the preparation stage, providing for a management unit, human, facilities, and infrastructure resources. At the **evaluation stage**, the request from SNG for establishment of a DAD would be reviewed for fulfillment of the *administrative requirements* (i.e., completeness and accuracy of documentation for the request) and *substantive requirements* (i.e., fulfilment of the mandatory government affairs related to basic public service, compliance with DAD regulations, consistency of DAD yields' spending allocations with regional priorities and of programmed activities with regional planning and budgeting documentation, as well as readiness of DAD institutional arrangements and governance). At the **determination stage**, the draft regional DAD regulation is promulgated prior to promulgation of the APBD (or revised APBD) that itself includes provisions on the DAD. The determination stage ensures that financial operations of the DAD are integrated in the planning and budgeting processes.

Sources and Uses of Funds

7. The draft regulations identify sources of funds to be used for the establishment of the DAD. The sources identified include SiLPA whose use has not been earmarked for spending, and other sources consistent with provisions of the legislations. The authorities indicated, in reference to the other sources, exploring the possibility of mobilizing resources from donors and philanthropists. In the years following the establishment of the DAD, the principal could be increased using the unallocated yields from investment of DAD and/or other sources from the budget. Increases to the principal would not require approval or amendments to the regional regulations and would be conducted through the SNG financial management mechanisms as stipulated in laws and regulations.

8. The draft regulations stipulate that DAD is invested in financial assets free from any risks of impairment loss and based on an optimal rate of return. Investment of the DAD is very restrictive, considering other options available and prescribed by other legislations. Law 63 of 2019 on government investments stipulates that government investments can be done in three types of assets, namely: (i) equity, (ii) debt securities, and (iii) direct investments. Investments in equity could be for listed/traded or unlisted/non-traded shares. Debt securities can be in the form of bonds and debentures, or Islamic finance instruments (sukuk) issued by national or foreign government and corporate entities. Direct investment could be in the form of loans or other forms of direct investments. However, in the draft regulations for the establishment of DAD, three types of assets are identified into which DAD would be invested, namely: (i) government securities (up to maturity), (ii) project loans guaranteed by government, and (iii) deposits in healthy banks.

9. The yields from DAD investment can be used for SNG expenditure but the principal would not be reduced except under emergency circumstances. The draft regulations stipulate that the yields from DAD investment can be used to improve and/or expand public services which are regional priorities and above and beyond the SPM. The regional priorities identified in the draft regulations for which the yields can be used are: (i) education, (ii) health, (iii) environment, and (iv) tourism. The yields from DAD investments can also be used to add to the principal and for expenditures in fulfillment of mandatory government affairs, only if consistent with the purposes for which the DAD was established, and regional priorities.

10. Withdrawals from DAD would only be under emergency circumstances and subject to the approval of MOF with guidance from MOHA. Emergency circumstances as stipulated in HKPD relate to worsened macroeconomic and financial conditions in SNG that render implementation of the APBD ineffective and inefficient. This could be owing to: (i) significant downside deviations from targeted economic growth projections and other macroeconomic indicators, (ii) projected significant (20 percent or more) decrease in SNG revenue or increase in SNG expenditures; and (iii) a threat endangering the national economic and financial stability. In such circumstances, a SNG can submit a proposal for withdrawal of the DAD principal, which, when approved should be returned when the emergency ends, taking into consideration the SNG financial capacity. Failure to replenish the DAD would result in deductions from the DAU and/or DBH.

Governance and Institutional Arrangements

11. The institutional arrangement for the management of DAD envisage establishment of a fund management and program management units under the supervision of the head of the SNG. The draft regulations highlight that the head of the SNG, as the holder of regional financial management authority has the authority to manage DAD. Two separate units would be established: (i) a fund management unit (UPD) comprising a head of unit and fund manager, and (ii) a program implementation unit (UPP) comprising a head of unit and program implementation manager. The heads of units would be appointed by the head of the SNG, and the fund and program implementation managers would be appointed by and report to the head of their respective units. Though the principles in the establishment of DAD emulate from the LPDP, no explicit provisions are made in the draft regulations for DAD on governance organs such as a governing council (board of trustees) and/or advisory or supervisory board. However, the draft regulations do provide for supervision of DAD to be conducted by the SNG internal supervisory organs.

12. The draft regulations envisage alternative schemes for DAD fund management. Two alternatives are envisaged for management of the DAD, either through a UPD within the SNG as mentioned earlier, or alternatively through a cooperation scheme. Under a cooperation scheme, the SNG's UPD would cooperate with other endowment fund managers at the national (e.g., with the LPDP) or sub-national levels in investment of the SNG's DAD. Cooperation schemes would be regulated by fund management cooperation agreements.

13. Staffing for the functions of the DAD management units would be drawn from existing functions of the SNG organs. The functions of the UPD would be conducted by the SNG general treasurer (BUD) or a SNG public service agency (BLUD) whereas the functions of the UPP would be conducted by an identified regional unit/agency or a BLUD.

14. The draft regulations stipulate responsibilities and authority of the DAD fund management and program management units. The UPD would be responsible for proposing general policies and strategic plans for the management of DAD and ensuring their alignment with regional planning documents, as well as investing the DAD, recommending utilization of the yields, and preparing DAD fund management reports among other things. The UPP head would be responsible for proposing and overseeing implementation of programs and activities to be funded with the yields from DAD investment as well as preparing program performance reports among other things.

15. The reporting mechanisms require reporting on fund management and program performance and would be aligned with other regional financial reporting requirements. The fund management report would include at least information on the investment portfolio performance, and risks management in addition to other relevant information whereas the program performance report would include at least information on the program and activities funded with the yields of investment of DAD and the program and activities performance and any other relevant information. The DAD reports are part of the SGN's regional government financial reports and are prepared and submitted in compliance with the procedures for regional government financial reports. Reports are submitted through existing reporting digital platforms to the Minister of Finance for the attention of the Directorate General of Fiscal Balance.

16. The draft regulations provide an oversight responsibility to MOF and MOHA. There is a shared responsibility between the MOF and MOHA including for the assessment of SNG proposals for establishment of a DAD, utilization of the yields from investment of DAD, and assessment of requests for withdrawals from the DAD principal. However, in all aspects of the shared oversight functions, MOHA plays an advisory role, with the final decision-making powers on either aspect vested with MOF.

