Indonesia

Type of state	Unitary
State / regional government level (number)	Provinces (34)[1]
Local general government levels (number)	Regencies (416) Municipalities/Cities (98) Villages (83,344)
Total subnational liabilities, 2021 (state/regional + local)	IDR 59.12 trillion, (USD 4.05 billion eq.)
Local government outstanding liabilities, *% of total subnational 2021*	Not available
Total subnational liabilities growth, *CPI adjusted[2], 2018 to 2021*	37%
Local government liabilities growth, *CPI adjusted, 2018 to 2021[3]*	Not available

Legal & regulatory environment	• Central government regulations impose conservative restrictions to subnational borrowing consistent with international standards[4] • Subnational governments have been legally permitted to issue bonds linked to a project since 2004, but no subnational government has yet issued one
Borrowing readiness	• Subnational government aggregate debt is low, and many subnational governments have considerable borrowing capacity[5] • The intergovernmental fiscal transfer system lacks predictability and is still not fully transparent[6] • Subnational governments lack public financial management capacity such as relevant expertise for issuing bonds, for strengthening their creditworthiness, and for leveraging private financing[7]
Macro credit conditions	• IMF rates Indonesia as having a low level of financial development [8] • Indonesia's capital market is relatively shallow with a substantial presence of the State and a narrow domestic institutional investor base [9]

Highlights

- Subnational governments play a major role in public spending and have significant discretion in terms of their expenditure decisions, but subnational government own-source revenue is low and dependency on central government transfers is high.
- At present, subnational governments can only borrow from domestic sources (central government, other subnational governments, domestic banks, and non-bank financial institutions). Subnational governments can issue bonds with permission from the Ministry of Finance but cannot borrow directly in foreign currency and from foreign lenders.
- Subnational governments are subject to strict fiscal rules and several borrowing limits that are consistent with international standards.[10]
- Due to a lack of timely and reliable financial reporting,[11] it is difficult to systematically monitor subnational government financials and debt management.[12]

Borrowing legal & regulatory environment

Overview: Indonesia is a unitary republic divided into five layers of government: central, provinces, regencies (*kabupaten*) and municipalities (*kota*), subdistricts (*kecamatan*), and villages (*kelurahan/desa*). At the regional level, five provinces out of the 34 provinces have special status that confer greater autonomy.[13] At the intermediate level, municipalities differ from regencies by their demographic size and economic profile. Small regencies are home to an average of 6,000 inhabitants whereas the largest municipality has 4.8 million inhabitants.

While subnational governments play a major role in public spending and have significant discretion in terms of their expenditure mix, a large share of their revenues come from central government transfers.[14] In 2021, subnational expenditures amounted to 51% of public expenditures and local government expenditure to 36% (respectively 8% and 6% of GDP). Transfers amounted to 70% of subnational government revenues and 80% of local government revenues. All subnational governments are also required to allocate a minimum of 25% of general transfers (general block grants and revenue sharing) to infrastructure spending.[15]

Fiscal decentralization in Indonesia is governed by two laws: Law No. 23/2014 on Local Government, which regulates the authority and task division between different level of governments and Law No. 33/2004, which was recently replaced by Law No. 1/2022 on intergovernmental fiscal relations. The latter describes different types of fiscal instruments and borrowing requirements. These two Laws give autonomy directly to the regencies and municipalities by granting them the authority to determine the size and structure of budget expenditure. Provinces, on the other hand, have only limited authority and are mostly relegated to supervisory roles. Villages don't have very clear authority and the 2014 Village Law only provides general guidelines pertaining to their responsibilities.[16] The Regional Representative Councils legislate on provincial matters. At the local level, districts, and cities have their own representative councils (DPRD), which functions are the same as the provincial Regional Representative Councils.

Borrowing framework & process: Reforms in the legal and regulatory framework have improved the environment for subnational government borrowing in Indonesia in recent years.[17] However, while subnational governments can borrow from domestic banks and issue bonds, the central government has maintained very strict limitations on local government borrowing.

Before 2003, only the central government was allowed to borrow from both domestic and foreign sources. Since 2003 and the introduction of Law No. 17/2003, subnational governments have been allowed to borrow, but are required to seek prior approval from the Ministry of Finance (MoF). For loans originating from the government, subnational governments must also seek the recommendation of the Ministry of Home Affairs (MoHA) and Ministry of Planning (BAPPENAS). Law No. 17/2003 limits the budget deficits of central and each subnational governments to 3% of their respective annual GDP and regional GDP.[18] Also, the Law sets the ratio of central and subnational debt stock to cumulative GDP at a maximum of 60%. An annual MoF decree sets limits for subnational deficits and debt levels to curb fiscal risks, and to ensure that the overall fiscal rules on public sector debts and deficits are met (See Box 1 for detailed example of limits). Most of the credit is collateralized against land.[19]

