



**MINISTRY OF FINANCE, THE REPUBLIC OF  
INDONESIA**

## **POLICY REFORM ON TRANSFER TO REGION: INDONESIA'S EXPERIENCE**

**Presented by:**

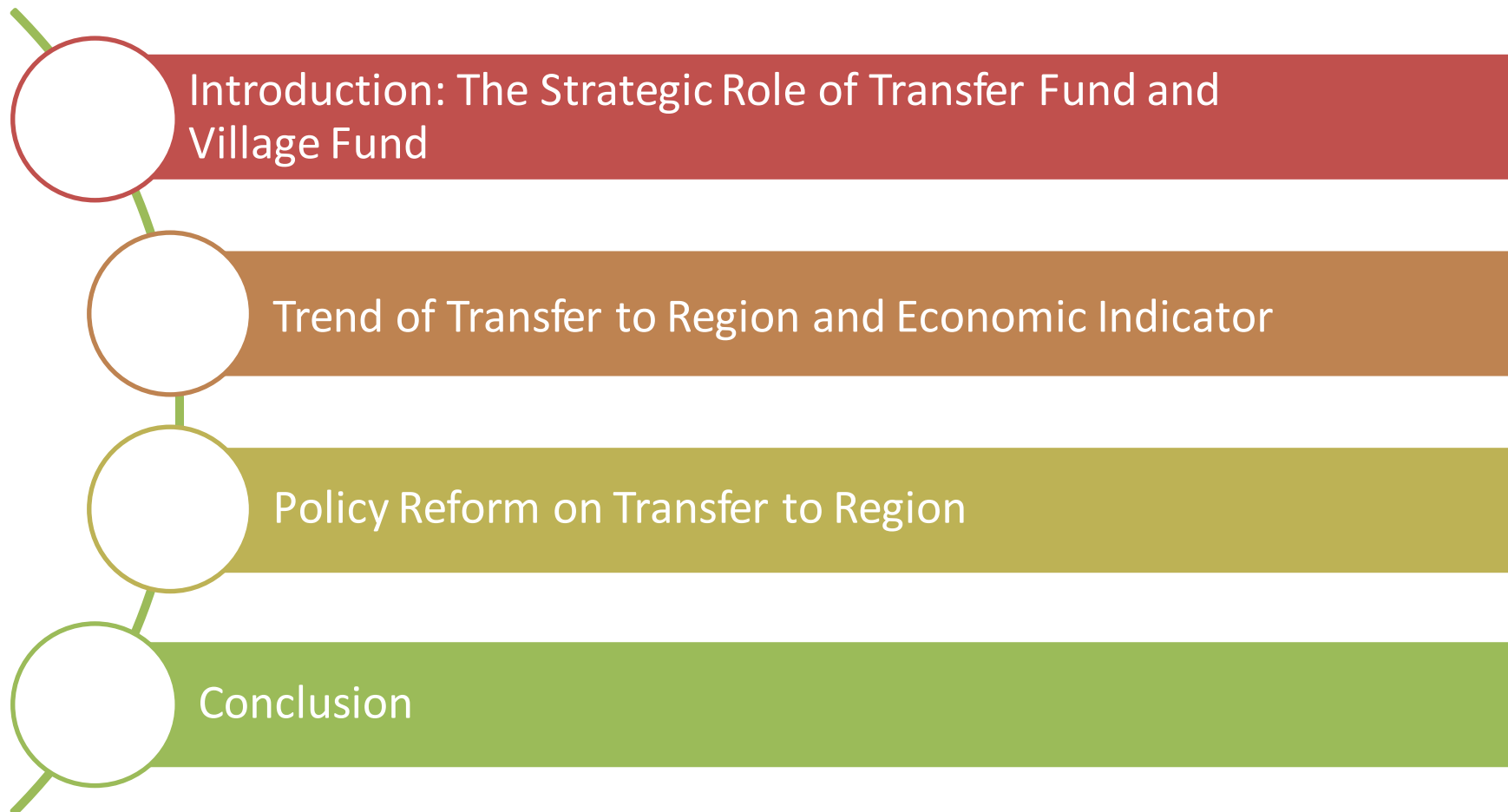
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**Director General of Fiscal Balance, Ministry of Finance**

**High Level Policy Dialogue**  
**Jakarta, 7 March 2016**





# Outline





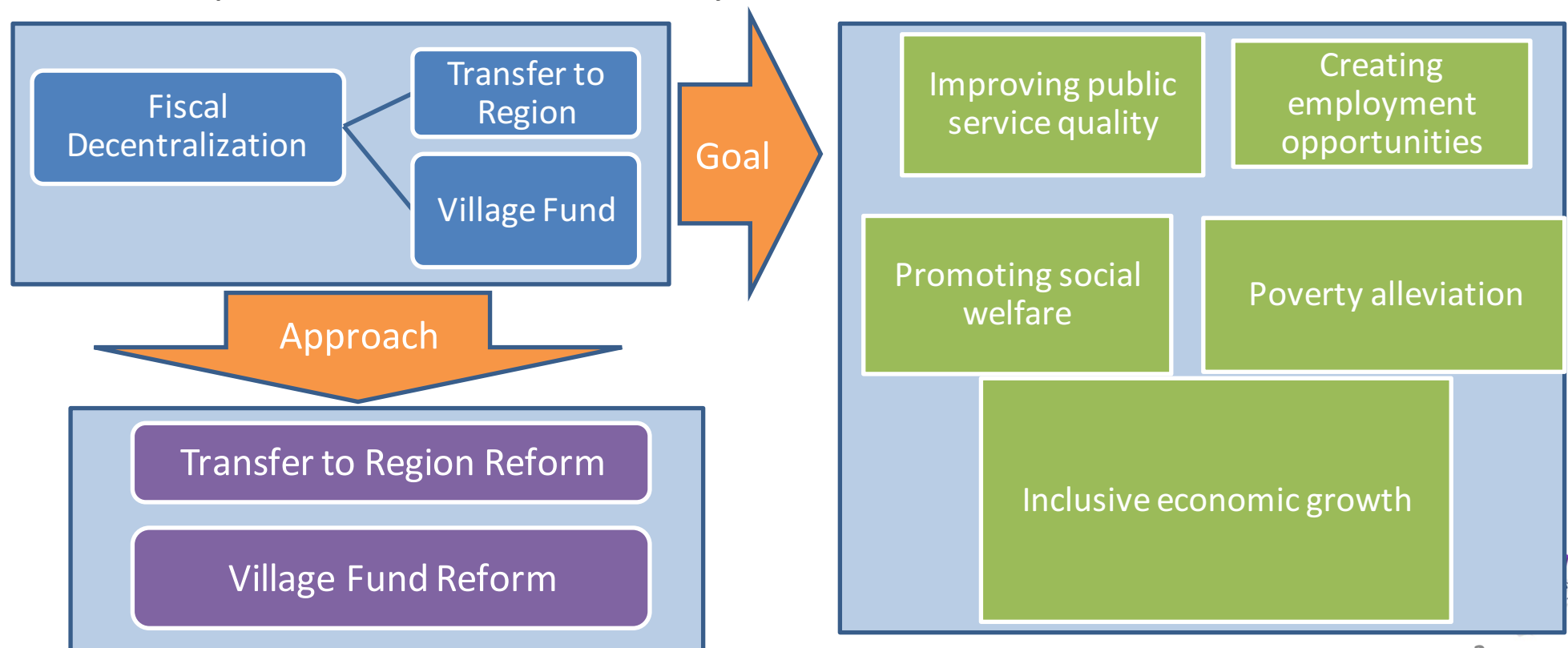
## Introduction:



# The Strategic Role of Transfer Fund and Village Fund

Transfer to region as an instrument of fiscal policy has strategic role to support the implementation of fiscal decentralization, mainly to improve quality of public services as well as to promote social welfare through inclusive economic growth:

- Through Transfer to region, LGs are enable to finance regional government fiscal operation, to develop basic infrastructures in order to provide and increase the quality of public service, to promote inclusive economic growth, to alleviate poverty, and to decrease unemployment.
- With village fund, each village would be able to develop village infrastructure and empowering local community in order to improve social welfare of local community