Box 1. Fiscal Capacity and Fiscal Capacity Index

Calculation of Regional Fiscal Capacity Indices is done in two stages both at the provincial and district/city level, first calculating the fiscal capacity of the respective province or district/city and then calculating the fiscal capacity index of the respective province or district/city.

$$KFD_{province\ i} = Revenue_{\alpha} - [Revenue_{\beta} - Expenditure_{\gamma}] \quad (1)$$

$$KFD_{district/city\ i} = Revenue_{\alpha} - [Revenue_{\beta} - Expenditure_{\gamma}] \quad (2)$$

$$IKFD_{province\ i} = \frac{KFD_{province\ i}}{(\sum KFD_{province})/n} \quad (3)$$

$$IKFD_{district/city\ i} = \frac{KFD_{district/city\ i}}{(\sum KFD_{district/city})/n} \quad (4)$$

Where:

- $KFD_{province\ i}$ = Regional Fiscal Capacity of a Province
- $KFD_{district/city\ i}$ = Regional Fiscal Capacity of a District/City
- $Revenue_{\alpha}$ = Regional Revenue of a Province or District/City
- $Revenue_{\beta}$ = Specific Regional Revenue of a Province or District/City
- $Expenditure_{\gamma}$ = Specific Regional Expenditure of a Province or District/City
- $IKFD_{province\ i}$ = Regional Fiscal Capacity Index of a Province
- $IKFD_{district/city\ i}$ = Regional Fiscal Capacity Index of a District/City
- n = Total number of Provinces or Districts/Cities

Regional Fiscal Capacity Index of Provinces		Regional Fiscal Capacity Index of Districts/Cities	
Range	Capacity	Range	Capacity
IKFD < 0.277	Very Low	IKFD < 0.517	Very Low
0.277 ≤ IKFD < 0.564	Low	0.517 ≤ IKFD < 0.747	Low
0.564 ≤ IKFD < 0.934	Average	0.747 ≤ IKFD < 1.168	Average
0.934 ≤ IKFD < 1.920	High	1.168 ≤ IKFD < 2.145	High
IKFD ≥ 1.920	Very High	IKFD ≥ 2.145	Very High

Source: Minister of Finance Regulation 120/PMK.07/2020.

17. The draft regulations stipulate responsibilities and authority of the DAD fund management and program management units. The UPD would be responsible for proposing general policies and strategic plans for the management of DAD and ensuring their alignment with regional planning documents, as well as investing the DAD, recommending utilization of the yields, and preparing DAD fund management reports among other things. The UPP head would be responsible for proposing and overseeing implementation of programs and activities to be funded with the yields from DAD investment as well as preparing program performance reports among other things.

18. The reporting mechanisms require reporting on fund management and program performance and would be aligned with other regional financial reporting requirements. The fund management report would include at least information on the investment portfolio performance, and risks management in addition to other relevant information whereas the program performance report would include at least information on the program and activities funded with the yields of investment of DAD and the program and activities performance and any other relevant information. The DAD reports are part of the SNG's regional government financial reports and are prepared and submitted in compliance with the procedures for regional government financial reports. Reports are submitted through existing reporting digital platforms to the Minister of Finance for the attention of the Directorate General of Fiscal Balance.

19. The draft regulations provide an oversight responsibility to MOF and MOHA. There is a shared responsibility between the MOF and MOHA including for the assessment of SNG proposals for establishment of a DAD, utilization of the yields from investment of DAD, and assessment of requests for withdrawals from the DAD principal. However, in all aspects of the shared oversight functions, MOHA plays an advisory role, with the final decision-making powers on either aspect vested with MOF.

Annex 2. Funds with Different Objectives have Different Characteristics and Features

Features:	Development Fund (DF)	Future Generation Fund (FGF)	Stabilization Fund	Sovereign Sinking Fund (SSF)	Credit enhancement Fund (CEF)
Objective	Domestic economic development	Channel savings into investments for inter-generational equity.	Revenue smoothing	Ensure repayment of specific debts	Enhance creditworthiness and provide a payment vehicle in times of distress
Typically used by:	Attempted by all types of economies	Resource rich economies, typically non-renewable resource wealth.	Resource rich countries and other economies with high volatility of revenue	EMDCs with checkered repayment history and credibility gap	Economies that experience large economic swings and/or Economies with limited access to markets
Considerations	<ul style="list-style-type: none"> • Goal to maximize social benefit, not financial returns. • Predominantly domestic investments. • Lending typically at below-market rates. • Typically a fiscal cost as return on assets < interest rate on debt. 	<ul style="list-style-type: none"> • Goal to maximize financial return. • Predominantly foreign investments. • Pe-defined disbursement rules to the budget. 	<ul style="list-style-type: none"> • Liquidity to enable smoothing over the medium-term. • Predetermined inflow/outflow rules. 	<ul style="list-style-type: none"> • Typically, a fiscal cost as return on assets < interest rate on debt. • Clear and transparent. • Simplifies debt management but reduces flexibility. 	<ul style="list-style-type: none"> • Typically, a fiscal cost • Additional flexibility can improve debt management, but at the cost of increased complexity.
Assets	Domestic development projects.	Foreign assets of various maturity, liquidity, and risk.	Low risk, liquid domestic and foreign assets. .	Assets = Liabilities Specified inflows transferred to SSF.	Assets < Liabilities Specified inflows transferred to CEF.
Liabilities	Depends if DF can leverage its equity to expand by borrowing.	Depends on outflow rules.	None.	Specified debts transferred to SSF.	Generalized liability to support debt service.
Relation to Budget	Opaque, with significant overlap.	Can be complex.	Contingent on a predefined reference point or to finance budget deficit.	Straight forward and transparent inflows/outflows.	Integrate into DMS, MTDS, MTFF.
Governance	High. Whole of Gov't complexity.	Moderate. Can be overseen by MoF, but likely need to hire experts.	Moderate. Can be overseen by MoF.	Simple, housed with MoF.	Moderate, housed within MoF.
Financial Considerations	Illiquid domestic assets unsuitable for FX debt service. Financial rate of return < social rate of return.	Foreign assets. Rarely ever seen in conjunction with high deficits and debt.	Liquidity needs. Operational flexibility. Prudence in withdrawal.	Need to match assets to liabilities (FX, maturity, etc.) Expensive carry costs.	Need to match assets to liabilities. Slightly less expensive carry costs
Capacity Requirements	High. Setting up a development bank.	Moderate to High. Setting up a hedge fund.	Moderate.	Minimal.	Moderate need to enhance debt management capacity.

Annex 3. Case Study: Australia – Comparison of Characteristics of Funds Established with Different Objectives.

