GOVERNMENT REGULATION
NUMBER 107 YEAR 2000
ON
REGIONAL GOVERNMENT BORROWING
OUTLINE OF THE DRAFT OF GOVERNMENT REGULATION ON REGIONAL LOAN

CHAPTER I : General Provisions (Article 1)
CHAPTER II : Regional Loan Types and Sources (Articles 2 – 3)
CHAPTER III : Loan Utilization (Articles 4 – 6)
CHAPTER IV : Loan Conditions
   Section I : Regional Loan Maximum Amount (Articles 7 – 9)
   Section II : Regional Loan Term (Article 10)
CHAPTER V : Regional Loan Procedure (Articles 11 - 12)
CHAPTER VI : Regional Loan Repayment (Article 13)
CHAPTER VII : Accounting and Reporting (Article 14)
CHAPTER VIII : Transition Provisions (Article 15)
CHAPTER IX : Closing Provisions (Article 16-17)
The President of the Republic of Indonesia,

Considering:

that as the implementation of Article 15 of Law Number 25 Year 1999 on Fiscal Balance between the Central and Local Governments, it is deemed necessary to further regulate the regional loan in a Government Regulation.

In view of:

1. Article 5 Paragraph (2) of the 1945 Constitution;
2. Law Number 22 Year 1999 on Local Government (State Gazette Year 1999 Number 60, Supplement to the State Gazette Number 3839);
3. Law Number 25 Year 1999 on Fiscal Balance between the Central and Local Governments (State Gazette Year 1999 Number 70, Supplement to the State Gazette Number 3848).

DECIDES:

To stipulate:

THE GOVERNMENT REGULATION ON REGIONAL LOAN

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<td>DRAFT OF GOVERNMENT REGULATION NUMBER... YEAR 2000 ON REGIONAL LOAN</td>
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<td>THE PRESIDENT OF THE REPUBLIC OF INDONESIA.</td>
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<td>Law Number 25 Year 1999 on Finance Proportion between the Central and Regional Governments stipulates that regional loan as one of regional finance sources which is organized in the implementation of decentralization. The loan fund is a revenue source that is recorded and managed in the Regional Budget (APBD). Loan fund is the supplement of regional revenue sources available and is aimed to finance the provision of regional infrastructures or other assets connected to the activities whose natures are to increase the revenues that can be utilized to return the loan. Beside that, the Regions are enabled to receive loans for other purposes, such as overcoming short-term problems related to regional cash flows. Regional Loan needs to be controlled pursuant to the capacities of the Regions, as it can cause a burden to APBD in the upcoming years which is heavy enough so that it needs to be supported with the skills of regional mechanisms. To improve the discipline and objective skills of Local Governments in implementing the return of the loan, it</td>
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In view of:

1. Article 5 Paragraph (2) of the 1945 Constitution;
2. Law Number 22 Year 1999 on Local Government (State Gazette Year 1999 Number 60, Supplement to the State Gazette Number 3839);
3. Law Number 25 Year 1999 on Fiscal Balance between the Central and Local Governments (State Gazette Year 1999 Number 70, Supplement to the State Gazette Number 3848).
needs a tighter control over the implementation of Regional Loan. This Government Regulation is aimed to regulate further things concerning Regional Loan by anticipating future needs.

**CHAPTER I**  
**GENERAL PROVISIONS**

**Article 1**

In this Government Regulation:

1. Central Government shall mean the apparatus of the Unitary State of the Republic of Indonesia which consists of the President and the Ministers;
2. Autonomous Regions, hereinafter referred to as the Regions, shall mean lawful people units which have certain regional borders which have the authorities to arrange and manage the interests of the local people according to their own initiatives based on the aspirations of the people within the Unitary State of the Republic of Indonesia;
3. Regional Chiefs shall mean Governors to Provincial Territories or Regents to Regency Territories or Mayors to City Territories;
4. Regional House of People’s Representatives, hereinafter referred to as DPRD, shall mean Regional Legislative Bodies;
5. Regional Budget, hereinafter referred to as APBD, shall mean a regional financial plan stipulated based on a Regional Regulation on Regional Budget;
6. Regional Loan shall mean all transactions which cause the Regions to receive from other parties an amount of money or a money-worth benefit so that the Regions shall be borne with the obligations to repay, exclusively the short-term credits normally take place in trading.