In 2004, Law No. 33[20] (recently replaced by Law 1/2022) introduced subnational borrowing limits. According to Law 1/2022, subnational debt financing instruments consists of loans, bonds and Sukuk. Subnational governments are not allowed to borrow from foreign lenders and all foreign loans should be made through the central government. Loans can be used for cash management,[21] regional infrastructure investments, regional debt portfolio management and subsidiary loans and/or equity participation to municipally owned enterprises (BUMD). Bonds and Sukuk cannot be issued for cash management purposes. Subnational governments are prohibited from providing guarantees for the financing of other parties' debts but are allowed to pledge revenue (including transfers) for debt service repayments. In addition, the use of the General Allocation Fund (DAU) and Revenue Sharing Transfer (DBH) intercept is allowed for capturing unpaid central government loans. Finally, Law 1/2022 outlines sanctions for subnational governments that have savings (bank deposits) amounting to greater than two months' worth of revenue.

Government Regulation No. 56/2018[22] on Regional Borrowing (which replaced the Government Regulation No.30/2011) imposes several other limits to subnational borrowing. It limits outstanding subnational debt to 75% of the previous year's non-allocated regional revenue and expenditure budget, debt service coverage ratio must be at least 2.5 (see definition below), and it prohibits subnational governments that have outstanding arrears on government loans to borrow.

Borrowing restrictions:

General restrictions:

- Any borrowing requires the approval of the Minister of Finance and the recommendation of the Ministry of Home Affairs (MoHA) and the Ministry of Planning (BAPPENAS)
- Foreign borrowing can only be done through the central government

- Short-term borrowing is permitted for the management of local government cash flow and must be repaid by the end of the current year
- The consolidated national and subnational government budget deficit is limited to 3 percent of their respective annual GDP
- The central government can prohibit local governments from giving a guarantee/collateral based on local government assets
- A subnational government is not allowed to borrow if it has outstanding arrears on government loans.

Debt limits:

The Ministry of Finance (MoF) restricts subnational borrowing to the lowest value of the following 'binding' norms:

- Debt stock may not exceed 75% of the previous year's general revenues (defined as all revenues except special purpose grants and emergency grants)
- Debt-service coverage ratio (DSCR)[23] must be at least 2.5 (as stipulated by Law 1/2022). In other words, own-source revenue minus compulsory expenditures should be at least 2.5 times the debt service obligations
- Total debt service should not exceed 15% of the sum of the general-purpose grant (DAU) and revenue sharing transfer (DBH)
- Collectively, sub-national governments may not borrow more than the maximum amount determined by the central government annually in the context of the budget law[24] (See Box 1)
- Maximum short-term borrowing can be no greater than 1/6 of current spending
- Total debt stock (central and subnational) ratio to GDP cannot be higher than 60%.[25]

Box 1: Maximum borrowing and deficit limits for subnational governments in 2021

Based on the State Budget Law 2021, the Ministry of Finance established the following limits for subnational governments borrowing in 2020:

- *The Cumulative Maximum Borrowing Limit of the 2021 Fiscal Year Budget Deficit is set at 0.34% of the 2021 Fiscal Year's GDP projection.*
- *The Maximum Limits of the Regional Revenue and Expenditure Budget (APBD) Deficit for the 2021 Fiscal Year of each Region are determined based on the category of Regional Fiscal Capacity[26] as follows:*
  - *5.8% of the estimated Regional Revenue for Fiscal Year 2021 for the provinces with a provincial fiscal capacity index that falls in the very high category;*
  - *5.6% of the estimated Regional Revenue for Fiscal Year 2021 for the provinces with a provincial fiscal capacity index that falls in the high category;*
  - *5.4% of the estimated Regional Revenue for Fiscal Year 2021 for the provinces with a provincial fiscal capacity index that falls in the medium category;*
  - *5.2% of the estimated Regional Revenue for Fiscal Year 2021 for the provinces with a provincial fiscal capacity index that falls in the low category; and*
  - *5% of the estimated Regional Revenue for Fiscal Year 2021 for the provinces with a provincial fiscal capacity index that falls in the very low category.*