	Australian Future Fund	Medical Research Future Fund
Objectives	To strengthen the long-term financial position by making saving for unfunded pension liabilities that will become payable in future when there is likely to be significant pressure on the Government's finances.	Provides an ongoing funding stream for medical research and medical innovation financial assistance grants.
Fund Structure	Intergenerational financial asset fund.	Endowment Fund.
Fiscal Context on Establishment	Established in 2006 at a time when the Australian Government had budget surpluses and limited debt on issue.	Established in 2014 at a time when the Australian Government had budget deficits, gross debt of 22% of GDP, and cost of borrowing was 3.7%.
Funding Source	Fiscal surpluses and privatization of assets.	Government borrowing.
Inflow/Outflow Rules	<p>Inflows: the responsible Ministers can make credits to the Future Fund, so long as the additional amounts do not result in the balance of the Fund exceeding the 'Target Asset Level.'</p> <p>Outflow: No Outflows until balance of the Fund is greater than or equal to the 'Target Asset Level,' or from 1 July 2020, whichever is earlier; or, to meet administration expenses of the Future Fund. Drawdowns from the Fund have been deferred until at least 2026-27, to allow asset balances to continue to accumulate to match liabilities.</p>	<p>Inflow: Capital inflows and capital gains are preserved in perpetuity. The capital of the MRFF is invested, with the earnings used to make grants of financial assistance for medical research and medical innovation over the long-term. Capital contributions capped at \$A20 billion</p> <p>Outflows: The Future Fund Board determines a maximum annual distribution. This is the amount that can be drawn each financial year for medical grants. This must take into account the principles that the value of credits to the MRFF be preserved over the long term and the volatility in distributions from one year to the next be moderated.</p>
Benchmark Rate of Return	<i>"at least the Consumer Price Index (CPI) + 4.0 to+5.0% per annum over the long term."</i>	<i>"Central Bank Cash Rate target + 1.5 to 2.0% per annum, net of costs, over a rolling 10-year term."</i>
Investment Policy and Risk Tolerance	In striving for this benchmark return, the Future Fund Board may <i>pursue an acceptable, but not excessive, level of risk.</i>	<i>Acceptable but not excessive level of risk, measured in terms such as the probability of losses in a particular year. The nominal value of the credits to the MRFF be preserved over the long- term; and the need to moderate the volatility of the maximum annual distribution.</i>
Asset Allocation	Low cash and government securities holding (20%). High developing markets equities allocation (17% of portfolio). Higher propensity to hold illiquid assets.	High cash and government securities holdings (55%) Low developing markets equities allocation. (7%). Lower propensity to hold illiquid assets – need high liquidity to finance outflows.

Annex 4. Case Study: Alaska v. Alberta – Clear Objectives Facilitate Enabling Features

	Alaska Permanent Fund	Alberta Heritage Savings Fund
Objectives	Established in 1976 to ensure non-renewable resource wealth from oil would provide benefits to current and future generations.	Established in 1976 to collect a portion of Alberta's non-renewable resource. It was created with three objectives: "to save for the future, to strengthen or diversify the economy, and to improve the quality of life of Albertans."
Fund Structure	Intergenerational investment fund – after much debate to be used to invest in income producing instruments.	Development Fund.
Fiscal Context on Establishment	Established in 1976. Budget surpluses.	Established in 1976. Budget surpluses.
Sources of Funding	Natural Resource Wealth.	Natural Resource Wealth.
Inflow/Outflow Rules	At least 25 percent of all mineral lease rentals, royalties, royalty sale proceeds, federal mineral revenue sharing payments and bonuses received by the state shall be placed in a permanent fund, in income producing investments, with the earnings for spending. Principal Contributions made total US\$56 billion.	To receive 30 percent of the province's non-renewable resource revenue. The Fund would also accumulate interest on the principal. The inflow rules were modified to 15 percent in 1983 and then eliminated in 1987. At the same time in 1983, only six years after establishment, outflows were approved from the Fund to meet budget spending pressures reportedly on a temporary basis – but these were never replenished. All interest income from the fund was also withdrawn.
Investment Policy	The Principal grows through royalty contributions, special appropriations, and inflation proofing.	To invest in project that would contribute to the economic development of the State of Alberta.
Asset Allocation	Conservative on establishment, e.g., only government bonds. Evolved overtime to have a more balanced portfolio, taking into account the long-term nature of the Fund, that allows it to take on more risk.	
Performance	2023 - US\$78 billion.	2023 - US\$18 billion. (1987- US\$12 billion)

Annex 5. Strengthening Decision Making for Establishing Investment Funds and Transparency Over the Full Costs

Case Study: Australian Experience - Fully evaluating investment fund proposals through the budget process.

Following the recent experience of establishing funds for investment purposes, when the budget is in a deficit position and additional borrowings are required, the Ministry of Finance derived some principles to help to guide future decisions. These principles try to ensure that funds are not established if the principal objective can be delivered through the direct allocation of resources in the budget, that the full costs (including hidden costs) are taken fully into account, and that management arrangements are efficient. Box 4.1 sets out these principles.

The Budget process rules (budget circular) have also been strengthened when it comes to policy decisions involving the balance sheet – particularly transactions in financial assets and the establishment of investment funds. In particular impact of interest costs over the life of the policy proposal must be presented to Cabinet, and the cost fully offset by savings elsewhere and the benefits of establishing a Fund fully justified.

Box 4.1: Australian Government Investment Fund Principles:

Investment funds involve the purchase and management of financial assets to fund a particular policy objective by subsequently drawing on earnings and / or capital. The establishment of an investment fund should therefore consider:

1. Is there a clear need to hypothecate funding outside the normal Budget process?

Unless there is a case to hypothecate resources, the Budget is the primary means for the allocation of resources.

2. Is there a clear need to hold financial assets (can a Special Account be used)?

Consideration should be given to the direct and indirect cost associated with investment funds, and the acquisition of financial assets.

3. What is the most efficient management arrangement for investment of financial assets, and who is best placed to manage these arrangements, taking into account the investment horizon, liquidity needs and risk appetite? The acquisition and management of financial assets requires expertise, including risk and liquidity management expertise.

Source: IMF Staff, [Investment Fund Principles | Department of Finance](https://www.finance.gov.au/government/australian-government-investment-funds/investment-fund-principles), <https://www.finance.gov.au/government/australian-government-investment-funds/investment-fund-principles>

Budget Rules for Proposals involving Investment Funds:

In bringing forward policy proposals..., entities must comply with the requirements of the Commonwealth Investment Framework and must: (a) assess the financial impacts, including on underlying cash and fiscal balance, net debt, gross debt, and Public Debt Interest (PDI) over the life of the policy proposal.