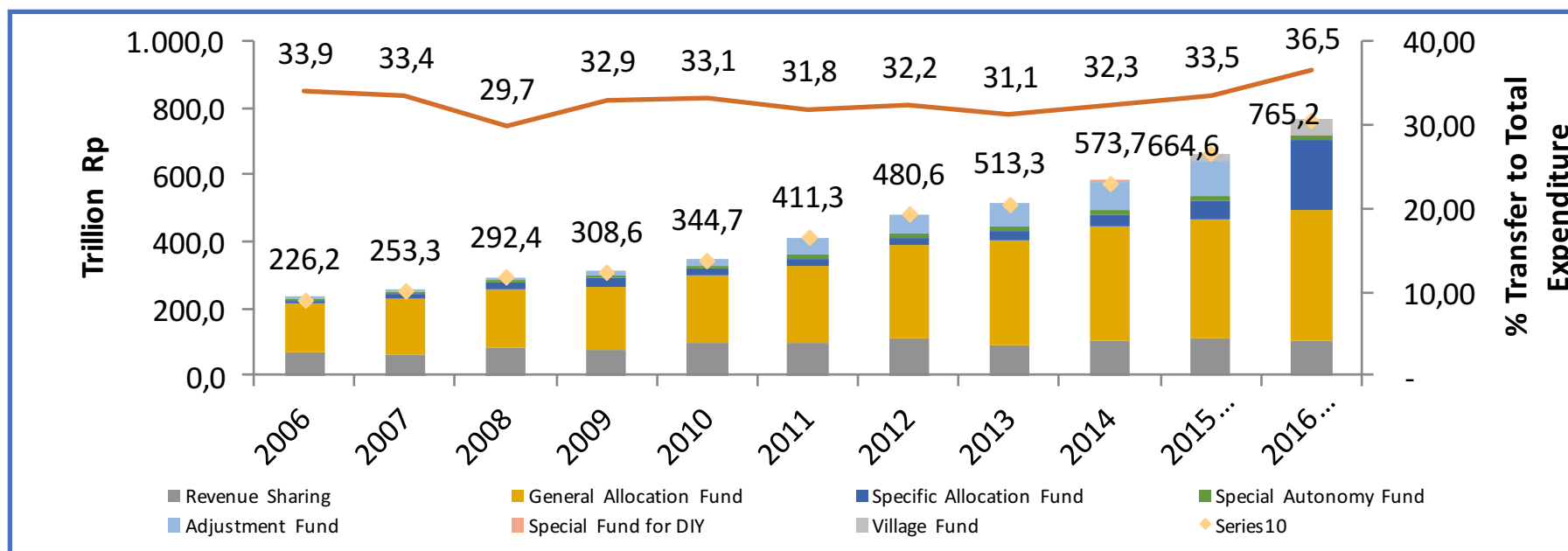




# The Trends of Transfer to Region and Impact to Social Welfare



In the last ten years, Transfer to Region increased significantly (in average 13%), from Rp226.2 Trillion (34% of total government expenditure) in 2006 to Rp770 Trillion in 2016 (36.5% of total government budget)



The significant increase of transfer to region above has brought some improvements in several social-economic indicators:

Indicators	2001	2008	2013	2014
GDP per Capita	6.981 M	8.264 M	10.839 M	11.387 M
Unemployment rate	8.10%	8.39%	6.25%	5.94%
Poverty rate	18.41%	15.42%	11.47%	11.25%
HDI	65.8	71.17	73.81	68.9*

\* Declining from previous year due to changing in HDI methodological approach



# ISSUES IN FISCAL DECENTRALIZATION



**However, some issues still persist:**

➤ **Local financial management:**

- LGs budget is still dominated by personnel expenditure (in average 17% of total expenditure for province, and 47 % for city and regency) instead of capital expenditure (in average 24% of total expenditure for province, and 26% for city and regency).
- LGs spending quality still needs attention as the highest absorption of local budget expenditure occur in 4<sup>th</sup> Quarter.
- Not all LGs have received unqualified and qualified opinion on LG Financial report; 3 LGs still have adverse opinion, and 13 LGs still have disclaimer opinion.

➤ **Disparity among LGs:**

- Disparity on social welfare still exist among regions:
  - a. Even though Papua receives more transfer to region, it still has the lowest HDI (56.75) and the highest percentage of poor people (27.8%) compared to other regions.
  - b. Papua and West Sulawesi also have the lowest life expectancy among regions (64 years compared to 70.5 years national average)
- Disparity on economic growth:
  - a. Java regions are still dominant in the contribution to economic growth.
  - b. The highest unemployment rate is 10.13% in Aceh Province (2013) and 9.75% in Maluku Province (2014).



# CHALLENGES AND CURRENT POLICY REFORM ON TRANSFER TO REGION



## CHALLENGES

1. Poor Social-Economic Indicators in regions; inclusive development needed
2. Disparity of Fiscal capacity among regions is still wide
3. Disparity of quality on basic public service delivery among regions
4. Poor accountability; policy on incentive and disincentive are needed
5. Unspent Budget in Regions is still high; causing excess cash reserve in regions

## CURRENT POLICY REFORM

- Increase allocation of transfer to region and policy reform
- Village fund reform

**General Allocation Fund (DAU) reform**

**Specific Allocation Fund (DAK) reform**

**Local Incentive Fund (DID) reform**

**Improve monitoring and evaluation and policy on non cash transfer**





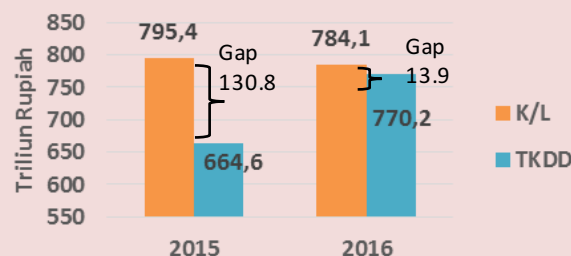
# POLICY REFORM ON TRANSFER TO REGION YEAR 2016



(in trillion rupiah)

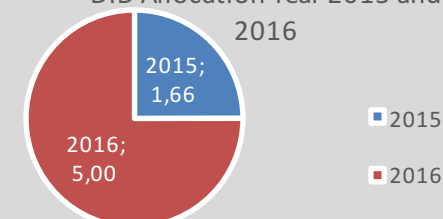
1. Increasing the amount of transfer to region to be closer or even higher than line ministries budget.

Comparison of Transfer to Region Allocation in 2015 and 2016



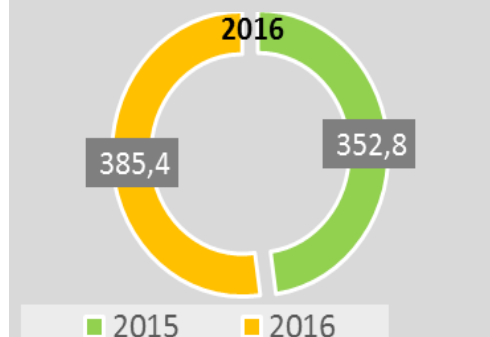
4. Strengthening and improving incentive mechanism through reform on Regional Incentive Fund (DID) policy.

DID Allocation Year 2015 and 2016

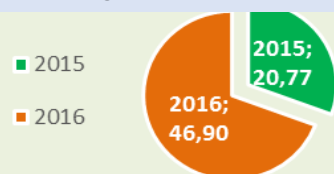


2. Increasing the amount and improving the formula of General Allocation Fund (DAU) as an equalization grant.

DAU Allocation Year 2015 and 2016



Village Fund 2015 and 2016

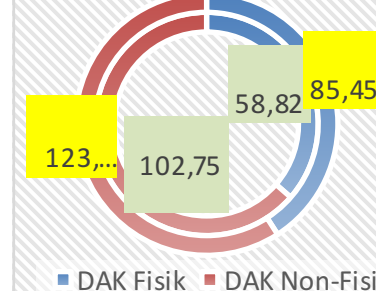


5. Strengthening village fund policy through increasing allocation as well as improving fund channelling, monitoring and evaluation.

3. Strengthening policy on Specific Allocation Fund (DAK) as an instrument to improve the quality of public infrastructure as well as a tool to support national priority:

- Increase fund allocation to accomodate LGs' needs and priority of basic infrastructure in regions in order to provide public services;
- Increase effectiveness of DAK implementation by eliminating obligation of counterpart fund, accelerating the completion of technical guidelines, and improving fund channelling including its monitoring and evaluation.