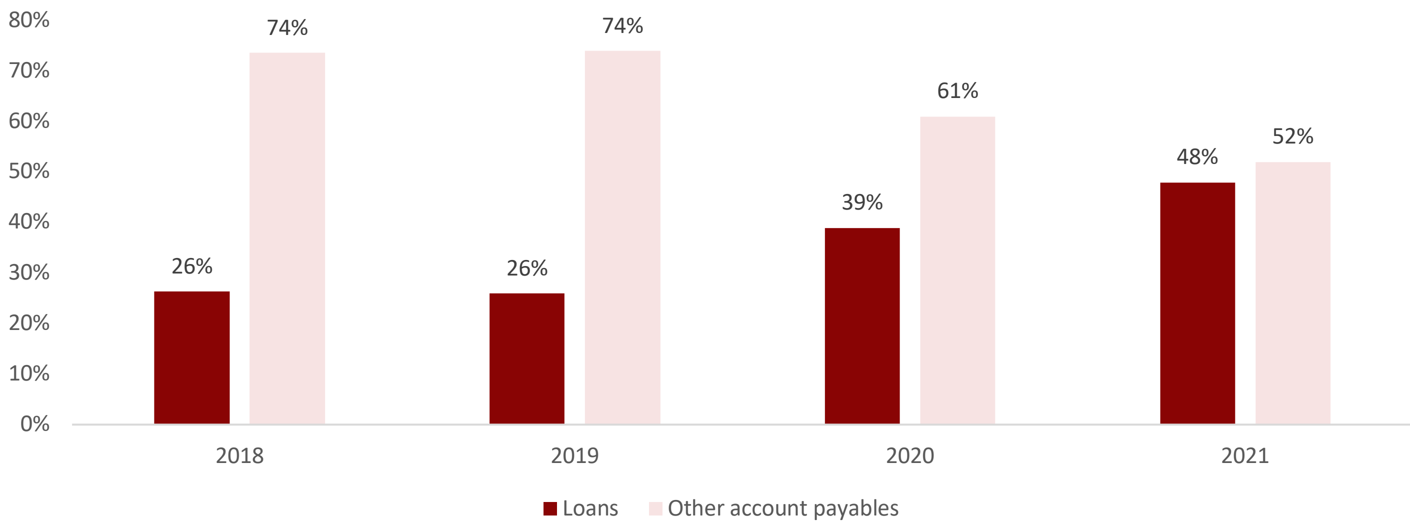
Borrowing incentives / credit enhancements: According to Law 33 of 2004, subnational governments can pledge their revenues (stemming from the General-Purpose grant (DAU) and revenue sharing transfer (DBH) to guarantee their debt repayments, but they cannot guarantee third party debt. The Ministry of Finance can guarantee loans to subnational governments and SOEs through several mechanisms such as contingency funds and revenue intercepts.[27]

Penalties related to public debt management: According to Law No.1/2022, to ensure timely debt repayment, the head of SNG and local parliament members (DPRD) will not be provided incentives/salaries for 6 months if they fail to allocate budget for debt repayment.

Debt management

Aggregate debt levels: In 2021, subnational government debt was low when compared to other middle-income countries with balances accounting for 0.4% of GDP and 1% of overall public debt. Outstanding debt balances are not reported for each subnational government level, but it is reported that municipalities pay 60% of total subnational debt interest and provinces the remaining 40%. Subnational debt was composed of short-term debt (52%) and long-term debt (48%). As reported by the ministry of Finance, short term debt is composed exclusively of accounts payable,[28] while long term debt is composed exclusively of loans. As can be seen from Figure 1, the share of loans vs account payable is growing going from 26% of total debt in 2018 to 48% in 2021. All debt is with domestic creditors denominated in domestic currency.

Figure 1: Subnational government debt (2018-2021), % loans and other accounts payable



Sources: Ministry of Finance and author's calculations

Lenders and types of instruments: In practice, the long-term borrowing for infrastructure is sourced from the Ministry of Finance and local development banks. Subnational governments are also allowed to issue bonds and borrow from commercial banks but have not done so and have mostly issued and it's unclear if any long-term lending has been provided to subnational governments on a commercial basis. Subnational borrowings are primarily sourced from PT SMI (an intermediary institution owned by the Ministry of Finance)[29] and to a limited degree from regional development banks (Bank *Pembangunan Daerah* -BPD)[30] where SNGs often own shares. Regional development banks often hold central government transfers and acts as a cashier for the local government.[31,32]

Although there are no specific regulations that prevent commercial banks from investing in long-term financing for local public infrastructure investment, banks typically focus on short-term loans.

While subnational governments in Indonesia have developed several mechanisms to expand access to subnational loans from IFIs for infrastructure investment, it is done exclusively through the Central government. Through mechanisms such as the new Regional Infrastructure Development Fund (RIDF), the Investment Fund Account, and the Subsidiary Lending Agreement (SLA), the Ministry of Finance borrows from international financial institutions (IFIs) and then lends to subnational governments. SLAs are long-term loans for infrastructure development that are channeled from multilateral donor agencies via the central government to subnational governments. Both SLA and RDA have been used by the Central Government to finance multi-year infrastructure projects for all tiers of subnational government as well as to local water companies (*Perusahaan Daerah Air Minum - PDAM*).[33]