- When proposing the creation of an investment fund, be able to **clearly justify** the benefits of investing the principal and using the fund to meet ongoing spending.
- **Offset any impact on underlying cash, including any PDI costs** associated with an increase in gross debt over the forward estimates.

Source: IMF Staff, [Budget Process Operational Rules \(finance.gov.au\)](https://www.finance.gov.au/budget-process-operational-rules).

Annex 6. Suggested Amendments to the Minister of Finance Regulations to Establish an Endowment Fund for Regional Government

ARTICLE	ORIGINAL TEXT	NEW TEXT	REASON FOR AMENDMENT
1 - Between (10) and (11)	None	10a Multi-year Budget Financing Fund (MBFF) is a DAD which originates from accumulated SiLPA	Definition
1 - Between (10) and (11)	None	10b Intergenerational Wealth Fund (IGWF) is a DAD which originates from accumulated revenue sharing surplus	Definition
1 (19)	UPP	Delete Article	UPP not needed
3 (1) c	None	Regional Government to have the opportunity to manage finances for multi-year budget availability	Additional objective of DAD
4 (1)	to improve and/or expand one or a number of specific public services	to improve and/or expand public services; or save for intergenerational benefit	Generalize MBFF and include IGWF
5 (1) c	None	c. For an IGWF, an established plan for generating and saving revenue sharing surpluses.	Include IGWF in the eligibility criteria
6 (3)	type of DAD.	type of DAD - either MBFF or IGWF	only 2 objectives and types of DAD
6 (4) a	SiLPA	For a MBFF, SiLPA	Inflow rule for MBFF
6 (4) b	other sources	For either a MBFF or an IGWF, other sources	Inflow rules
8 (3) e	Compatibility between activities funded by the DAD yields with regional priorities;	Delete	Yields used for general budget execution
8 (3) f	Compatibility....	Delete	Ditto
8 (5)	letters e,f, and g	letter g	Ditto
12 (2) d	UPP	Delete whole clause	UPP not needed
12 (2) e, f	use of yields	Delete whole clauses	Yields used for general budget execution
12 (2) g	UPD and UPP	UPD	UPP not needed
12 (4)	UPP	Delete whole clause	UPP not needed
14 (1) e, f	use of yields	Delete whole clauses	Yields used for general budget execution
19, 20, 21, 22	UPP	Delete whole Articles	UPP not needed
24 (1)	UPP prepares	Regional Government Budget Manager prepares	Yields used for general budget execution
28 (7)	New clause	The DAD is precluded from any encumbrance on its assets through such activities as providing guarantees, borrowing, entering into derivative contracts, or pledging assets	Avoidance of non-standard risks

Following Article 29	New Article	For an IGWF, once the size of the DAD and the financial management experience of the UPD are sufficiently well established, the Regional Government may apply to the Minister to expand the investment guidelines of Article 28 to include risk-bearing assets to better match the fund objective	Evolving investment management for IGWFs
30 (1)	yields of the Regional Endowment Fund	yields of the Regional Endowment Fund which is a MBFF	Only MBFF yields used in budget
30 (4), (5)	yields of the Regional Endowment Fund	yields of the Regional Endowment Fund which is a MBFF	Only MBFF yields used in budget
31	Use of yields	Delete whole Article	Yields used for general budget execution
Following Article 33	None	The yields from investments of an IGSF are to be reinvested in the fund.	Different objective for IGWF
42 (8)	Government.	Government. When considering this decision, the Minister shall take into account whether the Regional Government is likely to create SiLPA in the medium-term and, if not, whether the withdrawn funds will be required to meet socially productive expenditure plans as provided for in its budget.	Relaxing the 'emergency' interpretation of Law#1, 2022. From an evolutionary perspective, as LG public financial management improves and budgets are executed efficiently, the LG may make use of the capital locked up in the DAD. For MBFFs this is operational. For IGWFs this is for a budget stabilization function or when resources are at depletion stage.
42 (9)	capacity.	capacity. Such obligation will only come into force once the Region has shown that it has the financial capacity to repay the withdrawn amount as an expenditure item in its budget without reducing its social commitments.	Relaxing the 'emergency' interpretation of Law#1, 2022. Repayment will only occur if the budget is in surplus or SiLPA exists. If the LG is running its budget execution efficiently and is making full budgeted expenditures each year, this is likely to deplete the fund. As IGWF inflow reduce to zero, the budget will go into deficit and the fund can be run down to continue LG public services.
Following Article 44	New Article	Prior to withdrawing fund deposits from banks in excess of IDR [75 billion] the UPD manager will consult with the Ministry of Finance and the BI to ensure that banking stability risk is minimized.	Macro-stability risk. If a [ceiling] is used in the Article, it should be discussed with the BI before deciding its value.
45 (5)	process of developing funds and utilizing the yields of	process of developing funds of	Yields used for general budget execution

Annex 7. Fiscal Capacity Indices

Provinces Regional Fiscal Capacity Indices²⁵

#	Province	KFD	Rating
1	Province of DKI Jakarta	6.207	Very High
2	Province of Jawa Barat	4.676	Very High
3	Province of Jawa Tengah	2.943	Very High
4	Province of Jawa Timur	2.885	Very High
5	Province of Papua	1.616	High
6	Province of Kalimantan Timur	1.472	High
7	Province of Sumatera Utara	1.115	High
8	Province of Riau	1.016	High
9	Province of Sumatera Selatan	0.948	High
10	Province of Kalimantan Selatan	0.891	Average
11	Province of Banten	0.847	Average
12	Province of Sulawesi Selatan	0.799	Average
13	Province of Nusa Tenggara Timur	0.786	Average
14	Province of Kalimantan Tengah	0.776	Average
15	Province of Kalimantan Barat	0.685	Average
16	Province of Lampung	0.678	Average
17	Province of Sumatera Barat	0.594	Average
18	Province of Bali	0.533	Low
19	Province of Sulawesi Utara	0.504	Low
20	Province of Sulawesi Tengah	0.406	Low
21	Province of DI Yogyakarta	0.390	Low
22	Province of Sulawesi Tenggara	0.389	Low
23	Province of Jambi	0.357	Low
24	Province of Nusa Tenggara Barat	0.318	Low
25	Province of Kalimantan Utara	0.302	Low
26	Province of Sulawesi Barat	0.269	Very Low
27	Province of Bengkulu	0.249	Very Low
28	Province of Kepulauan Riau	0.244	Very Low
29	Province of Bangka Belitung	0.223	Very Low
30	Province of Aceh	0.220	Very Low
31	Province of Maluku Utara	0.215	Very Low
32	Province of Maluku	0.189	Very Low
33	Province of Papua Barat	0.156	Very Low
34	Province of Gorontalo	0.103	Very Low

²⁵ Minister of Finance Regulation 120/PMK.07/2020.

