THE PRESIDENT
OF THE REPUBLIC OF INDONESIA

LAW OF THE REPUBLIC OF INDONESIA
NUMBER 25 YEAR 1999
CONCERNING
FINANCIAL BALANCE BETWEEN
THE CENTRAL & REGIONAL GOVERNMENT

WITH THE BLESSING OF THE ONE ALMIGHTY GOD

THE PRESIDENT OF THE REPUBLIC OF INDONESIA,

Considering:  

a. whereas the Unitary State of the Republic of Indonesia organizes governance, and development to achieve a just, prosperous and equitable society, based on Pancasila and the 1945 Constitution;

b. whereas regional development as an integral part of national development is conducted through regional autonomy and the regulation of national resources, giving the opportunity for the promotion of democracy and effective and efficient regional performance in the organization of governance, public service and development for improving social welfare towards a civil society free of corruption, collusion, and nepotism, therefore, the participation of society, transparency, and accountability to the public are required;

c. whereas to support the organization of regional autonomy through the provision of financial sources based on decentralization, deconcentration, and assistance duties, it is necessary to provide for the financial balance between the Central Government and Regional Governments in the form of financial system set out based on clear division of authorities, duties and responsibilities among the levels of government;

d. whereas Law number 32 Year 1956 Concerning Financial Balance Between the State and Autonomous Regions, is no longer suitable to the development of conditions as well as the need and aspirations of the people in supporting regional autonomy, it is necessary to stipulate a Law providing for Financial Balance Between the Central Government and Regional Governments;

In view of:  

1. Article 1 paragraph (1), Article 5 paragraph (1), Article 18, Article 20 paragraph (1), Article 23 paragraph (4), and Article 33 of the 1945 Constitution;
2. Stipulation of the People’s Consultative Assembly Number XV/MPR.1998 concerning the Organization of Regional Autonomy, Arrangement, Allocation and the Just Utilization of National Resources, as well as Financial Balance between the Central and Regional Governments in the Context of the Unitary State of the Republic of Indonesia;

3. Law Number 22 Year 1999 concerning Regional Governance (State Gazette Year 1999 Number 60, Supplement to the State Gazette Number 3839);

With the approval of the
PEOPLE’S LEGISLATIVE ASSEMBLY OF THE REPUBLIC OF INDONESIA

HAS DECIDED TO:

Stipulate: LAW CONCERNING THE FINANCIAL BALANCE BETWEEN THE CENTRAL GOVERNMENT AND REGIONAL GOVERNMENTS

CHAPTER I
GENERAL PROVISIONS

Article 1

Referred to in this Law as:

1. Financial Balance between the Central Government and Regional Governments shall be a system of government financing in the context of the unitary state, covering the allocation of finances between the Central Government and Regional Governments as well as the proportional, democratic, fair and transparent inter-regional distribution by taking into account the potential, condition and requirements of the Regions, in accordance with the obligations and distribution of authority as well as procedures for the organization of the aforementioned authority, including the financial management and supervision thereof;

2. The Central Government shall be the Central Government as referred to in Law Number 22 Year 1999 concerning Regional Governance;

3. Regional Government shall be Regional Government as referred to in Law Number 22 Year 1999 concerning Regional Governance;

4. Regional Autonomy shall be Regional Autonomy as referred to in Law Number 22 Year 1999 concerning Regional Governance;
5. Autonomous Region, hereinafter referred to as the Region, shall be Autonomous Regions as referred to in law Number 22 Year 1999 concerning Regional Governance;

6. Head of Region shall be the Governor for Provinces and Regent for Regencies or Mayor for Municipalities as referred to in Law Number 22 Year 1999 concerning Regional Governance;

7. Regional People’s Legislative Assembly, hereinafter referred to briefly as DPRD, shall be the Regional People’s Legislative Assembly as referred to in Law Number 22 Year 1999 concerning Regional Governance;

8. Decentralization shall be Decentralization as referred to in Law Number 22 Year 1999 concerning Regional Governance;

9. Deconcentration shall be Deconcentration as referred to in Law Number 22 Year 1999 concerning Regional Governance;

10. Assistance duties shall be assistance duties as referred to in Law Number 22 Year 1999 concerning Regional Governance;

11. Secretariat of Central and Regional Government Financial Balance shall be one of the Secretariats in the Regional Autonomy Advisory Council as referred to in Law Number 22 Year 1999 concerning Regional Governance;

12. State Revenues and Expenditures Budget, hereinafter referred to as APBN, shall be an annual state financial arrangements stipulated under a Law concerning State Revenues and Expenditures Budget.