DAK Allocation 2015 and 2016





# New Structure of Transfer to Region and Village Fund



To improve the transparency and accountability of transfer to region, a new structure of transfer to region is introduced

2015	2016	
I. TRANSFER TO REGION ( <i>TRANSFER KE DAERAH</i> )	I. TRANSFER TO REGION ( <i>TRANSFER KE DAERAH</i> )	
A. Balancing Fund ( <i>Dana perimbangan</i> )	A. Balancing Fund ( <i>Dana perimbangan</i> )	
1. Revenue Sharing Fund ( <i>DBH</i> )	1. General Transfer Fund ( <i>Dana Transfer Umum</i> )	
2. General Allocation Fund ( <i>DAU</i> )	a. Revenue Sharing Fund ( <i>DBH</i> )	
3. Specific Allocation Fund ( <i>DAK</i> )	b. General Allocation Fund ( <i>DAU</i> )	
B. Special Autonomus Fund	2. Specific Transfer Fund ( <i>Dana Transfer Khusus</i> )	
C. Yogyakarta Privilege Fund	a. DAK Capital (DAK Fisik)	
D. Others Transfer Fund	b. DAK Operational (DAK Non-fisik)	
	1. BOS	5. P2D2
	2. BOP PAUD	6. BOK dan BOKB
	3. TPG PNSD	7. Fund for Capacity Building of Cooperatives, Small and Medium Enterprises and Employment
	4. Tamsil PNSD	
	B. Local Incentive Fund (DID)	
	C. Special Autonomus Fund and Yogyakarta Privilege Fund	
II. VILLAGE FUND (DANA DESA)	II. VILLAGE FUND (DANA DESA)	





# Policy Reform on General Transfer Fund (DTU)



## POLICY REFORM ON REVENUE SHARING FUND (DBH)

Since 2016, through budget law, the utilization of excise revenue sharing has been expanded, not only to finance specific activities (earmarked) but can also be used to finance other activities in accordance with the priorities and needs of the region/block grants (with a share of 50%).

## POLICY REFORM ON GENERAL ALLOCATION FUND (DAU)

VARIABLE WEIGHT	2015		2016	
	PROVINCE	Regency/City	PROVINSI	REGENCY /CITY
<b>BASIC ALLOCATION</b>	<b>40%</b>	<b>49%</b>	<b>40%</b>	<b>49%</b>
<b>FISCAL GAP</b>	<b>60%</b>	<b>51%</b>	<b>60%</b>	<b>51%</b>
<b>FISCAL NEEDS VARIABLE</b>				
- POPULATION INDEX	30%	30%	30%	30%
- WIDE OF AREA INDEX	14%	13%	15%	13%
<b>(WIDE OF THE SEA)</b>	<b>35%</b>	<b>40%</b>	<b>40%</b>	<b>45%</b>
- CONSTRUCTION PRICE INDEX	27%	28%	27%	28%
- HDI INDEX	17%	17%	17%	17%
- GRDP/CAPITA INDEX	12%	12%	11%	12%
<b>FISCAL CAPACITY VARIABLE</b>				
- OWN RENEVUE	70%	65%	70%	60%
- TAX SHARING (DBH)	100%	80%	75%	60%
- NATURAL RESOURCES (DBH)	100%	95%	85%	80%

### Short Term:

- Improving formula allocation by revising variable weighting;
- Minimizing percentage of basic allocation variable (personnel expenditure)

### Medium Term:

Revising Law on Fiscal Balance between central and local government (33/2004) by deleting basic allocation and purely using fiscal gap (fiscal capacity - fiscal needs) in the allocation formula;

### Long Term:

- Improving allocation formula by clustering region;
- Improving fiscal needs measurement by using real needs for local services, and performance.
- Improving fiscal capacity measurement by using average effective rate/revenue rate.



# Policy Reform on Specific Transfer Fund (DTK) ...(1)



## DAK reguler (Capital) Allocation 2016

NO	DAK SECTORS 2016	CEILING (Billion Rp)
HUMAN DEVELOPMENT DIMENSION		
1	EDUCATION	2.665,34
2	HEALTH AND FAMILY PLANNING	16.373,21
3	HOUSING, SETTLEMENT, WATER, AND SANITATION INFRASTRUCTURE	835,30
PRIORITY SECTOR DIMENSION		
4	FOOD SOVEREIGNTY	8.315,73
5	SMALL SCALE ENERGY	677,53
6	MARINE AND FISHERY	1.285,52
7	FORESTRY AND ENVIRONMENT	1.602,04
GEOGRAPHICAL AND EQUALITY DIMENSION		
8	TRANSPORTATION	21.573,10
9	FACILITIES FOR COMMERCE, SMALL & MEDIUM INDUSTRY, AND TOURISM	1.449,26
10	LOCAL GOVERNMENT OFFICE	317,24
TOTAL		55.094,26

- Simplifying sectors from 14 to 10 sectors and supporting the achievement of 5% health budget allocation;
- Introducing new sectors to support national priority as well as regional needs and priority, mainly to strengthen the inclusive economic growth and connectivity: transportation, commerce, small and medium industry, and tourism
- Focusing on improving regional infrastructure by providing DAK for Regional Public Infrastructure;
  - Additional allocation on top of reguler DAK;
  - Open menu for infrastructure development on region
- Improving DAK implementation by:
  - Speeding up the completion of technical guidelines from Line Ministries;
  - Eliminating region's obligation on counterpart fund (0%);
  - Allowing the usage of maximum 5% of eligible allocation for regional to spend for operational support (planning, output monitoring and evaluation);
- Introducing Proposal Based Mechanism in the allocation process of DAK (bottom up approach).



# Policy Reform on Specific Transfer Fund (DTK) ...(2)



- **Integrating other transfer to region as DAK Operational which is allocated to finance recurrent cost to support achievement of national priority:**
  - School Operational Grant (BOS);
  - Health and Family Planning Operational Grant (BOK & BOKB);
  - Teachers (certified) Professional Allowance;
  - Teachers (non certified) Additional Allowance;
  - Pre-school Operational Grant (BOP PAUD);
  - Local Government and Decentralization Project (LGDP)/DAK Reimbursement Pilot project (P2D2)
  - Fund for Capacity Building of Cooperatives, Small and Medium Enterprises and Employment (P2UKM dan Naker)
- **Supporting the transformation policy of deconcentration fund (sectoral fund) to decentralization (DAK)**

(in trillion rupiah)

Type of Fund	2015	2016	Changes	
	Revised Budget	Budget	Amount	%
<b>2. DAK Operational</b>	<b>102,75</b>	<b>123,48</b>	<b>20,73</b>	<b>20,2%</b>
a. Teachers (certified) Professional Allowance	70,25	71,02	0,77	1,1%
b. BOS	31,30	43,92	12,62	40,3%
c. Teachers (non certified) Additional Allowance	1,10	1,02	(0,08)	(7,3%)
d. P2D2	0,10	0,40	0,30	300,0%
e. BOK & BOKB	-	4,57	4,57	-
f. BOP PAUD	-	2,28	2,28	-
g. P2UKM dan Naker	-	0,26	0,26	-



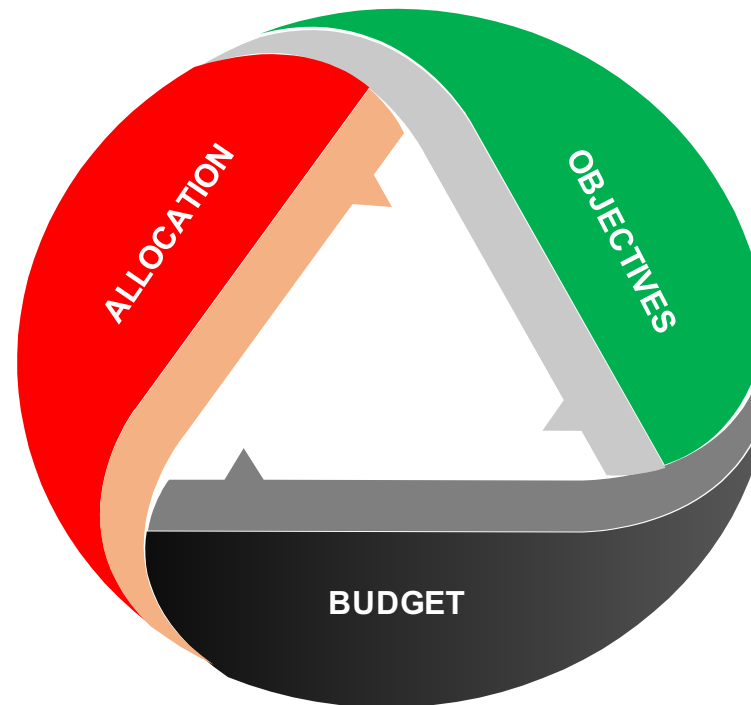
# POLICY REFORM ON INCENTIVE MECHANISM



**Strengthening and improving incentive mechanism through reform on Local Incentive Fund (DID) policy**

## **Allocation Criteria:**

- ✓ **Main Criteria**  
(unqualified/qualified audit opinion and completion of Local budget on time); and
- ✓ **Performance Criteria**  
(LG rating)