Regencies/Cities Regional Fiscal Capacity Indices²⁶

#	Regency/City	KFD	Rating
1	City of Surabaya	7.676	Very High
2	Regency of Tangerang	7.509	Very High
3	City of Bekasi	5.873	Very High
4	Regency of Badung	4.880	Very High
5	City of Bandung	4.726	Very High
6	Regency of Bekasi	4.686	Very High
7	Regency of Bogor	4.343	Very High
8	City of Semarang	4.146	Very High
9	City of Makassar	3.658	Very High
10	City of Medan	3.384	Very High
11	Regency of Semarang	3.316	Very High
12	City of Tangerang Selatan	3.231	Very High
13	Regency of Sidoarjo	2.960	Very High
14	City of Palembang	2.887	Very High
15	Regency of Cianjur	2.808	Very High
16	City of Batam	2.781	Very High
17	City of Palu	2.718	Very High
18	City of Balikpapan	2.697	Very High
19	Regency of Kutai Kartanegara	2.642	Very High
20	Regency of Bandung	2.641	Very High
21	Regency of Bengkalis	2.635	Very High
22	Regency of Kutai Barat	2.627	Very High
23	Regency of Pasuruan	2.608	Very High
24	Regency of Sukabumi	2.585	Very High
25	Regency of Bojonegoro	2.531	Very High
26	City of Depok	2.521	Very High
27	City of Bandar Lampung	2.518	Very High
28	Regency of Kutai Timur	2.489	Very High
29	Regency of Serang	2.442	Very High
30	Regency of Garut	2.384	Very High
31	Regency of Majalengka	2.364	Very High
32	City of Pekanbaru	2.356	Very High
33	Regency of Gresik	2.348	Very High
34	Regency of Subang	2.207	Very High
35	Regency of Indramayu	2.186	Very High
36	Regency of Banyuwangi	2.161	Very High
37	Regency of Jember	2.155	Very High
38	Regency of Musi Banyuasin	2.140	High
39	Regency of Karawang	2.104	High
40	Regency of Banyumas	2.080	High
41	Regency of Grobogan	2.053	High
42	Regency of Mimika	2.000	High
43	Regency of Probolinggo	1.914	High
43	Regency of Penajam Paser Utara	1.914	High
45	Regency of Bandung Barat	1.910	High
46	City of Tangerang	1.899	High
47	Regency of Muara Enim	1.892	High
48	Regency of Pati	1.880	High
49	Regency of Cirebon	1.877	High
50	Regency of Banyuasin	1.870	High

²⁶ Minister of Finance Regulation 120/PMK.07/2020.

51	Regency of Sidenreng Rappang	1.844	High
52	Regency of Sleman	1.830	High
53	Regency of Aceh Utara	1.817	High
54	City of Padang	1.812	High
55	Regency of Deli Serdang	1.805	High
56	Regency of Konawe	1.770	High
57	Regency of Paser	1.762	High
58	Regency of Gunung Kidul	1.760	High
59	Regency of Demak	1.753	High
60	Regency of Gianyar	1.742	High
61	Regency of Ogan Komering Ilir	1.728	High
62	Regency of Cilacap	1.725	High
63	City of Banjarmasin	1.688	High
64	Regency of Bengkulu Selatan	1.674	High
65	Regency of Kampar	1.671	High
66	Regency of Brebes	1.658	High
67	Regency of Lombok Timur	1.649	High
68	Regency of Malang	1.635	High
69	Regency of Lampung Timur	1.612	High
70	Regency of Aceh Besar	1.596	High
71	Regency of Solak	1.590	High
72	Regency of Rokan Hilir	1.576	High
73	Regency of City of waringin Barat	1.572	High
74	Regency of Kediri	1.570	High
75	Regency of Tuban	1.568	High
76	Regency of Gorontalo	1.567	High
77	Regency of Sintang	1.563	High
78	Regency of Berau	1.554	High
79	Regency of Tanah Bumbu	1.552	High
80	Regency of Sukoharjo	1.544	High
81	Regency of Lumajang	1.533	High
82	Regency of Kuningan	1.532	High
83	Regency of Banjarnegara	1.529	High
84	Regency of Merauke	1.517	High
85	Regency of Teluk Bintuni	1.511	High
86	Regency of Tegal	1.502	High
86	Regency of Lebak	1.502	High
88	Regency of Musi Rawas	1.495	High
89	City of Surakarta	1.492	High
90	City of Samarinda	1.490	High
91	Regency of Mojokerto	1.486	High
92	Regency of Bireuen	1.477	High
93	Regency of Boyolali	1.464	High
94	Regency of Penukal Abab Lematang Ilir	1.454	High
95	Regency of Purwakarta	1.438	High
96	Regency of Lamongan	1.437	High
97	Regency of Blitar	1.431	High
98	Regency of Tasikmalaya	1.427	High
99	Regency of Buleleng	1.425	High
100	Regency of Tolikara	1.394	High
101	City of Cirebon	1.381	High
102	Regency of Yahukimo	1.363	High
103	Regency of Pelalawan	1.361	High
104	Regency of Siak	1.352	High