13. Regional Revenues and Expenditures Budget, hereinafter briefly referred to as APBD, shall be an annual regional financial arrangements stipulated under a Regional Regulation concerning Regional Revenues and expenditures Budget;

14. Balancing Funds shall be funds originating from APBN revenues allocated for Regions to finance Regional Requirements in the context of Decentralization;

15. Regional Loans shall be all transactions resulting in the Region receiving an amount of money or benefits equivalent to money from other parties hence the aforementioned region shall be subject to the obligation to repay, not including short term loans reasonably occurring in commerce;

16. Deconcentration Budget shall be the implementation of APBN in Provincial Regions, comprising of all revenues and expenditures to finance implementation of Deconcentration;
17. Assistance Duty Budget shall be the implementation of APBN in Regions and Villages, comprising of all revenues and expenditures to finance implementation of Assistance Duties;

18. General Allocation Fund shall be funds originating from APBN, which is allocated for the purpose of fair distribution of financial capability among Regions in order to finance their expenditures in the context of the implementation of Decentralization;

19. Special Allocation Funds shall be funds originating from APBN allocated for Regions in order to assist the financing of certain needs;

20. Regional Document shall be all documents issued by the Government which are transparent and announced in the Regional Gazette.

CHAPTER II
PRINCIPLES OF REGIONAL GOVERNANCE FINANCING

Article 2
(1) The organization of duties of a Region in the context of the implementation of Decentralization shall be financed by APBD.

(2) The organization of the duties of the Central Government performed by the apparatus of a Provincial Region in the context of the implementation of Deconcentration shall be financed at the expense of the APBN.

(3) The organization of duties of the Central Government performed by Regional and Village apparatus in the context of Assistance Duties shall be financed at the expense of the APBN.

(4) The transfer or delegation of Authority of the Central Government to a Governor or the delegation of authority or assignment by the Central Government to a Regent/Mayor shall be accompanied by the financing thereof.

CHAPTER III
SOURCES OF REVENUES FOR THE IMPLEMENTATION OF DECENTRALIZATION

Part One
Sources of Regional Revenues

Article 3
Sources of Regional Revenues in the implementation of Decentralization shall be:

a. Primary Regional Revenues;

b. Balancing Funds;
c. Regional Loans;
d. Other valid revenues.

**Part Two**

**Sources of Primary Regional Revenues**

**Article 4**

Sources of Primary Regional Revenues as referred to in Article 3 letter a shall comprise of:

a. Proceeds of regional taxes;
b. Proceeds of regional levies;
c. Proceeds of Regional Government-owned companies and proceeds;
d. Other valid Indigenous Regional Revenues.

**Article 5**

(1) Provisions concerning Regional Taxes and Regional Levies as referred to in Article 4 Letter a and b shall be regulated under a Law.

(2) Provisions concerning Regional Government-owned companies and the management of other separated Regional assets as referred to in Article 4 letter c shall be set forth in accordance with the applicable laws and regulations.

**Part Three**

**Balancing Fund**

**Article 6**

(1) Balancing Funds shall comprise of:

a. Region’s share of Land and Building Taxes, Fees for the Acquisition of Rights on Land and Building, and revenues from natural resources;
b. General Allocation Funds;
c. Special Allocation Funds;

(2) State Revenues from Land and Building Taxes shall be divided in the proportion of 10% (ten per cent) for the Central Government and 90% (ninety per cent) for the Regions.

(3) State Revenues from Fees for the Acquisition of Rights on Land and Buildings in the proportion of 20% (twenty percent) for the Central Government and 80% (eighty per cent) for the region.

(4) 10% (ten percent) of Land and Building Tax revenues and 20% (twenty percent) of Fees for the Acquisition of Rights on Land and Building to which the Central Government is entitled as referred to in paragraph (2) and paragraph (3) shall be distributed to all Regencies and Municipalities.
State Revenues from natural resources in the forestry sector, general mining sector, and fisheries sector shall be divided in the proportion of 20% (twenty per cent) for the Central Government and 80% (eighty per cent) for the Regions.

State Revenues from natural resources in the natural oil and gas mining sector produced in the territory of a Region concerned shall be divided in the following proportions:

a. State Revenues from natural oil mining originating from the territory of a Region, after having been deducted for taxes in accordance with the applicable provisions, shall be divided in the proportion of 85% (eighty-five per cent) for the Central Government and 15% (fifteen percent) for the Region.

b. State Revenues from natural gas mining originating from the territory of a Region, after having been deducted for taxes in accordance with the applicable laws and regulations, shall be divided in the proportion of 70% (seventy percent) for the Central Government and 30% (thirty per cent) for the Region.