**ARTICLE BY ARTICLE**

**Article 1**

Clear Enough
5.

| 7. | Long-Term Loan shall mean Regional Loan with a term of more than one year with the requirements that loan repayment, in the forms of loan basics and or interests and or all other costs, partly or wholly, must be paid in the next fiscal years; |
| 8. | Short-Term Loan shall mean Regional Loan with a term of less than or equal to one year with the requirements that loan repayment, in the forms of loan basics and or interests and or all other costs must be paid wholly in the current fiscal year. |

### CHAPTER II

**REGIONAL LOAN TYPES AND SOURCES**

**Article 2**

(1) Regional Loan comes from:
   a. Domestic;
   b. Overseas;

(2) The Domestic Regional Loan as referred to in paragraph (1) letter (a) comes from:
   a. the Central Government;
   b. Bank financial institutions;
   c. Non-bank financial institutions;

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<td>Paragraph (1)</td>
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<td>Paragraph (2)</td>
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<td>Letter (a)</td>
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<td>Other provisions concerning loans which come from the Central Government such as type, loan term, grace period, interest rate, interest calculation and payment procedure, and loan fund distribution, shall be stipulated by the Minister of Finance.</td>
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<tr>
<td>Letter (b)</td>
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<td>Implementation of Regional Loan that comes from bank financial institutions shall follow the prevailing provisions.</td>
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<td>Letter (c)</td>
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<td>Implementation of Regional Loan that comes from non-bank financial institutions shall</td>
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d. The people.

e. Other sources.

(3) The Overseas Regional Loan as referred to in paragraph (1) letter (b) can be in the forms of bilateral or multilateral loans.

Letter (d)
Regional Loan that comes from the people shall be, among others, through the issuance of regional bonds. Implementation of the issuance and repayment of regional bonds shall follow the prevailing provisions.

Letter (e)
Other sources shall mean loans other than the sources above, for example among the local governments.

Paragraph (3)
Clear Enough.

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### Article 3

Regional Loan shall consist of 2 (two) types:
- a. Long-term loan;
- b. Short-term loan.

### CHAPTER III

#### LOAN UTILIZATION

### Article 4

(1) The Regions can receive long-term loans in order to finance the developments of infrastructures that shall become assets of the Regions and can generate earning to repay the loans, as well as give benefits to the public services.

(2) Short-term loans cannot be utilized to finance regional routine and maintenance expenditures.

Paragraph (1)
Generate earning is all direct as well as indirect revenue

Paragraph (2)
Clear Enough
### Article 5
The Regions can receive short-term loans in order to arrange the cash flows in the framework of regional cash management.

### Article 5
A short-term loan can be utilized to:
1. better cash flow for short-term needs.
2. finance a preliminary phase of investment to be financed with the long-term loan. The Regions can only receive short-term loans if there has been a confirmation on the availability of concerned long-term loans.

### CHAPTER IV
**LOAN CONDITION**

#### Section I
**Maximum Limit**

#### Article 6
1. The long-term loans as referred to in Article 3 which are received by the Regions shall have to meet the requirements as follows:

<table>
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<th>a. The accumulative principle amount of Regional Loan which shall be paid shall not exceed 75% (seventy-five percent) of the total of the previous year APBD’s general revenue;</th>
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<td>Letter (a)</td>
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<td>This provision shall be the highest limit of Regional Loan amount considered to be appropriate to be APBD’s burden. The accumulative amount of loan basic shall be the old amount of loan basic which becomes payable plus the amount of loan basic to be received in the current year. APBD’s general revenues shall mean all APBD’s revenues, exclusively Special Allocation, Emergency, and Loan Funds, and other revenues whose utilization is limited to finance certain expenses, or</td>
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b. Based on annual regional revenue and expenditure projections during the loan term the Debt Service Coverage Ratio (DSCR) shall be at least 2.5.