## **Objectives:**

**Providing reward for LG with good performance in:**

- **Fiscal Health and Regional Finance Management;**
- **Public Service Delivery;**
- **Economic and Social Welfare Indicators.**

## **Budget:**

- **Increasing total allocation (from 1.6 T to 5 T) and individual allocation for each LG with significant performance (from maximum 23 billion to 46 billion), as stimulus for higher performance.**
- **Giving full discretion to LGs to spend the fund as block grant, rather than earmark it for education.**



## POLICY REFORM ON IMPLEMENTATION: NON CASH TRANSFER AND MONITORING AND EVALUATION MECHANISM



### ☐ Non Cash Transfer:

- Due to the significant increase in total amount of transfer to region and the substantial amount of cash surplus, and as mandated in the 2016 budget law, transfer to region can be executed not only in cash but also in non-cash (short-term government bonds).
- For LGs with extreme cash balance, transfer to region (DAU and DBH) will be executed in form of non-cash.
- LGs with extreme cash balance are LGs that hold cash balance exceeding 3-month operational and capital expenditures needs. The cash balance is also above the national average of local cash reserve.
- The objectives of converting cash transfer to non cash transfer are:
  1. To encourage healthy, efficient, and effective local budget management;
  2. To encourage timely and optimal absorption of LG spending;
  3. To reduce extreme amount of LG's cash balance in bank.
- Non cash transfer is performed by issuing non-tradable Government Bonds in the form of Treasury Bills (SPN) / Islamic Treasury Bills (SPN-S).
- The bonds' time to maturity is 3 months with a yield rate of 65% of BI Rate.
- The conversion will be executed twice a year (at the end of March and June for DBH, and in early April and July for DAU), the redemption can be made before/on the maturity date.
- Redemption on the maturity date can be made by issuing new bonds or by cash payment.

### ☐ Monitoring and evaluation Mechanism:

- In regard to strengthen the monitoring and evaluation of transfer to region, some policies will be applied:
  1. Disbursement of transfer to region are based on performance absorption;



# POLICY REFORM ON VILLAGE FUND



- The objectives:
  - to improve public service delivery from village level;
  - To accelerate inclusive economic growth;
  - To reduce disparity and alleviate poverty among village;
  - To reduce unemployment rate and to increase social welfare.
- In order to fulfill the obligation to allocate 10% from and on top of transfer to region gradually, the government has developed a road map of village fund allocation:
  - a. Year 2015 : 3% of total transfer (Rp 20.7 T equal to 3.2%, in average each village has received Rp280 Million);
  - b. Year 2016 : 6% of total transfer (Rp 47 T equal to 6.4%, in average each village receive Rp630 Million);
  - c. Year 2017 : 10% of total transfer (approximately Rp 81 T, in average each village will receive Rp1 Billion);
  - d. Year 2018 : 10% of total transfer (approximately Rp 103 T, in average each village will receive Rp1.4 Billion)
  - e. Year 2019 : 10% of total transfer (approximately Rp 112 T, in average each village will receive Rp1.5 Billion)
- Principal of reform:
  - Change disbursement from 3 phases (40% on April, 40% on August, and 20% on October) to 2 Phases (60% on 2<sup>nd</sup> week of March and 40% on 2<sup>nd</sup> week of August)
  - Requirement of disbursement for phase 1:
    - 1. central government to local government: local law of regional budget, governor decree, last-year realization disbursement and usage report of village fund
    - 2. Local government to village: village law on Village budget, last-year usage report of village fund
  - Requirement disbursement for phase 2:
    - 1. central government to local government: Report of first phase disbursement which states that minimum 50% of village fund has been disbursed to village
    - 2. Local government to village: report of village fund usage which state that minimum 50% of village fund has been used.





## CONCLUSION



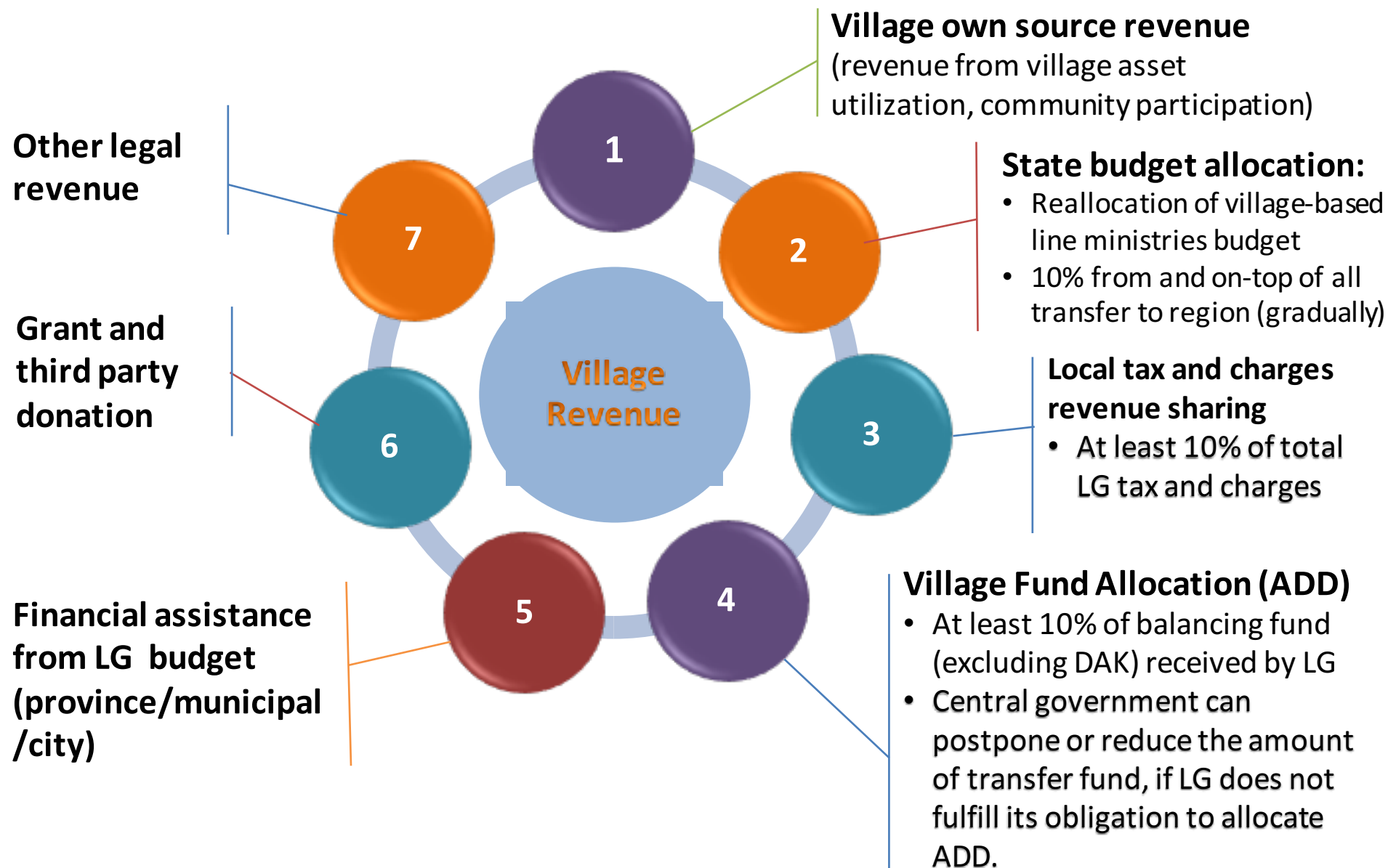
- Policy reform on transfer to region as part of fiscal policy is a dynamic, on-going, and sustainable process;
- Policy improvement on budgeting and allocating mechanism, and also supervision on the utilization of fund are still needed;
- Reward and punishment mechanism has to be in place to improve LG performance and accountability.