Article 7

General Allocation Funds shall be stipulated in the minimum amount of 25% (twenty-five per cent) of the Domestic Revenues stipulated in APBN.

General Allocation funds for Provincial Regions and for Regencies/Municipalities shall be stipulated respectively in the amount of 10% (ten per cent) and 90% (ninety per cent) of the General Allocation Funds as stipulated in paragraph (1).

In the event of a change in authority among Provincial Regions and Regencies/Municipalities, the percentage of General Allocation Funds for the Provincial Regions and Regencies/Municipalities as referred to in paragraph (2) shall be adjusted to such change.

General Allocation Funds for a certain Provincial Region shall be stipulated based on a multiplication of the amount of General Allocation Funds for all Provincial Regions stipulated in APBN, with the portion for the relevant Provincial Region.

The portion for the Provincial Region as referred to in paragraph (4) shall be the proportion of capacity of the relevant Provincial Region to the total capacity of all Provincial Regions in Indonesia.

General Allocation Funds for a certain Regency/Municipality shall be stipulated based on the multiplication of the amount of General Allocation Funds for all Regencies/Municipalities stipulated in APBN with the portion of the Regency/Municipality Region concerned.
(7) The portion for the Regency/Municipality as referred to in paragraph (6) shall be the proportion of capacity of the relevant Regency/Municipality to the total capacity of all Regencies/Municipalities in Indonesia.

(8) The capacity of a Region shall be determined based on:
a. the requirements of the Regional autonomy territory;
b. Regional economic potential.

(9) Calculations for the general allocation funds based on formulae as referred to in paragraph (4), paragraph (5), paragraph (6), paragraph (7), and paragraph (8) shall be conducted by the Secretariat for Central and Regional Government Financial Balance.

**Article 8**

(1) The Special Allocation Funds can be allocated from APBN to certain Regions to assist in financing special requirements, with due observance of the availability of APBN funds.

(2) Special requirements as referred to in paragraph (1) shall be:
a. requirements that cannot be foreseen by using the general allocation formulae; and/or
b. requirements that comprises national commitment or priority.

(3) Special Allocation Funds as referred to in paragraph (1) shall include those originating from reforestation funds.

(4) Reforestation Funds shall be divided in the following proportions:
a. 40% (forty per cent) shall be for the producing Region as Special Allocation Funds.
b. 60% (sixty per cent) shall be for the Central Government.

(5) Except in the context of reforestation, Regions receiving financing for special requirements as referred to in paragraph (2) shall provide supporting funds from APBD in accordance with the capabilities of the Regions concerned.

**Article 9**
The amount Balancing Funds as referred to in Article 6 paragraph (1) shall be stipulated for each fiscal year in APBN.

**Article 10**
Further provisions concerning the procedures for the calculation and distribution of the portions of Regions from State revenues as referred to in Article 6 paragraph (2), paragraph (3), paragraph (4), paragraph (5), and paragraph (6), and the formulae as referred to in Article 7 paragraph (4), paragraph (5), paragraph (6), paragraph (7), and paragraph (8), as well as Special Allocation Funds as referred to in Article 8 shall be regulated under a Government Regulation.
Part Four
Regional Loans

Article 11
(1) Regions can take on loans from domestic sources to finance part of its budget.
(2) Regions can take on loans from overseas sources through the Central Government.
(3) Regions can take on long-term loans in order to finance development of infrastructure, which shall be Regional Assets and can produce revenues for the repayment of the loans, as well as rendering benefits for public services.
(4) Regions can take on short-term loans for the management of cash flow in the context of Regional cash management.

Article 12
(1) Regional Loans as referred to in Article 11 shall be accepted upon the approval of the Regional People’s Legislative Assembly (DPRD).
(2) Regional loans as referred to in paragraph (1) shall be conducted with due observance of the capabilities of the Region to fulfill its requirements.
(3) Violations to the provisions as referred to in paragraph (1) and paragraph (2) shall be subject to sanctions in accordance with the applicable laws and regulations.

Article 13
(1) Regions shall be prohibited from engaging in Regional Loans causing the exceeding of the stipulated Regional Loan limitation.
(2) Regions shall be prohibited from engaging in agreements that are loans in nature, hence encumbering the finances of the Region.
(3) Infringements on the provisions as referred to in paragraph (1) and paragraph (2) shall be subject to sanctions in accordance with the applicable laws and regulation.