**Letter (b)**

Debt Coverage Ratio shall be the ratio between the addition of Regional Original Revenue (PAD), Regional Portion of Property Taxes, Property Rights Acquisition Fees, and Natural Resource Revenues, and General Allocation Fund, after being deducted by Obligatory Expenditures, with the addition of basic installment, interest, and loan cost.

Debt Coverage Ratio can be written with the formula as follows:

\[
\text{DSCR} = \frac{(\text{PAD} + \text{BD} + \text{DAU}) - \text{BW}}{\text{P + B + BL}} \geq 2.5
\]

- **DSCR** = Debt Service Coverage Ratio;
- **PAD** = Regional Original Revenue;
- **BD** = Regional Portion of Property Taxes, Property Rights Acquisition Fees, and Natural Resource Revenues;
- **DAU** = General Allocation Fund;
- **BW** = Obligatory Expenditure, expenditure which is hard to be avoided by the Regional Governments, such as personnel expenditures and project launching expenditures of the previous fiscal year;
- **P** = Installment of loan basic;
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<th>Article 7</th>
<th>Article 8</th>
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<td>(1) The maximum amount short-term regional loan shall be 1/6 of the amount of APBD fund of current year.</td>
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<td>(2) The short-term regional loans shall be made by considering the sufficiency of regional revenues to repay the loans on time.</td>
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<td>(3) The settlement of short-term loans shall be within the current fiscal year.</td>
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<td>Paragraph (1) Clear Enough.</td>
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<td>Paragraph (2) Clear Enough.</td>
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<td>Paragraph (3) Current fiscal year shall mean the fiscal year when the Regions receive the short-term loans. This provision shall also mean that short-term loan is not allowed to be executed to finance cash deficit at the end of the fiscal year.</td>
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<td>(1) Maximum loan limit for all regions is in accordance with national economic policy.</td>
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<td>(2) Based on national interest consideration, Minister of Finance can stipulate further control over regional loan.</td>
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<td>Paragraph (1) this provision means to protect that cumulative all regional loans is not exceed which is considered safe for national economy.</td>
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<td>Paragraph (2) National interest considerations, among other things, if there is a national monetary condition which shows the necessity to do a tighter control over the amount of Regional Loan.</td>
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<td>(1) Maximum term for the long-term loans shall not exceed the economic lives of the assets that are financed from the loans.</td>
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<td>Paragraph (1) The loan term limit shall be determined based on the economic lives of the concerned assets, with the longest term of 30 (thirty) years.</td>
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(2) The maximum grace period for the long-term loans shall be in line with project construction period.

Paragraph (2)
Grace period shall be the time at the beginning of loan term, which can be stipulated in loan agreement so that during the period the borrower shall not pay the principle payment. The stipulation of grace period shall be determined only if it is really necessary and the period shall not exceed the concerned asset provision and project construction period with maximum 5 years. This is aimed, among others, to avoid higher cost burdens.

(3) Long-term loans period is include grace period.

Paragraph (3)
Clear Enough.

(4) In case the Region make long-term loans come from domestic, the term and grace period shall be determined and with the consent of DPRD.

Paragraph (4)
Clear Enough.

(5) In case the Region make long-term loans come from overseas, the term and grace period shall be determined of the concerned relevant overseas loans condition.

Paragraph (5)
Clear Enough.

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Section 3
PROHIBITION OF GUARANTEE
Article 10

(1) The Regions are not allowed to guarantee other parties’ borrowing that will cause burdens to regional finance.

(2) The regions property used to serve public needs can not be collateralize to get regional loan.

(3) Violation of the said paragraph (1) and (2) will be sanctioned according to the prevailing law.

Article 10
The collateral as referred to in this paragraph shall mean regional collateral against, among others, regional company and private loans in the framework of regional project implementation.
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<th>Article 11</th>
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<td>(1) Every Regional Loan shall be made with the consent of DPRD.</td>
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<td>(2) Based on the consent from DPRD as referred to in paragraph (1), the Region shall forward the proposal to the prospective creditors.</td>
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<td>(3) <strong>Every Regional Loan shall be written in an official loan agreement between the Region and the creditor.</strong></td>
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<td>(4) The loan agreement as referred to in paragraph (3) shall be signed in the name of the Region by the Regional Chief or his representative</td>
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<td>(5) For public cognizance, every loan agreement made by the Region shall be promulgated in the Regional Gazettes.</td>
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<td>(1) <strong>To get loans from the central government, the Regions shall forward proposals to Minister of Finance accompanied with DPRD’s letter of consent, feasibility study, and other necessary documents to do an evaluation.</strong></td>
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</table>
(2) The loan agreement from the central government shall be signed by Minister of Finance and Regional Chief.