The RIDF, set up by the Indonesia Ministry of Finance in partnership with the World Bank in 2017, provides capital for infrastructure lending (co-financed by a loan from the World Bank for USD 51 million and USD 100 from the Asian Infrastructure Investment Bank (AIIB)). This fund targets a broader range of infrastructure (environmental, productive, and social) and is managed by a state-owned enterprise, *PT. Sarana Multi Infrastruktur (*SMI). RIDF will provide local currency loans at affordable interest rates to subnational governments for investment in infrastructure.[34]

Use of Special Purpose Entities and Public-Private Partnerships: State Owned Entities (SOEs) are regulated under Law No. 19 of 2003 on State-Owned Enterprises.
As of a 2014 accounting, there were 650 State Owned Enterprises owned and managed by regencies and municipalities and 108 by provinces.[35] Guarantees to SOEs are considered off-budget items and treated as contingent liabilities of the government in its annual financial statements.[36]

Subnational governments in Indonesia have used PPPs to implement infrastructure projects before. However, PPPs have not been very successful at the subnational level. This is attributed largely to the fact that the market for PPPs is oriented towards large-scale revenue-generating projects and subnational government budgets (APBD) can only be used to pay for small-scale projects that take less than one year to complete, due to government fiscal rules.[37] Furthermore, limited coordination between agencies at both the national and subnational level and the lack of sub-national government capacity in developing PPP transactions hampers investor interest.[38]

Transparency & open data: The State Finance law (No. 17/2003) and the law on the Audit of Management and Accountability of State Finance (No. 15/2004) impose a uniform system of financial accounts, audit rules, and disclosure requirements for borrowing by all levels of government and require compliance with the Government Accounting Standards (SAP) in the preparation of these reports. While revenue, expenditure, assets, and liabilities used to be recorded on a cash basis, accrual-based standards have been adopted after a transition period. In 2015, the government adopted full accrual-based accounting standards for the first time.

Subnational governments are compelled to submit financial statements to the central government by the Law No. 33/2004 on the Financial Relationship between Local and Central Government. However, A significant delay can occur for subnational government annual financial reports.[39] Financial statements should be submitted no later than 8 months after the end of the fiscal year and failure to comply with this timeline can lead to sanctions in the form of a postponement in the disbursement of the General Allocation Fund (DAU).[40]

Furthermore, according to Law No. 33/2004, subnational government financial reports need to be audited by the State Audit Agency (BPK) and the results of these audits are reported within six months of the end of the fiscal year.[41]

Data on subnational government finance is available to the public through several sources. The Directorate General of Financing and Risk Management of the Ministry of Finance and the Bank Indonesia publish quarterly subnational government debt statistics (since 2018). Subnational debt data is aggregated with no breakdown by level of government. The Central Bureau of Statistics Indonesia publishes data on subnational governments revenue and expenditures (among other information) with level of government breakdown both as an annual Yearbook and as separate financial statistics for each level for government.

Official, publicly available statistics on liabilities and borrowing

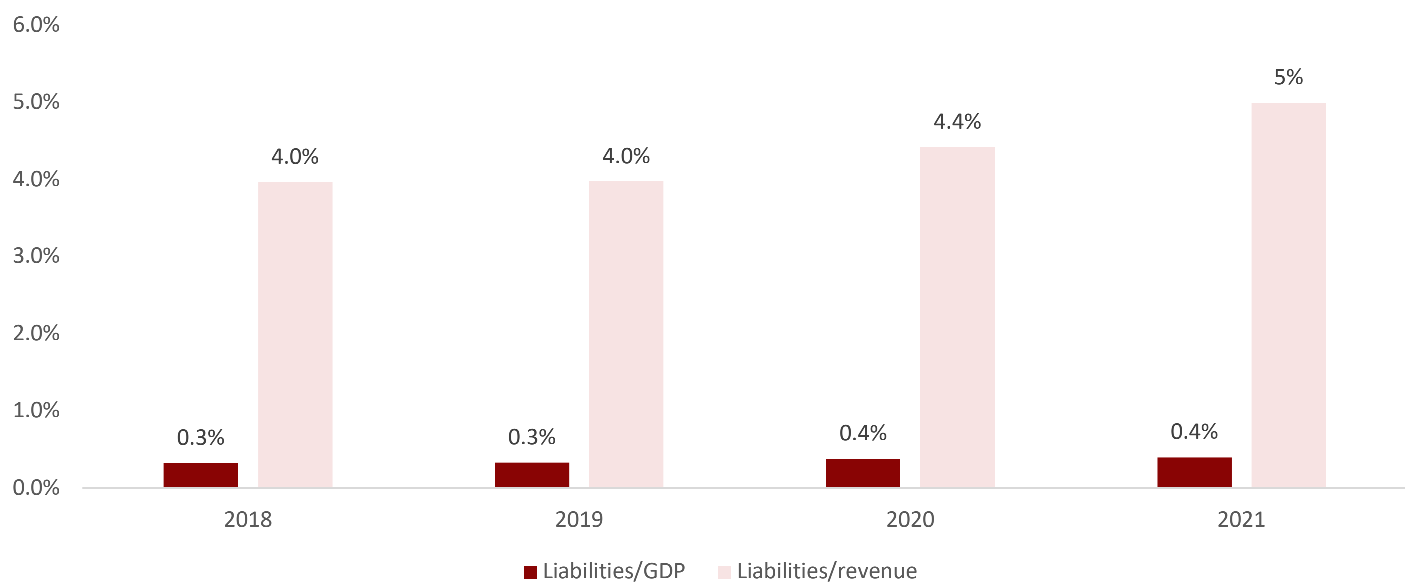
Item	***Total liabilities***	***Total liabilities breakdown by level of government***	***Sources of borrowing breakdown***	***Borrowing instruments breakdown***
Official source(s)	Ministry of Finance and Bank Indonesia	Not reported	Not reported	Ministry of Finance and Bank Indonesia
Latest update; (periodicity)	2021, (quarterly)	N/A	N/A	2021, (quarterly)