Article 14
(1) All payments, which are the obligation of regions upon Regional Loans, shall be one of the priority expenditures in the APBD
(2) In the event that Regions do not fulfill obligations on Regional Loans from the Central Government, the Central Government can take such obligations into account in General Allocation Funds to Regions.

Article 15
Implementations of Regional Loans as referred to in Article 11, Article 12, Article 13, and Article 14 shall be further regulated under a Government Regulation.
Part Five
Emergency Fund

Article 16

(1) For emergency requirements, Emergency Funds originating from the APBN shall be provided for certain regions.

(2) The procedures and methods for distributing Emergency Funds shall be in accordance with the applicable provisions for the APBN.

CHAPTER IV
FINANCIAL MANAGEMENT AND ACCOUNTABILITY
IN THE IMPLEMENTATION OF DECONCENTRATION

Article 17

(1) Financing in the context of the implementation of deconcentration shall be distributed to Governors through the relevant Ministries/Non-ministerial Government Agency.

(2) Accountability on the financing of the implementation of Deconcentration as referred to in paragraph (1) shall be conducted by the Governor to the Central Government through the relevant Ministries/Non-ministerial Government Agency.

(3) Financial administration in financing the implementation of Deconcentration shall be conducted separately from the financial administration of the implementation of Decentralization.

(4) Revenues and expenditures in connection with the implementation of Deconcentration shall be administered in the Deconcentration Budget.

(5) In the event that there are any remaining budgetary funds from the Deconcentration fund expenditures, such remaining budgetary funds shall be deposited to the State Treasury.

(6) Audits on the financing of deconcentration as referred to in paragraph (1) shall be conducted by State financial audit agencies.

(7) Further provisions concerning financing of the Deconcentration implementation shall be regulated under a Government regulation.

CHAPTER V
FINANCIAL MANAGEMENT AND ACCOUNTABILITY
IN THE IMPLEMENTATION OF ASSISTANCE DUTIES
**Article 18**

(1) Financing in the context of implementation of Assistance Duties shall be distributed to Regional and Village heads through the Ministry/Non-ministerial Government Agency assigning such duties.

(2) Accountability on financing of Assistance duties as referred to in paragraph (1) shall be conducted by the Regional and Village heads to the Central Government through the Ministry/Non-ministerial Government Agency assigning such duties.

(3) Financial Administration in financing the implementation of Support Duties shall be conducted separately from financial administration of financing the implementation of Decentralization.

(4) Revenues and expenditures in connection with the implementation of Assistance Duties shall be administered in the Assistance Duty Budget.

(5) In the event there are any remaining budgetary fund from the Assistance Duty expenditures, such remaining budgetary funds shall be deposited to the State Treasury.

(6) Audits on financing of implementation of Support Duties as referred to in paragraph (1) shall be conducted by State Financial Audit Agencies.

(7) Further provisions concerning financing of the implementation of Assistance Duties shall be regulated under a Government Regulations.

**CHAPTER VI**

FINANCIAL MANAGEMENT AND ACCOUNTABILITY IN THE IMPLEMENTATION OF DECENTRALIZATION

**Part One**

Principles of Financial Management in the Implementation of Decentralization

**Article 19**

(1) All revenues and expenditures in the context of the implementation of Decentralization shall be recorded and managed in the APBD.

(2) All Regional Revenues and Expenditures not connected with the implementation of Deconcentration or Assistance Duties shall be revenues and expenditures in the context of the implementation of Decentralization.

(3) The APBD, Amendments to the APBD, and APBD calculations shall be stipulated by virtue of Regional Regulations.
(4) The APBD, Amendments of the APBD, and APBD calculations shall be Regional Documents.

Article 20

(1) The APBD shall be stipulated by virtue of a Regional Regulation by no later than 1 (one) month following the stipulation of the APBN.

(2) Amendments to the APBD shall be stipulated by virtue of Regional Regulations by no later than 3 (three) months prior to the end of the fiscal year.

(3) The APBD calculations shall be stipulated by no later than 3 (three) months following the end of the relevant fiscal year.

Article 21

Expenditure budget in the APBD shall not exceed the revenue budget.

Article 22

(1) Regions can maintain reserve funds in order to finance certain requirements.

(2) Reserve funds as referred to in paragraph (1) shall be allocated from Regional revenue sources.

(3) Each formation of reserve funds as referred to in paragraph (1) shall be stipulated by virtue of a Regional Regulation.

(4) All sources of reserve fund revenues as referred to in paragraph (1) and all expenditures charged to the reserve funds shall be administered in the APBD.