# THE SOURCES OF VILLAGE REVENUE

## [ LAW 6/2014 ]

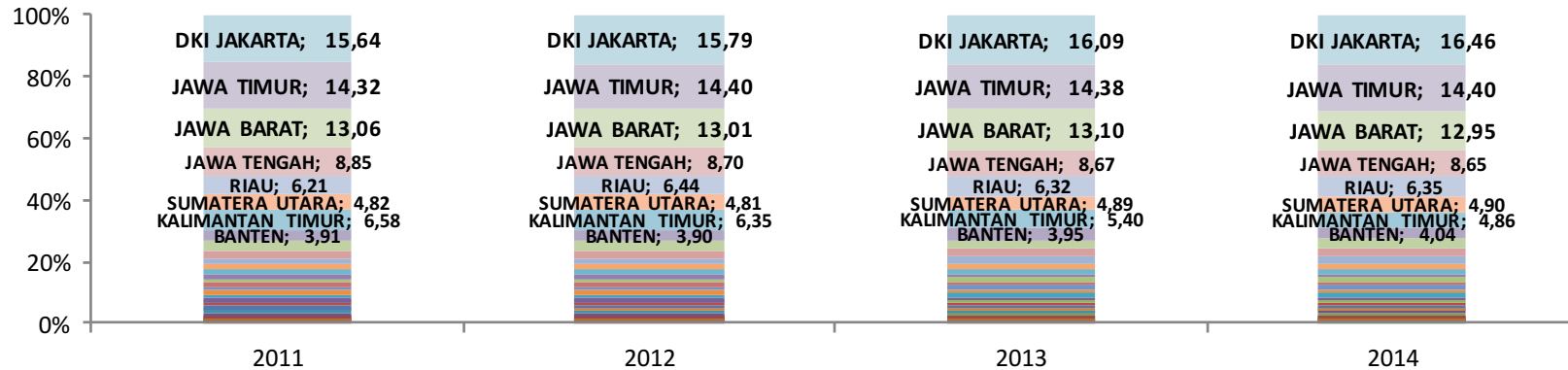


## INDICATOR OF ECONOMIC GROWTH

Java regions still dominant in the contribution to the economic growth.  
The Foreign and Domestic Investments are still concentrated in java regions

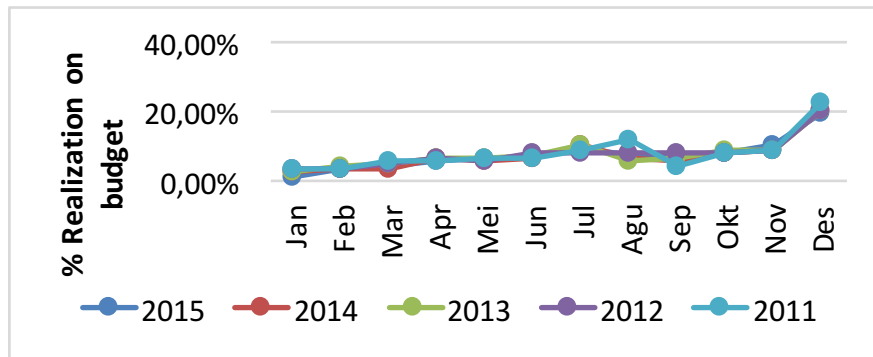
Source: BPS, 2016

Distribution of GRDP to GDP 2011-2014 (%)



### Local Government Spending

LG spending quality is still an issue, absorption of the highest budget expenditure occur in December.

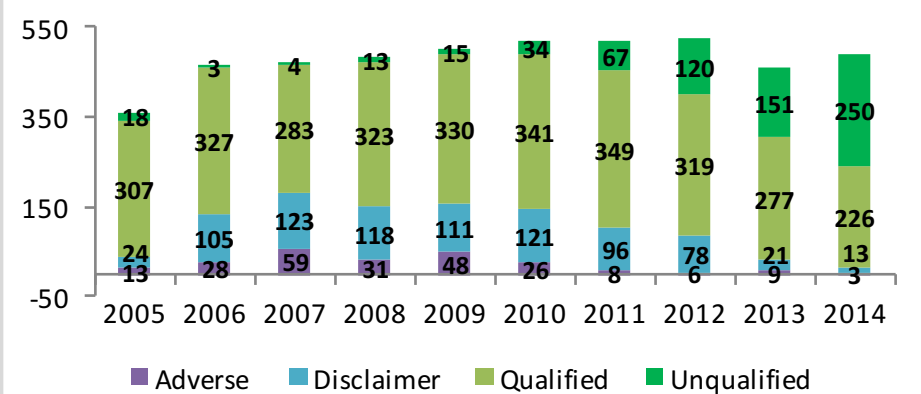


Source : Bank Indonesia (data processed)

The pattern of LG's expenditure budget for each year was the same, where in January until August continued to increase, but in August and September tend to be stable or declining and then rising again in October and December. Absorption of the highest budget expenditure occur in December. It ranged between 19.93% and 22.77% of the total LG's expenditure budget.

### Quality of the LG Financial Report

Improving but still in large amount of LGs with qualified opinion from the Supreme Auditor on their Financial Report.

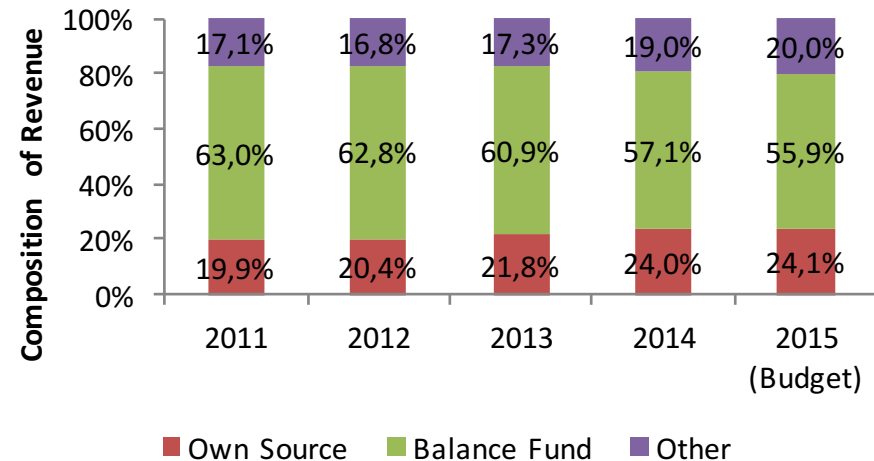


- For audit on Financial Report 2014, from 492 LGs there are: 250 LGs with unqualified opinion, 226 LGs with qualified opinion, 3 LGs with adverse opinion, and 13 LGs with disclaimer opinion.

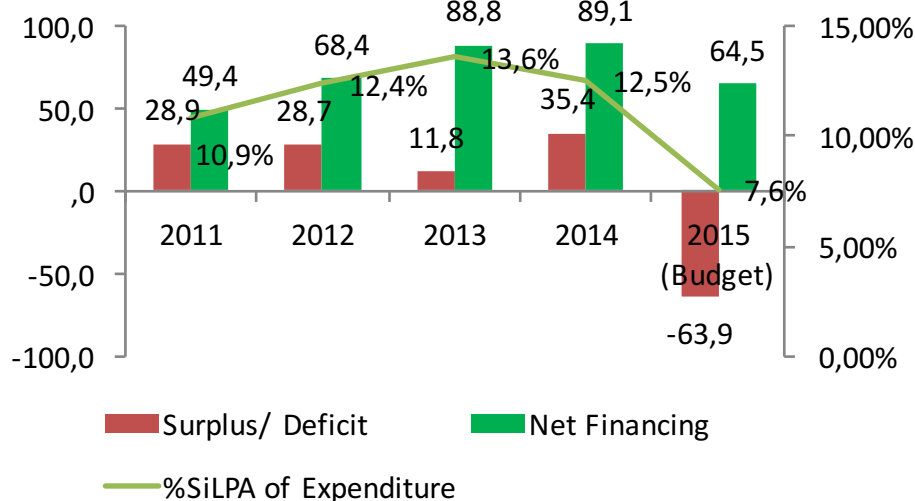
# Regional Budget Management (Province, Region, and City)

- **Personel expenditure is still a dominant** spending in the regional budget, since 2011-2015 → the average proportion, 41.0%, while capital expenditure is only 22.0%.
- **LG independence are increased by decreasing of the proportion of Transfer Funds within regional budget** in average by -1.8% each year in 2011-2015, but still a dominant funding with average proportion of 59.9% of total regional budget, while own source revenue (PAD) is only 22.0%.
- **SiLPA decreases** → in average covers 11.4% of total expenditure.