Financial & debt management: While subnational borrowing levels are minimal both as a share of GDP and overall public debt (0.41% and 1% respectively), liabilities have grown in real terms by 37% from 2018 to 2021. Much of the increase in debt stock over the past 2 years has been driven by loan facilities from the central government as part of the fiscal stimulus package to support economic recovery (PEN - *Pemulihan Ekonomi Nasional*) from the COVID-19 shock.

Furthermore, in 2021, subnational governments annual debt acquisition limit was set by the Central Government at 0.34% of GDP. This represents a 22% increase from the previous year. Total debt stock also increased by almost 20% from 2020. As can be seen from Figure 2, while the percentage of liabilities to total revenue and own revenues have been increasing, subnational governments' liabilities represent only 23% of own revenue and 5% of total revenue (the limit enforced by the law is 75%) and therefore don't pose a fiscal risk.

According to the World Bank Public Expenditure and Financial Accountability report (2017) subnational government liabilities are a limited source of fiscal risk. However, some fiscal risks may arise from other subnational government liabilities such as sub-national pension obligations where there may be an implicit central government guarantee. Due to a lack of timely and reliable reporting by SNGs these risks are not monitored systematically.[42]

Figure 2: Subnational governments total liabilities ratios to GDP and total subnational governments revenue (2018-2021)



Sources: Ministry of Finance, Statistical Yearbook of Indonesia (2018-2021) and author's calculation

A recent ADB report (2020) argues that while the legal and regulatory framework would allow for a higher amount of borrowing, several limitations hamper subnational governments' ability to borrow. First, Indonesia's capital market is relatively shallow leading to smaller number of investors and price volatility. Second, subnational governments lack public financial management capacity which limits their ability to diversify their debt sources and instruments. Finally, the availability of low-cost and low-risk credit from state-owned banks deters subnational governments from issuing bonds. [43]

Subnational government finances: key ratios (2021)				
Level of government	***Total liabilities, % of total revenue***	***Loans, % of total liabilities***	***Debt service[44], % of total expenditures***	***Operating surplus, % of total revenue***
Local (Regencies Municipalities/Cities Villages)	Not reported	Not reported	0.06%	0%
All sub-national governments (Provinces + Regencies Municipalities/Cities Villages)	5%	48%	0.07%	0%

Recent events related to subnational government access to debt finance

In response to the COVID-19 pandemic, subnational governments shifted spending allocations to COVID-19 related activities mitigation.[45] The Ministry of Finance, has also decreased the 2020 intergovernmental transfers to subnational governments. Lower allocation of intergovernmental transfers is a consequence of a relatively lower prediction on central government taxes revenues. At the same time, the central government relaxed some fiscal rules such as the limitation of consolidated budget deficit (national and subnational) target of 3 percent of GDP for three years.

Main legal provisions	
Approved lenders:	a. the Government; b. other Subnational Governments; c. bank financial institutions; and/or d. non-bank financial institutions.
Instruments:	Loans, bonds, sukuk and other debt financing instruments
Central govt guarantee:	Central government can enhance subnational government credit through several mechanisms such as: contingency funds and revenue intercepts. The Central Government can guarantee subnational loans using several facilities (IIFF, IIGF, RIDF) to leverage private finance for infrastructure projects.
Revenue intercept(pledge) of government transfers:	According to Law 33/04, intercept of DBH (Revenue Sharing Fund) or DAU (General Allocation Fund) are available for non-repayment of loans from government and non-repayment of bonds. The provision in Law 23/2014 (Article 303) allows a local government to create a reserve fund for a debt issuance separately from the general cash account of the local government.
Institutions that can hold subnational government financial depository accounts:	State General Treasury Account (SGTA) is the depository account into which all state revenue is paid and from which all state expenditure is made
Insolvency framework:	No insolvency framework is in place for subnational governments in Indonesia.
Accounting basis:	Several laws mandate the adoption of accrual-based accounting in Indonesia: Law No. 23 of 2014 on Local Government, Government Regulation No. 71 of 2010 on Government Accounting Standards, and Government