Article 23

(1) Provisions concerning the principles of Regional financial management shall be stipulated by virtue of a Regional Regulation.

(2) The system of and procedures for Regional financial management shall be regulated under a Decision of the Regional Head by virtue of the Regional Regulation as referred to in paragraph (1).

Part Two

Regional Financial Accountability Report

Article 24

(1) The Regional Head shall deliver the accountability report to the DPRD concerning:
   a. Regional financial management as referred to in Article 19, Article 20, Article 21, and Article 22.
   b. Regional financial performance in terms of financial efficiency and effectiveness in the implementation of Decentralization.
(2) The DPRD in the open plenary meeting shall receive or reject by requesting to improve the accountability report as referred to in paragraph (1).

(3) The Regional accountability report shall be a Regional Document.

Part Three
Regional Financial Audit

Article 25
Audits on the Regional financial implementation, management, and accountability shall be conducted in accordance with the applicable laws and regulations.

Article 26
Provisions concerning the principles of Regional financial management and accountability as referred to in Article 23 and Article 24, shall be regulated by virtue of a Government Regulation.

CHAPTER VII
REGIONAL FINANCIAL INFORMATION SYSTEM

Article 27
(1) The Central Government shall organize a Regional financial information system.

(2) Information contained in the Regional financial information as referred to in paragraph (1) shall be an open document accessible to the public.

(3) Further provisions concerning the organization of this Regional financial system as referred to in paragraph (1) shall be regulated by virtue of a decision of the Minister of Finance.

Article 28

(1) Regions shall be obligated to convey information connected with the Regional financial information system to the Central Government including Regional loans.

(2) The implementation of the provisions as referred to in paragraph (1) shall be regulated under Government Regulations.

CHAPTER VIII
SECRETARIAT OF CENTRAL AND REGIONAL GOVERNMENT FINANCIAL BALANCE

Article 29
(1) The Secretariat for Central and Regional Government Financial Balance shall have the duty to prepare recommendations of the Regional Autonomy Advisory Council concerning financial balance between Central and Regional Governments as well as other matter concerned with Regional financial management.

(2) Further provisions concerning the Secretariat as referred to in paragraph (1) shall be regulated by virtue of a Presidential Decree.

CHAPTER IX
TRANSITIONAL PROVISIONS

Article 30
(1) Laws and regulations concerned with Regional Financial Affairs insofar as they are not in violation to and have not been adjusted to this law shall remain applicable.

(2) Adjustments as referred to in paragraph (1) shall be conducted by no later than 2 (two) years following the enactment of this Law.

Article 31
(1) In the APBN funds can be allocated to directly finance Decentralization affairs in addition to the sources of Regional revenues as referred to in Article 3.

(2) The provision set forth in paragraph (1) shall only be applicable for a maximum period of 2 (two) years as from the enactment of this law.

(3) Direct financing from the APBN as referred to in paragraph (1) shall be exempted from the provision of Article 19 paragraph (1).

(4) Every fiscal year, the related technical Ministers shall prepare reports on all projects and activities specified in terms of:
   a. sectors and sub-sectors for development expenditures;
   b. Ministerial/non-ministerial governmental agency organizational unit for routine expenditures;
   c. Projects and activities of which implementation is managed by the Central Government, as well as projects and activities of which implementation is managed by the Regions for all expenditures.

(5) Reports as referred to in paragraph (4) shall be submitted to the DPR.

CHAPTER X
CLOSING PROVISIONS

Article 32
As this Law comes into effect, Law Number 32 Year 1956 Concerning Financial Balance Between the State and Autonomous Regions (State Gazette Year 1956 Number 77, Supplement to the State Gazette Number 1442) shall be declared as no longer applicable.

Article 33
This Law shall become applicable as from the date of its enactment.

For Public cognizance, ordering the stipulation of this Law with its placement in the State Gazette of the Republic of Indonesia.

Ratified in Jakarta
On May 19, 1999

PRESIDENT OF THE REPUBLIC OF INDONESIA

Sgd

BACHARUDDIN JUSUF HABIBIE

Enacted in Jakarta
On May 19, 1999

MINISTER STATE SECRETARY OF
THE REPUBLIC OF INDONESIA
Sgd
PROF. DR. H. MULADI, S.H.
STATE GAZETTE OF THE REPUBLIC OF INDONESIA

Issued as true copy
CABINET SECRETARY
OF THE REPUBLIC OF INDONESIA
Head of Law and Legislation Bureau I

[Lambock V. Nahattands]