105	City of Malang	1.345	High
106	Regency of Batang	1.332	High
107	Regency of Pematang	1.330	High
108	City of Yogyakarta	1.302	High
109	Regency of Karanganyar	1.295	High
110	Regency of Kebumen	1.292	High
111	City of Bontang	1.289	High
111	City of Manado	1.289	High
113	Regency of Rembang	1.287	High
114	City of Jambi	1.285	High
115	Regency of Kapuas	1.275	High
116	Regency of Puncak Jaya	1.265	High
117	Regency of Klaten	1.238	High
117	Regency of Jombang	1.238	High
119	Regency of Simalungun	1.235	High
120	Regency of Ogan Ilir	1.218	High
121	Regency of Ponorogo	1.192	High
122	City of Serang	1.191	High
123	Regency of Bone	1.187	High
124	Regency of Indragiri Hilir	1.180	High
125	City of Mataram	1.178	High
126	Regency of Kepulauan Yapen	1.177	High
127	Regency of Tapin	1.169	High
128	City of Bogor	1.168	High
129	Regency of Bantul	1.167	Average
129	Regency of Pacitan	1.167	Average
131	Regency of Tulungagung	1.165	Average
132	Regency of Langkat	1.162	Average
133	Regency of Mahakam Ulu	1.159	Average
134	Regency of Balangan	1.156	Average
135	Regency of Sumedang	1.151	Average
136	Regency of Wonosobo	1.150	Average
137	Regency of Boven Digoel	1.142	Average
138	City of Kendari	1.141	Average
139	Regency of Sragen	1.140	Average
140	Regency of Banjar	1.129	Average
141	Regency of Luwu Timur	1.127	Average
142	Regency of Jepara	1.125	Average
143	Regency of Gunung Mas	1.124	Average
144	Regency of Blora	1.118	Average
145	Regency of Magelang	1.117	Average
146	City of Banjarbaru	1.112	Average
147	City of Cilegon	1.086	Average
148	Regency of Timar Tengah Selatan	1.085	Average
149	Regency of Barito Kuala	1.075	Average
150	Regency of Ciamis	1.069	Average
151	Regency of Lombok Tengah	1.050	Average
152	Regency of Lahat	1.041	Average
153	Regency of Ngawi	1.040	Average
154	Regency of Kerinci	1.035	Average
154	Regency of Sanggau	1.035	Average
156	Regency of Luwu	1.034	Average
157	Regency of City of waringin Timur	1.033	Average
158	Regency of Purworejo	1.029	Average

159	Regency of Hulu Sungai Utara	1.024	Average
160	Regency of Bulukumba	1.018	Average
161	Regency of Pekalongan	1.017	Average
162	Regency of Ogan Komering Ulu Timur	1.011	Average
163	Regency of Gowa	0.999	Average
163	City of Ambon	0.999	Average
165	Regency of Lampung Selatan	0.989	Average
166	Regency of Batanghari	0.987	Average
167	Regency of Kubu Raya	0.985	Average
168	City of Probolinggo	0.984	Average
168	Regency of Halmahera Utara	0.984	Average
170	Regency of Sampang	0.981	Average
171	Regency of Muaro Jambi	0.978	Average
172	Regency of Intan Jaya	0.977	Average
173	Regency of Seram Bagian Timur	0.973	Average
174	Regency of Pandeglang	0.970	Average
175	City of Sukabumi	0.969	Average
176	City of Madiun	0.951	Average
176	Regency of Maluku Tengah	0.951	Average
178	Regency of Jembrana	0.949	Average
179	Regency of Belu	0.946	Average
180	Regency of Aceh Barat	0.944	Average
181	Regency of Pidie Jaya	0.943	Average
182	City of Cimahi	0.942	Average
183	Regency of Sumenep	0.941	Average
184	Regency of Sinjai	0.940	Average
185	Regency of Musi Rawas Utara	0.937	Average
186	Regency of Lombok Barat	0.929	Average
187	Regency of Bondowoso	0.922	Average
187	Regency of Ketapang	0.922	Average
189	Regency of Pringsewu	0.921	Average
190	Regency of Padang Lawas	0.916	Average
191	Regency of Bengkulu Utara	0.912	Average
192	Regency of Kepulauan Meranti	0.909	Average
193	Regency of Rokan Hulu	0.907	Average
194	Regency of Sambas	0.898	Average
195	City of Dumai	0.897	Average
196	Regency of Halmahera Selatan	0.895	Average
197	Regency of Halmahera Tengah	0.892	Average
198	Regency of Mamberamo Raya	0.888	Average
199	City of Tasikmalaya	0.881	Average
200	Regency of Murung Raya	0.879	Average
201	Regency of Lampung Tengah	0.877	Average
202	Regency of Nunukan	0.876	Average
203	Regency of Kuantan Singingi	0.869	Average
203	Regency of Purbalingga	0.869	Average
205	Regency of Magetan	0.868	Average
206	Regency of Pamekasan	0.866	Average
207	Regency of Sekadau	0.860	Average
208	Regency of Asahan	0.856	Average
209	Regency of Agam	0.853	Average
210	Regency of Raja Ampat	0.851	Average
211	Regency of Nduga	0.847	Average
212	Regency of Tabalong	0.846	Average

213	Regency of Ogan Komering Ulu Selatan	0.841	Average
213	Regency of Kolaka	0.841	Average
215	Regency of Malinau	0.836	Average
216	Regency of Tapanuli Selatan	0.829	Average
216	Regency of Kaimana	0.829	Average
218	Regency of Tanjung Jabung Barat	0.825	Average
219	Regency of Tanah Laut	0.824	Average
220	City of Blitar	0.823	Average
221	Regency of Kapuas Hulu	0.821	Average
221	City of Pontianak	0.821	Average
223	City of Lubuk Linggau	0.819	Average
223	City of Tanjung Pinang	0.819	Average
225	Regency of Situbondo	0.815	Average
226	Regency of Wonogiri	0.814	Average
227	City of Salatiga	0.813	Average
228	Regency of Maras	0.811	Average
229	Regency of Bintan	0.809	Average
230	City of Bengkulu	0.807	Average
231	Regency of Sumbawa	0.806	Average
232	Regency of Biak Numfor	0.804	Average
233	City of Magelang	0.802	Average
234	Regency of Indragiri Hulu	0.800	Average
234	Regency of Temanggung	0.800	Average
236	City of Palangka Raya	0.796	Average
237	Regency of City of baru	0.793	Average
238	Regency of Ogan Komering Ulu	0.791	Average
239	Regency of Trenggalek	0.785	Average
240	Regency of Klungkung	0.784	Average
241	Regency of Pesisir Selatan	0.780	Average
241	City of Mojokerto	0.780	Average
241	City of Gorontalo	0.780	Average
244	Regency of Bulungan	0.779	Average
245	City of Pangkal Pinang	0.774	Average
246	Regency of Labuhanbatu	0.773	Average
247	Regency of Halmahera Timur	0.767	Average
248	Regency of Karangasem	0.766	Average
249	Regency of Hulu Sungai Tengah	0.754	Average
250	Regency of Landak	0.753	Average
250	Regency of Maybrat	0.753	Average
252	Regency of Toraja Utara	0.752	Average
253	Regency of Maluku Barat Daya	0.751	Average
254	Regency of Bangkalan	0.750	Average
255	City of Tegal	0.744	Low
255	Regency of Lanny Jaya	0.744	Low
257	Regency of Banggai	0.743	Low
258	City of Banda Aceh	0.742	Low
258	Regency of Tanah Datar	0.742	Low
260	Regency of Barito Selatan	0.739	Low
261	Regency of Seruyan	0.737	Low
262	Regency of Manggarai Timur	0.736	Low
263	Regency of Kendal	0.733	Low
263	Regency of Pangkajene dan Kepulauan	0.733	Low
265	Regency of Kulonprogo	0.730	Low
265	Regency of Wajo	0.730	Low