	Regulation No. 58 of 2005 on Regional Financial Management, but gaps remain after a gradual transition from cash-based standards.
Credit rating requirements for borrowing:	No credit rating requirements to borrow
Debt stock limit:	Outstanding debt < 75% general revenues
Debt service limit:	• Debt service coverage ratio[46]>2.5 • Total debt service should not exceed 20 percent of the sum of the general-purpose grant (DAU) and revenue sharing transfer (DBH)
Reporting of contingent liabilities	The Financial Note to the budget covers significant contingent liabilities from government operations and programs, but the narrative included in the budget is descriptive, there is no quantification and consolidation of subnational government contingent liabilities.
Reporting of Joint Ventures & Public Private Partnerships	While Indonesia has recently aligned its national accounting standards to IPSAS, the types of risks to which the budget is exposed in the case of PPP-related guarantees are not adequately covered at present.[47]

Significant legal and regulatory instruments	
Laws	
Laws No. 22 and 25 of 1999 on Local Government (later replaced by Law No. 23 of 2014)	The laws transferred responsibilities for the delivery of 11 obligatory functions from the central government to districts and municipalities, bypassing the provincial governments.
Law No. 17 of 2003 on State Finance	The law establishes subnational financial responsibilities including borrowing. Under the law, subnational governments can borrow from the central government, other subnational governments, banks, and nonbank financial institutions with the approval of the Legislative Council. However, subnational governments may not borrow directly from foreign sources and must go through the central government.
Law No. 33 of 2004 (Updated by Law 1/2022)	Under Law No. 33 of 2004 on Fiscal Balance between the Central and Regional Governments, subnational governments income is derived mainly from regional revenue and financing. The law establishes that all foreign loans and grants to subnational governments should be made through the central government.
Law No. 6 of 2014 on Villages	State budget (APBN) funds have been allocated to all villages since 2015, to support programs under village authority, including administration, development, community empowerment, and social development.
Law No. 1 of 2022	Under Law 1/2022 loan approvals are streamlined into the annual budget process and tenors can be relaxed beyond the political term of SNG head. Also, local governments can now borrow using shariah debt financing (Sukuk). Finally, Law No.1/2022 strengthened administrative sanctions to ensure timely debt repayment.

Acts	
Act No. 1 of 2004 on the State Treasury	Under the Act, all costs associated with regional loans and grants are imposed on the state budget (*Anggaran Pendapatan dan Belanja Negara*- APBD).
Government Regulations	
No. 10 of 2011	Article 3 authorizes the finance minister to on-lend and subgrant the foreign funds received to subnational governments and SOEs.
No. 30 of 2011	The regulation (issued as an implementing guideline for Law 33/2004) regulates subnational borrowing and sets borrowing limits.
Regulation of the Minister of Finance of the Republic of Indonesia Number 111/PMK.07/2012	The regulation concerns the procedures for the Issuance and Accountability of Regional Bond
Regulation of the Minister of Finance of the Republic of Indonesia Number 47/PMK. 07/2011	The regulation addresses intergovernmental transfer intercept mechanism in the case of subnational default.
Financial Notes (annual):	The Financial Notes contain details of budget policy, revenue and expenditure, budget priorities, budget deficit and financing. The Financial Notes also include fiscal risk statement (for both Central and subnational governments).
Budget law (annual):	The annual Budget Law sets, among other things, the limits for local governments borrowing.

Organizational roles and responsibilities:	
National govt. regulatory & process	
Ministry of Finance	
Directorate General of Treasury: Directorate of Investment Management System	The Directorate of Investment Management System (SMI) formulates investment management policies, procedures, and technical standards, and provides technical guidance in their implementation. It is responsible for on lending funds to SOEs and subnational governments.
Directorate General of Fiscal Balance	The Directorate General of Fiscal Balance manages fiscal relations with subnational governments. Its main task is to maintain financial balance between the central government and the regions by formulating and implementing policies and technical standards.
Directorate General of Budget	The Directorate of General Budget monitors and evaluates budget proposals.
Central Investment Agency (*Pusat Investasi Pemerintah* - PIP)	Established in 2006 (operational since 2010), the Central Investment Agency invests at the subnational level in strategic sectors such as infrastructure, technology, etc. PIP offers quicker processing of loans to subnational governments when compared to the SLA and RDA mechanisms.
Audit Board of the Republic of Indonesia (BPK)	The BPK is mandated to audit the central and subnational governments (as well as other state institutions, Bank