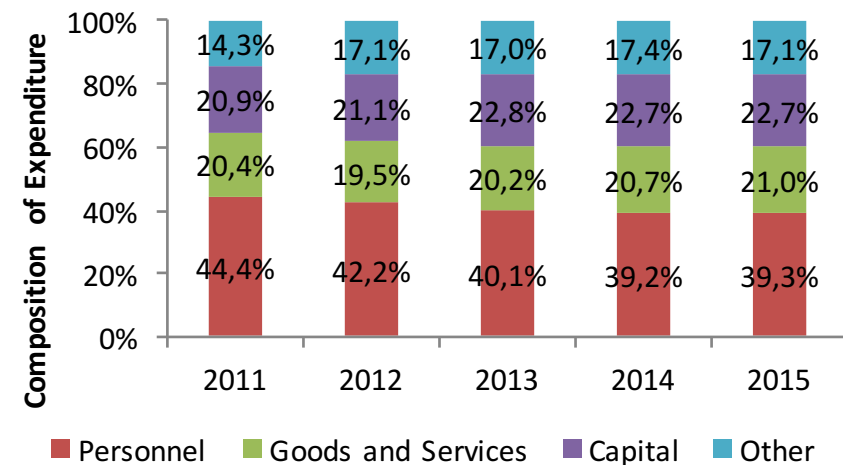
## Revenue Profile



## Surplus/Deficit

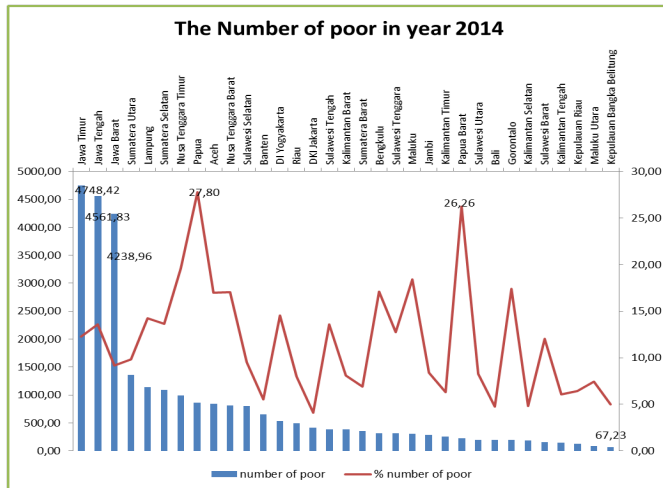


## Expenditure Profile



## Indicator of Poverty

The number of poor people are the largest in Java, while the largest percentage in Papua.

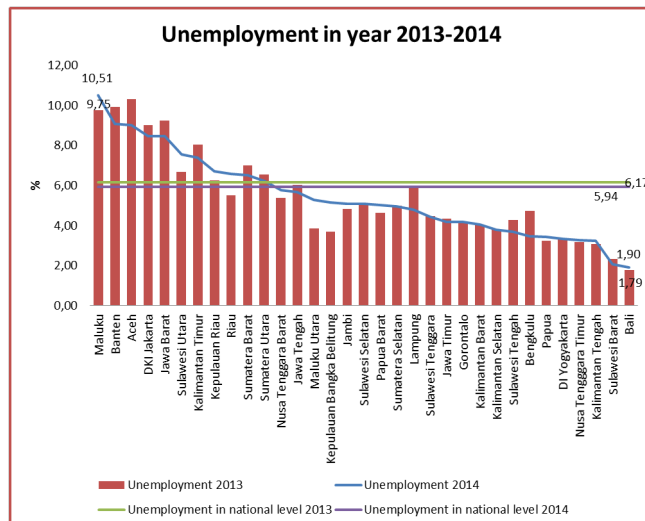


- The strategy needs to alleviate poverty, among others (Financial Notes 2016):
- improving access of the poor to employment or economic resources productively;
- improving rural infrastructure development;
- improving access to quality of basic services for the poor;
- Optimizing resources and socio-economic institutional premises.

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## Indicator of Unemployment

Banten, Aceh, DKI Jakarta, West Java, East Kalimantan, Riau, North Sulawesi and West Sumatera were above the national average.

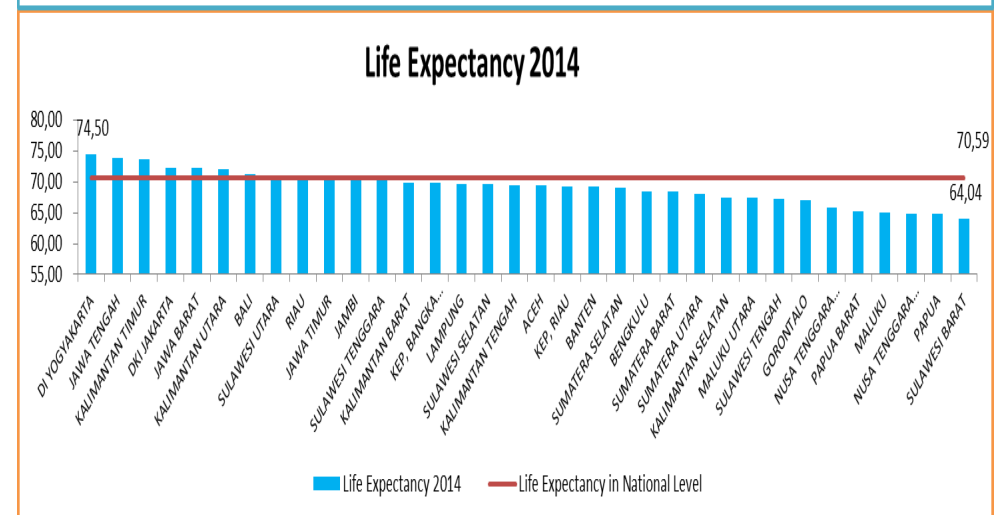
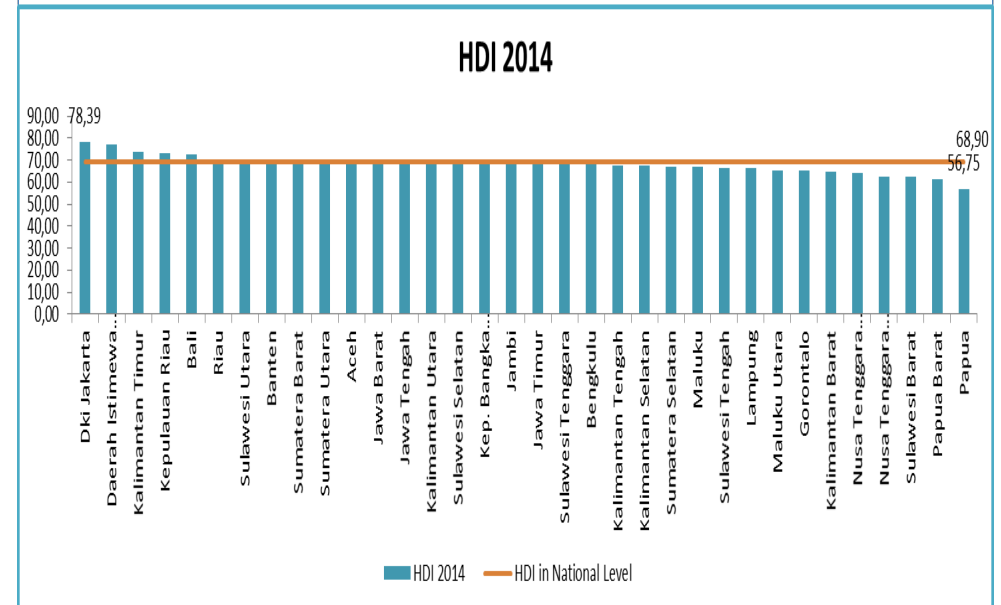


- The highest unemployment, amounting to 10.13% of Aceh Province (2013) and amounting to 9.75% of Maluku Province (2014).
- The strategy needs to be done, including through (Financial Notes 2016):
- Improving the quality and productivity of labor competitiveness;
- Improving relations between the industrialists harmonious unions and employers;
- Providing information service infrastructure effective labor market;
- Supports the creation of an investment climate that encourages the creation of decent work opportunities;
- Improving the quality of workers through the return of child workers into the education system.

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## Regional – Social Indicators

- DKI Jakarta, DI Yogyakarta, East Kalimantan, Riau Islands, Bali, Riau, West Sumatera achieve beyond the National HDI, meanwhile for Papua is the lowest HDI.
- DI Yogyakarta, Central Java, East Kalimantan, DKI Jakarta, North Kalimantan, Bali, North Sulawesi, and Riau attain life expectancy beyond national level and West Sulawesi has the lowest life expectancy although still above 60 years.