267	City of Metro	0.729	Low
268	Regency of Tanjung Jabung Timur	0.725	Low
269	Regency of Batu Bara	0.723	Low
270	Regency of Donggala	0.721	Low
271	Regency of Minahasa Tenggara	0.719	Low
271	City of Denpasar	0.719	Low
271	Regency of Kepulauan Aru	0.719	Low
274	City of Parepare	0.711	Low
275	Regency of Madiun	0.710	Low
275	City of Ternate	0.710	Low
277	Regency of Bantaeng	0.708	Low
278	Regency of Maluku Tenggara	0.705	Low
279	Regency of Nganjuk	0.702	Low
280	Regency of Pasaman	0.699	Low
281	City of Banjar	0.698	Low
281	City of Batu	0.698	Low
281	Regency of Tojo Una-una	0.698	Low
281	Regency of Puncak	0.698	Low
285	Regency of Pesisir Barat	0.694	Low
285	Regency of Kepulauan Tanimbar	0.694	Low
287	Regency of Morowali	0.693	Low
288	Regency of Lampung Barat	0.692	Low
288	City of Tarakan	0.692	Low
290	Regency of Tanggamus	0.691	Low
291	Regency of Jayawijaya	0.690	Low
292	City of Jayapura	0.687	Low
293	Regency of Kupang	0.683	Low
294	Regency of Sikka	0.682	Low
295	City of Kediri	0.680	Low
296	Regency of Konawe Selatan	0.677	Low
297	Regency of Yalimo	0.674	Low
298	Regency of Lampung Utara	0.667	Low
299	Regency of Jeneponto	0.666	Low
299	Regency of Luwu Utara	0.666	Low
301	Regency of Bungo	0.661	Low
301	Regency of Fakfak	0.661	Low
303	Regency of Pinrang	0.659	Low
303	Regency of Lingga	0.659	Low
305	Regency of Sarmi	0.658	Low
306	Regency of Tebo	0.657	Low
307	Regency of Kepulauan Selayar	0.653	Low
308	Regency of Keerom	0.652	Low
309	Regency of Tabanan	0.649	Low
309	Regency of Sumbawa Barat	0.649	Low
311	City of Pekalongan	0.646	Low
312	Regency of Enrekang	0.645	Low
312	Regency of Polewali Mandar	0.645	Low
314	Regency of Waropen	0.644	Low
315	Regency of Katingan	0.643	Low
316	City of Bitung	0.641	Low
317	Regency of Tana Toraja	0.640	Low
318	Regency of Dompu	0.639	Low
318	Regency of Pegunungan Bintang	0.639	Low
320	Regency of Nias Selatan	0.631	Low

320	Regency of Serdang Bedagai	0.631	Low
320	City of Kupang	0.631	Low
323	Regency of Bima	0.629	Low
324	Regency of Mappi	0.627	Low
325	Regency of Pasangkayu	0.623	Low
326	Regency of Empat Lawang	0.617	Low
326	Regency of Kayong Utara	0.617	Low
328	Regency of Minahasa Utara	0.616	Low
329	City of Payakumbuh	0.613	Low
329	Regency of Kudus	0.613	Low
331	Regency of Kaur	0.609	Low
332	City of Bau-Bau	0.607	Low
333	Regency of Seram Bagian Barat	0.600	Low
334	Regency of Labuhanbatu Selatan	0.599	Low
335	Regency of Pangandaran	0.598	Low
336	Regency of Toli-Toli	0.590	Low
337	Regency of Tapanuli Utara	0.589	Low
338	Regency of Labuhanbatu Utara	0.588	Low
338	Regency of Rejang Lebong	0.588	Low
340	Regency of Melawi	0.587	Low
341	Regency of Mandailing Natal	0.585	Low
342	Regency of Minahasa	0.582	Low
342	Regency of Dogiyai	0.582	Low
344	Regency of Padang Pariaman	0.581	Low
345	City of Pagar Alam	0.578	Low
346	Regency of Seluma	0.573	Low
346	Regency of Sumba Timur	0.573	Low
348	Regency of Sarolangun	0.571	Low
349	Regency of Jayapura	0.570	Low
350	Regency of Parigi Moutong	0.569	Low
351	Regency of Hulu Sungai Selatan	0.568	Low
351	Regency of Pohuwato	0.568	Low
353	Regency of Aceh Singkil	0.567	Low
354	Regency of Bangli	0.565	Low
355	Regency of Tulang Bawang	0.563	Low
355	Regency of Way Kanan	0.563	Low
357	Regency of Merangin	0.562	Low
357	City of Prabumulih	0.562	Low
359	Regency of Lombok Utara	0.561	Low
360	Regency of Mempawah	0.560	Low
361	Regency of Pidie	0.558	Low
361	Regency of Kepulauan Anambas	0.558	Low
363	Regency of Mamuju	0.554	Low
364	Regency of Teluk Wondama	0.553	Low
365	City of Pariaman	0.544	Low
365	Regency of Kolaka Timur	0.544	Low
367	Regency of Pulau Taliabu	0.543	Low
368	Regency of Tapanuli Tengah	0.542	Low
369	Regency of Manggarai	0.541	Low
370	Regency of Dharmasraya	0.540	Low
371	Regency of Bolaang Mongondow	0.539	Low
372	City of Bukittinggi	0.538	Low
372	Regency of Barito Utara	0.538	Low
372	Regency of Bangka Selatan	0.538	Low