	Indonesia, SOEs, public service agencies). The BPK audits and reports yearly to Parliament.
Financial and Development Supervisory Board	The Financial and Development Supervisory Board (BPKP) is the internal auditor of the Government of Indonesia.
National Development Planning Agency (BAPPENAS)	The main functions of BAPPENAS revolve around the formulation, monitoring and assessment of national development plans (including at the subnational level).
Ministry of Home Affairs	
Directorate General of Regional Finance Administration	The MOHA is the intermediary between the central government and the subnational governments in financial matters. Its Directorate General of Regional Finance Administration formulates and implements policies for regional financial development.
Bank Indonesia	The Indonesian Central Bank (Bank Indonesia) coordinates debt management operations with the MOF. Bank Indonesia and the MOF publish external debt data (including subnational government debt) every quarter.
Regional Development Banks	All provinces have regional development banks (RDBs) used for financing long-term investment projects in their respective provinces. The RDBs save funds transferred from the central government to the subnational governments and invest them in SBI (*Sertifikat Bank Indonesia*) or Bank Indonesia Certificates and government bonds[48].
Risk management	The subnational governments in Indonesia are not allowed to borrow in foreign currency directly; for this reason, the central government bears the foreign exchange and interest rate risks. Furthermore, according to Government Regulation No. 10/2011, if repayment by an SNG is delayed, the finance minister can make deductions from the General Allocation Fund (DAU) or Revenue-Sharing Fund (DBH).
Main lenders	
Central Government	The Central Government is the largest lender to subnational governments. It provides loans from domestic sources such as PT SMI and international sources. Subnational governments borrow from foreign lenders through the process of on-lending from the central government. The central government basically signs the loan agreement on behalf of the local government.
Government of Indonesia (GoI) Financing Facilities	The GoI Financing Facilities aim to support the GoI to leverage private finance into commercially viable infrastructure projects in productive sectors. The Indonesia Infrastructure Finance Facility (IIFF) was established in 2009 as a mixed-equity private non-banking institution with the aim to provide long-term finance to commercially feasible infrastructure projects.

	The Indonesia Infrastructure Guarantee Fund (IIGF) was also established in 2009 and is supported by US$ 29.6 million financing from the World Bank. IIGF aims to encourage private investment in commercially viable infrastructure by mitigating the private sector's exposure to government-related contractual risk through the provision of guarantees. Finally, the Regional Infrastructure Development Fund (RIDF) provides capital for infrastructure lending in local currency and affordable rates to subnational governments. RIDF is managed by PT. Sarana Multi Infrastruktur (SMI).
Regional Development Banks (Bank Pembangunan Daerah -BPD)	Despite their developmental role, Regional Development Banks (RDBs) are classified as commercial banks.[49] Regulation Number 62 (1999) specified three main functions of RDBs: "(1) promote economic growth and regional development to improve community's living standards, (2) regional paymaster and treasurer, and (3) contribute to regional revenue". RDBs are monitored by the Central Bank (Bank Indonesia, BI) and the Financial Services Authority (Otoritas Jasa Keuangan, OJK). Between 2010 and 2015, RDBs became the leading local banks. The three main tasks for RDBs in this program are: "(1) to safeguard and enhance bank's business resilience, (2) to act as agents of regional development, and (3) to improve the ability to serve communities within the region".[50]