# CRITERIA AND FORMULAE OF DID



No	Criteria	Score
<b>Performance on Fiscal Health and Regional Financial Management</b>		<b>50%</b>
1.	Realization of Local Own Revenue /Realization of Total Revenue APBD	1 – 4
2.	Realization of Total Revenue / Target of Revenue APBD	1 – 4
3.	(Realization of Total revenue + Realization of Total Financing Revenue)/(Realization of Total Expenditure + Realization of Total Financing expenditure)	1 – 4
4.	Growth of Revenue from Local Tax and Charges	1 – 4
5.	Budget realization Rate of Revenue APBD	1 – 4
6.	Budget realization Rate of Capital Expenditure	1 – 4
7.	Budget realization Rate of Salary Expenditure APBD	1 – 4
8.	Budget Realization Rate of Expenditure APBD	1 – 4
9.	Realization of Fiscal Space/Realization of Total Revenue APBD	1 – 4
10.	Deficit APBD/Total Revenue APBD	1 – 4
11.	Realization of SILPA T-1 / Total Realization of Expenditure APBD	1 – 4
<b>Performance on Basic Public Service Delivery</b>		<b>25%</b>
1.	Elementary School Enrollment Rate	1 – 4
2.	Secondary School Enrollment Rate	1 – 4
3.	Literacy Rate	1 – 4
4.	Percentage of immunized infants	1 – 4
5.	Percentage of birth assisted by health personnel	1 – 4
6.	Percentage of household with access on drinkable water	1 – 4
7.	Percentage of household with access on good sanitation facility	1 – 4
<b>Performance on Economic and Social Welfare</b>		<b>25%</b>
1.	Level of Economic Growth	1 – 4
2.	Poverty Alleviation	1 – 4
3.	Reducing Unemployment	1 – 4
4.	Inflation Rate	1 – 4

**Formulae based on Main Criteria and Performance Criteria**



**DID Allocation =**  
**Minimum Allocation**  
**+**  
**Performance Allocation**  
**(Passing Grade)**

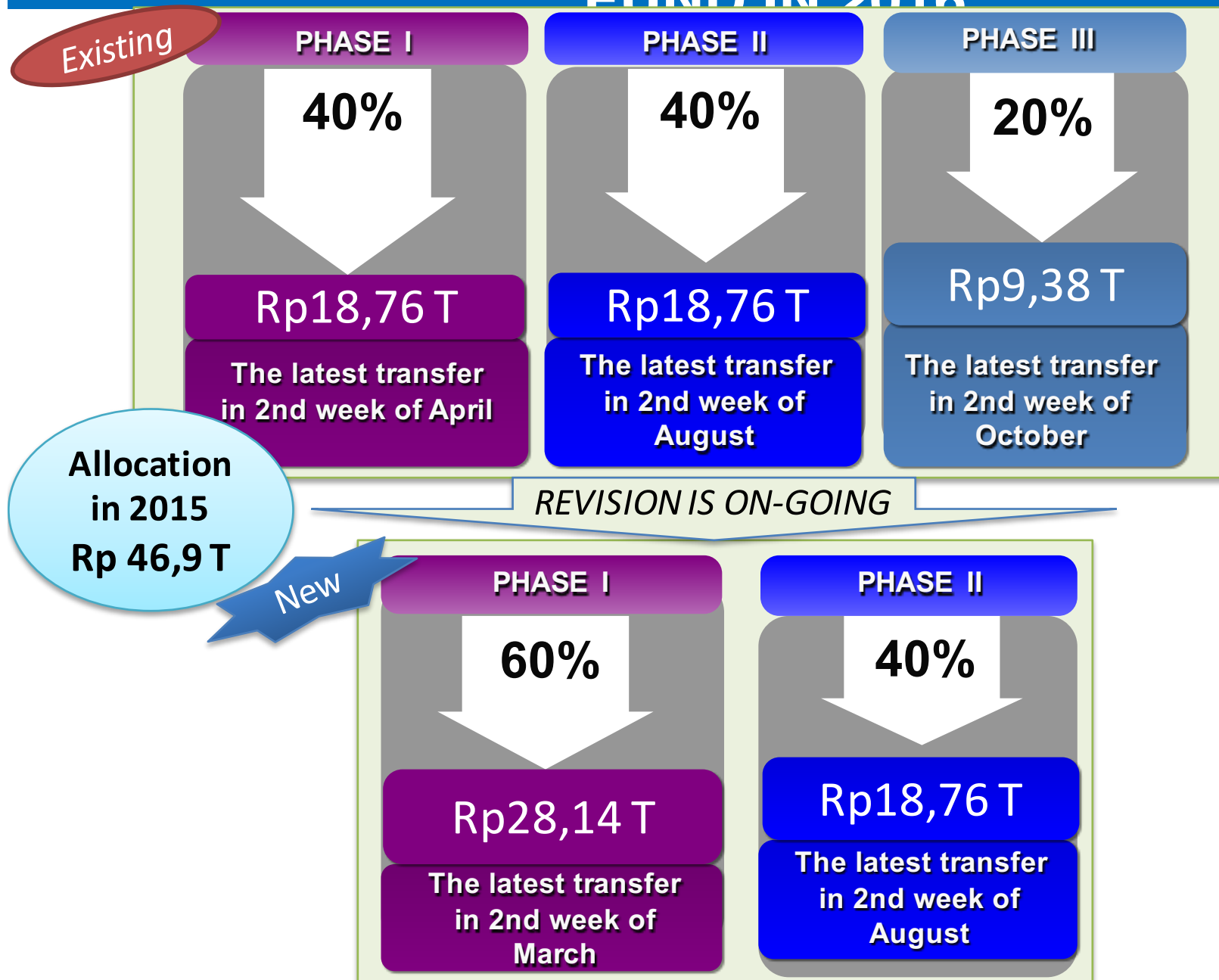
**Minimum Passing grade to get allocation is BB or above**

1. Minimum Allocation is provided for fulfillment of WTP/WDP opinion and APBD in time;
2. Performance Allocation have difference amount for each layer of passing grade (minimum BB).

GRADE	Interval
AA+	$93,75 \leq \text{Score} \leq 100$
AA	$87,50 \leq \text{Score} < 93,75$
AA-	$81,25 \leq \text{Score} < 87,50$
BB+	$75,00 \leq \text{Score} < 81,25$
BB	$68,75 \leq \text{Score} < 75,00$
BB-	$62,50 \leq \text{Score} < 68,75$
CC+	$56,25 \leq \text{Score} < 62,50$
CC	$50,00 \leq \text{Score} < 56,25$
CC-	$43,75 \leq \text{Score} < 50,00$
DD+	$37,50 \leq \text{Score} < 43,75$
DD	$31,25 \leq \text{Score} < 37,50$
DD-	$25 \leq \text{Score} < 31,25$



# DISBURSEMENT SIMULATION OF VILLAGE FLIND IN 2016



- Disbursement mechanism by transfer from state account to local account, and then distributed by LG to village
- Transfers are made from Local Account to village maximum in 7 (seven) days after it is received.



# Simulation of Village Fund



Proportion of Formula and Basic Allocation	Allocation 2015: Rp20,7 Triliun				Allocation 2016: Rp46,9 Triliun			
	Average per Village (Million)	Max. Allocation (Million)	Min. Allocatio n (Million)	Ratio	Average per Village (Million)	Max. Allocatio n (Million)	Min. Allocati on (Millio n)	Ratio
90:10	280	1.121	254	1:4,41	628	2.221	570	1:3,89
80:20	280	1.961	228	1:8,60	628	3.813	512	1:7.44
75:25	280	2.382	215	1:11,07	628	4.610	483	1:9,54
Pure Formula 0:100	280	5.204	16	1:325,25	628	16.554	48	1:340,09

Results from the above exercise, are:

- In 2015, proportion of 90:10 was selected, where average allocation for each village was Rp280 million, with the lowest amount of allocation was Rp254 million and highest amount allocation was Rp1,12 Billion, with lowest disparity ratio in 1 : 4,41.
- In 2016, consistent in the proportion 90:10, where average allocation for each village is Rp628 million, with the lowest amount of allocation is Rp570 million and highest amount allocation is Rp2,22 Billion, with lowest disparity ratio in 1 : 3,89.