Article 13

(1) Overseas regional loans shall be made through the Central Government.

(2) To get overseas regional loans, the Regions shall forward loan proposals to the Central Government accompanied with DPRD’s letter of consent, feasibility study, and other necessary documents.

(3) For overseas regional loans, the Central Government carries an evaluation from various aspects if the proposal is to be agreed.

(4) If the proposal agreeable, the Regional Governments shall hold a negotiation with the prospective overseas creditors and its results be reported to the Central Government for approval.

(5) The Regions can proceed only after the Central Government’s approval.

(6) Overseas loan agreements for the Regions shall be signed by the Regional Chief with the overseas creditor.
CHAPTER VI
REGIONAL LOAN REPAYMENT

Article 14

(1) All payments that become the obligations of the Regions that will be due upon regional loans shall become priorities and be budgeted in APBD’s expense.

(2) Repayment of Overseas Loans by the Regions shall be made in the currency stipulated in the loan agreements between the Central Government and overseas creditors.

(3) In case the Regions do not fulfill payment obligations upon Regional Loans from the Central Government, the Central Government set off the region obligations with the General Allocation Fund to the Regions.

(4) In case the Regions do not fulfill payment obligations upon the overseas loans, the obligation shall be settled in accordance with Loan Agreement between regional government and the creditor.

Article 14

Paragraph (1)
Obligations on due loans shall cover principle payment plus all cost such as interest, bank fee and commitment fees.

By placing regional obligations on regional loans as one of the priorities and are budgeted in the expenditure of APBD, the fulfillment of the obligations are expected to have equal positions with the other expenditures that must be prioritized by the regions, for example expenditures that should be made and if not they can create social unrest.

So the fulfillment of obligations on regional loans cannot be put aside if APBD revenue target is not reached.

Paragraph (2)
Clear Enough.

Paragraph (3)
Not fulfilling payment obligations upon regional loans shall mean obligations to repay the principle and other costs like interest, bank fee and commitment fees accordance to the agreed schedule.

Pursuant to the provisions of paragraph (1), all obligations in regional loan repayments shall be the responsibilities of the regions. The Central Government shall not bear the loan repayments that become the obligations and responsibilities of
### CHAPTER VII
#### ACCOUNTING AND REPORTING

**Article 15**

(1) All revenues and obligations in the framework of Regional Loans shall be posted in APBD and should be in accordance with the local government financial accounting standard.

(2) All information on long-term Regional Loans shall be listed in the attachment of APBD’s document.

(3) The Regional Chiefs shall have the obligations to report to DPRD periodically with the copy addressed to the Minister of Finance on the development of the total of regional loan obligations and on the implementations in order to fulfill loan obligations that have become due.

### CHAPTER VIII
#### TRANSITION PROVISIONS

**Article 16**

(1) The Regional Loan agreements that have been executed before the coming into force of this Government Regulation can still abide by the old laws and regulations until the end of loan payment settlement.

(2) The Regional Loan agreements that have been executed...
before the coming into force of this Government Regulation, on the joint agreements between the creditors and debtors, can be rearranged based on this Government Regulation.

| CHAPTER IX  
CLOSING PROVISIONS  
Article 17 |
|------------------|
| This Government Regulation shall come into force as of the date of its stipulation. For public cognizance, this Government Regulation shall be promulgated by publishing it the State Gazette of the Republic of Indonesia.  
Stipulated in Jakarta  
On  
The President of the Republic of Indonesia,  
Signed  
K.H. Abdurrahman Wahid |

| Promulgated in Jakarta  
On  
The State Secretary of the Republic of Indonesia  
Signed  
Djohan Effendie |

(State Gazette of the Republic of Indonesia Year 2000 Number...)

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| Article 17  
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