375	City of Sibolga	0.536	Low
376	Regency of Pulang Pisau	0.534	Low
377	City of Tebing Tinggi	0.533	Low
378	City of Tomohon	0.522	Low
379	Regency of Mamberamo Tengah	0.521	Low
380	City of Tual	0.519	Low
381	Regency of Pasaman Barat	0.517	Low
381	Regency of Manggarai Barat	0.517	Low
383	Regency of Ngada	0.515	Very Low
383	Regency of Tana Tidung	0.515	Very Low
385	City of City of mobagu	0.514	Very Low
385	Regency of Konawe Utara	0.514	Very Low
387	Regency of Barito Timur	0.512	Very Low
388	Regency of Padang Lawas Utara	0.510	Very Low
389	Regency of Pesawaran	0.507	Very Low
390	Regency of Limapuluh City of	0.499	Very Low
391	Regency of Soppeng	0.498	Very Low
392	Regency of Dairi	0.494	Very Low
393	City of Pasuruan	0.492	Very Low
394	Regency of Bolaang Mongondow Timur	0.491	Very Low
394	Regency of Buru	0.491	Very Low
396	Regency of Lamandau	0.490	Very Low
397	City of Binjai	0.486	Very Low
398	Regency of Morowali Utara	0.485	Very Low
399	Regency of Lebong	0.483	Very Low
399	City of Palopo	0.483	Very Low
399	Regency of Tambrau	0.483	Very Low
402	Regency of Nagan Raya	0.482	Very Low
403	Regency of Minahasa Selatan	0.480	Very Low
404	City of Padang Panjang	0.477	Very Low
404	City of Sungai Penuh	0.477	Very Low
406	Regency of Bombana	0.476	Very Low
406	Regency of Paniai	0.476	Very Low
408	City of Lhokseumawe	0.475	Very Low
409	Regency of Timar Tengah Utara	0.472	Very Low
410	City of Singkawang	0.471	Very Low
411	Regency of Manokwari	0.470	Very Low
412	Regency of Bone Bolango	0.469	Very Low
413	Regency of Bangka Tengah	0.466	Very Low
414	Regency of Karimun	0.459	Very Low
415	Regency of Buol	0.458	Very Low
416	Regency of Buru Selatan	0.455	Very Low
417	Regency of Takalar	0.454	Very Low
418	Regency of Wakatobi	0.452	Very Low
419	Regency of Sabu Raijua	0.449	Very Low
420	Regency of Sigi	0.447	Very Low
421	Regency of Halmahera Barat	0.446	Very Low
422	Regency of Bolaang Mongondow Utara	0.444	Very Low
423	City of Tidore Kepulauan	0.441	Very Low
424	Regency of Aceh Tengah	0.440	Very Low
424	Regency of Sukamara	0.440	Very Low
424	Regency of Paso	0.440	Very Low
427	Regency of Deiyai	0.435	Very Low
428	Regency of Tulang Bawang Barat	0.434	Very Low

429	Regency of Alor	0.430	Very Low
430	Regency of Natuna	0.428	Very Low
431	Regency of Sijunjung	0.425	Very Low
432	Regency of Mukomuko	0.424	Very Low
433	Regency of Flores Timur	0.423	Very Low
433	Regency of Mamuju Tengah	0.423	Very Low
435	Regency of Humbang Hasundutan	0.421	Very Low
436	Regency of Mamasa	0.420	Very Low
437	Regency of Majene	0.416	Very Low
438	Regency of Kepulauan Mentawai	0.415	Very Low
439	Regency of Aceh Barat Daya	0.414	Very Low
439	Regency of Bengkayang	0.414	Very Low
441	Regency of Kepulauan Sangihe	0.411	Very Low
442	Regency of Nabire	0.410	Very Low
443	Regency of Toba Samosir	0.408	Very Low
444	City of Bima	0.405	Very Low
445	City of Sabang	0.403	Very Low
446	City of Gunungsitoli	0.400	Very Low
447	Regency of Buton Utara	0.398	Very Low
448	Regency of Sumba Barat Daya	0.397	Very Low
449	Regency of Solok Selatan	0.396	Very Low
450	Regency of Kepulauan Talaud	0.394	Very Low
451	Regency of Nias Utara	0.393	Very Low
452	Regency of Muna Barat	0.392	Very Low
453	City of Solak	0.388	Very Low
454	Regency of Samosir	0.385	Very Low
454	Regency of Muna	0.385	Very Low
456	City of Padang Sidempuan	0.382	Very Low
457	Regency of Belitung	0.379	Very Low
458	Regency of Bolaang Mongondow Selatan	0.377	Very Low
459	Regency of Kepulauan Siau Tagulandang Biaro	0.375	Very Low
460	Regency of Buton Selatan	0.373	Very Low
461	Regency of Buton	0.368	Very Low
462	Regency of Mesuji	0.367	Very Low
463	Regency of Konawe Kepulauan	0.366	Very Low
464	Regency of Gayo Lues	0.365	Very Low
464	Regency of Barru	0.365	Very Low
464	Regency of Kolaka Utara	0.365	Very Low
467	Regency of Bangka	0.359	Very Low
468	Regency of Pegunungan Arfak	0.358	Very Low
469	Regency of Ende	0.353	Very Low
470	City of Langsa	0.351	Very Low
471	Regency of Aceh Tenggara	0.350	Very Low
472	City of Tanjung Balai	0.349	Very Low
473	Regency of Boalemo	0.347	Very Low
474	Regency of Kepulauan Sula	0.346	Very Low
474	Regency of Sarong Selatan	0.346	Very Low
476	Regency of Pulau Morotai	0.345	Very Low
477	Regency of Nias	0.339	Very Low
478	Regency of Karo	0.338	Very Low
478	Regency of Supiori	0.338	Very Low
480	Regency of Banggai Laut	0.336	Very Low
481	Regency of Nagekeo	0.332	Very Low
482	City of Pematang Siantar	0.329	Very Low

483	City of Subulussalam	0.324	Very Low
484	Regency of Malaka	0.322	Very Low
485	Regency of Sumba Tengah	0.321	Very Low
486	Regency of Simeulue	0.317	Very Low
487	Regency of Sumba Barat	0.314	Very Low
488	Regency of Buton Tengah	0.310	Very Low
489	Regency of Gorontalo Utara	0.307	Very Low
490	Regency of Pakpak Barat	0.305	Very Low
491	City of Sarong	0.304	Very Low
492	City of Sawahlunto	0.303	Very Low
493	Regency of Rote Ndao	0.302	Very Low
494	Regency of Lembata	0.298	Very Low
495	Regency of Nias Barat	0.284	Very Low
496	Regency of Manokwari Selatan	0.272	Very Low
497	Regency of Kepahiang	0.265	Very Low
498	Regency of Aceh Jaya	0.264	Very Low
499	Regency of Bangka Barat	0.259	Very Low
500	Regency of Banggai Kepulauan	0.257	Very Low
501	Regency of Sarong	0.242	Very Low
502	Regency of Bengkulu Tengah	0.217	Very Low
503	Regency of Aceh Tamiang	0.204	Very Low
504	Regency of Aceh Timur	0.185	Very Low
505	Regency of Asmat	0.122	Very Low
506	Regency of Belitung Timur	0.046	Very Low
507	Regency of Bener Meriah	0.032	Very Low
508	Regency of Aceh Selatan	0.029	Very Low