## Budget Needed to Fulfill Presidential Promise on Village Fund in 2017 (minimum Rp 1 Billion per village)



Proportion of Formula and Basic Allocation	Budget Need	Result				
		Average per Village (Million)	Max. Allocation (Million)	Min. Allocation (Million)	Deviation Standard (million)	Ratio
Pure Formula 0:100	1.050 triliun	14.046	369.984	1.087	10.926	1:340,37
90:10	89 triliun	1.190	4.207	1.080	92	1:3,89
85: 15	95 triliun	1.270	6.101	1.094	148	1:5,58
80: 20	100 triliun	1.337	8.117	1.090	208	1:7,45
70 : 30	110 triliun	1.487	8.997	1.064	337	1:8,45
60:40	120 triliun	1,578	13,578	1,012	368	1: 11.89
50:50	140 triliun	1,926	16,461	1,008	725	1: 16,31

To fulfill target on each village on average or minimum Rp 1 Billion, therefore village fund allocation in 2017 should be:

- If using pure formula *based*, budget allocation is Rp1.050 trillion;
- If using proportion 90:10, budget allocation is Rp89 trillion.
- If using proportion 85:15, budget allocation is Rp95 trillion.
- If using proportion 80:20, budget allocation is Rp100 trillion.
- If using proportion 70:30, budget allocation is Rp110 trillion.
- If using proportion 60:40, budget allocation is Rp120 trillion.
- If using proportion 50:50, budget allocation is Rp140 trillion.
- Therefore, for this time using proportion 90: 10 has the lowest budget needed to fulfill minimum Rp1 Billion per village.



# WHY THE TRANSFER SHOULD BE IN SEVERAL PHASES?

## To reduce idle cash

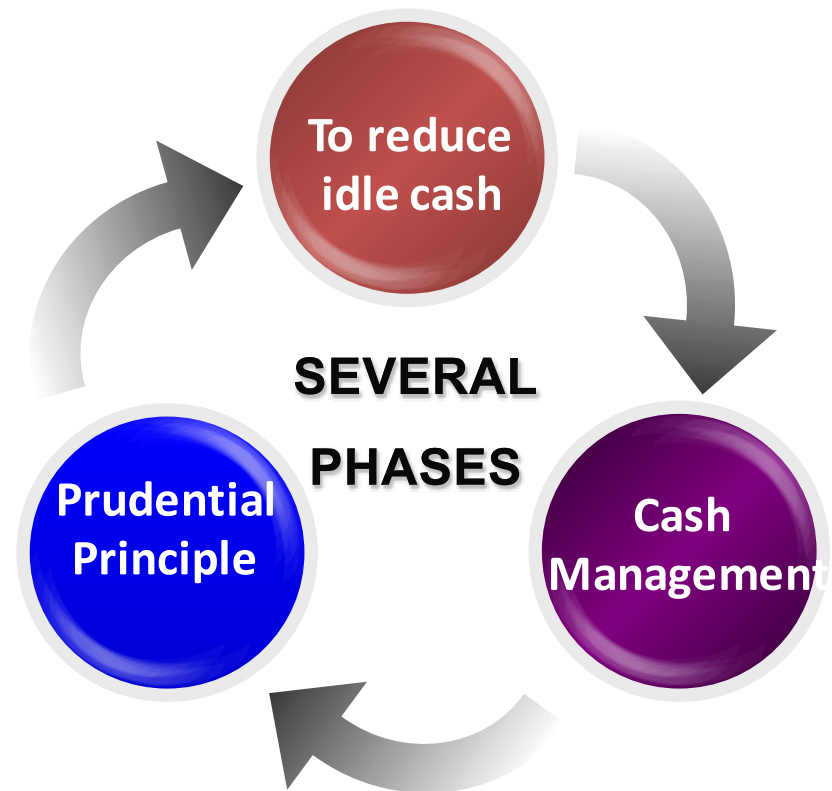
- The use of village fund is prioritized for development and community empowerment.
- On Q1, the development is still in planning stage.
- The highest needs of disbursement (80%) is predicted on April-August

## Cash Management

- The disbursement is based on real needs in village in order to prevent idle cash in village
- To reduce burden of the State Treasury, since in the beginning of the year the government must conduct transfer to region to other areas, while state revenue is not optimal yet.

## Prudential Principle

- Besides village fund, the village will also manage other revenue sources (ADD, revenue sharing of local tax, etc. On the other hand the capacity of human resources in the village is still limited.
- In order to avoid chaos in cash management, village fund should be disbursed in several phases.





# WHY DO NOT TRANSFER TO VILLAGE DIRECTLY?

The explanation of Article 72 letter b Law 6/2014 stated that the definition of Village Fund is the fund which is sourced from the state budget and transferred through regency/city budget, that is used to finance village development, empowerment, governance and community

Although village has right to manage its authority, it still consider as the part of regency/city (not a separate autonomous region)

Every year, the amount of village fund will increase significantly. On the other side, the capacity of human resources in village financial management is still insufficient

Village fund is channeled through the regency/city, so that monitoring and accountability can be maintained

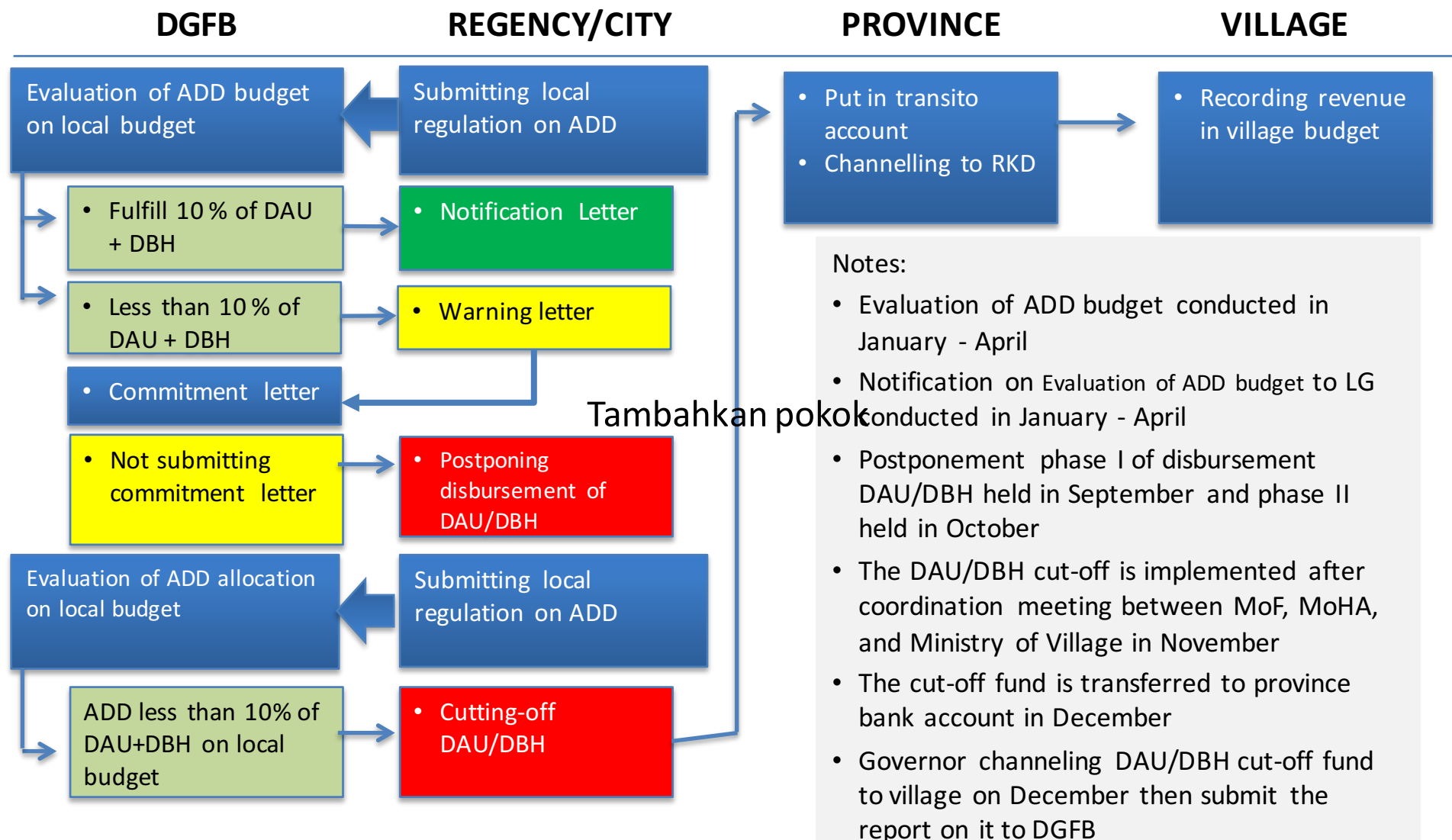




# BALANCING FUND CUT-OFF/POSTPONEMENT MECHANISM TO REGIONS



WHO DO NOT FULLY ADD



Based on local budget data per 12 Februari 2016, **265 regions have fulfilled 10% ADD budget** while 61 regions have not fulfilled the minimum figure.