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Notes

[1] CCI-LGBD examines borrowing at the local government level. In most countries, this can be broken up into regional governments and local governments. In Indonesia's case, "local governments" includes all regencies, municipalities (cities) and villages. In Indonesia most laws and reported statistics apply to all subnational governments. Therefore in this report we refer to data that includes provincial/regional as well as local governments.
[2] CPI adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[3] CPI adjusted numbers with 2016 as base year: www.worldbank.org/en/research/brief/inflation-database
[4] World Bank 2017
[5] World Bank, 2017
[6] World Bank, 2017
[7] World Bank, 2020 and ADB, 2020
[8] IMF, 2018
[9] IMF, 2017; World Bank, 2017
[10] The regulatory framework governing subnational borrowing includes a series of laws and norms including Law No. 17/2003 on State Finances, Law No. 1/2004 on State Treasury, Law No. 23/2014 on Subnational Governments, and Law No. 33/2004 on Intergovernmental Fiscal Balance. These laws are complemented by regulations such as Government Regulation (PP) No. 30/2011 on Subnational Borrowing, PP No. 10/2011 on Grant and On-Lending Mechanisms, Minister of Finance Regulation (PMK) No. 83/2005 on on-lending mechanism and its subsequent amendments, PMK No. 117/PMK.07/2017 on maximum budget deficit and subnational borrowing, and PMK No. 121/07/2017 on intergovernmental transfer intercept mechanism in the case of subnational default
[11] PT Sarana Multi Infrastruktur (Persero) or PT SMI as the main institution that deliver municipal borrowing has developed the Regional Financing System or REFINA, a web-based M&E platform that is accessible by MOF and MOHA as the key stakeholders for borrowing
[12] World Bank, 2017
[13] Aceh (the Islamic sharia law as the regional law of the province), the Special Capital Region of Jakarta as the capital city, the Special Region of Yogyakarta (a sultanate that has a hereditary governor and vice-governor) and Papua and West Papua.
[14] Transfers from the central government to the subnational governments comprised of the General Allocation Fund (Dana Alokasi Umum - DAU), an Equalization Grant (Dana Bagi Hasil - DBH), the Special Allocation Funds (Dana Alokasi Khusus - DAK), and emergency financing in case of natural disasters.
[15] World Bank, 2017.
[16] World Bank, 2020.
[17] The regulatory framework governing subnational borrowing includes a series of laws and norms including Law No. 17/2003 on State Finances, Law No. 23/2014 on Subnational Governments, and Law No. 33/2004 on Intergovernmental Fiscal Balance. These laws are complemented by regulations such as Government Regulation No. 30/2011 on Subnational Borrowing, No. 10/2011 on Grant and On-Lending Mechanisms, PMK No. 183/2014 on maximum budget deficit and subnational borrowing, and PMK No. 47/07/2011 on intergovernmental transfer intercept mechanism in the case of subnational default.
[18] This rule has been relaxed during the COVID 19 pandemic
[19] Nasution, 2016
[20] Law No. 33 of 2004 on Fiscal Balance between the Central and Regional Governments
[21] Loans for cash management purposes must be repaid within the relevant fiscal year
[22] Law 56/2018 is being revised following provisions in Law 1/2022
[23] DSCR is the comparison between calculations of own-source revenue, land and property taxes, fees for acquisition of land and property, profit from natural resources, and other municipal sectors, like income tax and the general allocation funds. The amount of which will be reduced by compulsory expenditures. In other words, internally generated cash minus compulsory expenditures should be at least 2.5 times its debt service obligations.
24 Maximum Limit of Cumulative Regional Loans Year. The 2020 budget was set at 0.28% of the projected GDP for Fiscal Year 2020; in 2019 that limit was set for 0.3%.
[25] Debt to GDP ratio was 43% in 2021

[26] Regional fiscal capacity according to the Minister of Finance Regulation No. 120/PMK. 07/2020 is the financial capacity of each region which is reflected through regional income minus the income whose use has been determined and certain expenditures. . The regional capacity maps are grouped based on the regional fiscal capacity index which can be used for consideration in determining the grant recipient area, determining the amount of matching funds by the regional government, if required and/or other uses in accordance with the provisions of the legislation. The regional capacity map is divided into two, namely the Provincial Fiscal Capacity Map and the Regency/City Fiscal Capacity Map.

[27] Since 2017, according to ministerial regulation PMK No 121/PMK.07/2017, intercept authority has been extended to the RIDF.

[28] In the metadata of the Ministry of Finance data, "other account payable" is categorized as an instrument and consists of "trade credits, advances, and other payable such as taxes and deferred income"

[29] PT Sarana Multi Infrastruktur (PT SMI) is a State-Owned Enterprise (SOE) where one of its functions is to provide financing/loans to subnational governments for the development of economic and social infrastructures.

[30] Regional development banks are considered commercial banks in Indonesia

[31] As of 2021, there are 26 regional development banks. Not all provinces currently have their own bank

[32] Regional development banks save the central government transfers and invest in SBI (Sertifikat Bank Indonesia) or Bank Indonesia Certificates and central government bonds.

[33] Lewis, 2007

[34] World Bank, 2017

[35] SNG-WOFI, 2019

[36] ADB, 2018

[37] World Bank, 2017

[38] Wibisono and Hahm, 2011

[39] World Bank, 2017

[40] World Bank, 2017

[41] As of the World Bank (2017) by September 2016, 100 percent of regencies and provinces had submitted their financial statement reports for FY 2015

[42] World Bank, 2017

[43] ADB, 2020

[44] Interest expenditures

[45] Ministry of Home Affairs Decree (Permendagri 20 2020)

[46] Defined as general revenues net of civil servant salaries and local parliament expenditures, divided by debt-service obligations

[47] Worls Bank, 2017

[48] Nasution, 2016

[49] Per Law Number 10 Year 1998 on Changes in Banking Sector

[50] Umanto and Ikasari, 2019

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