

Local Development Option:

Bojonegoro Fund

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Advancing Accountable Resource Governance

Tanjung Pandan - 12 January 2018

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Dynamic of Natural Resources*

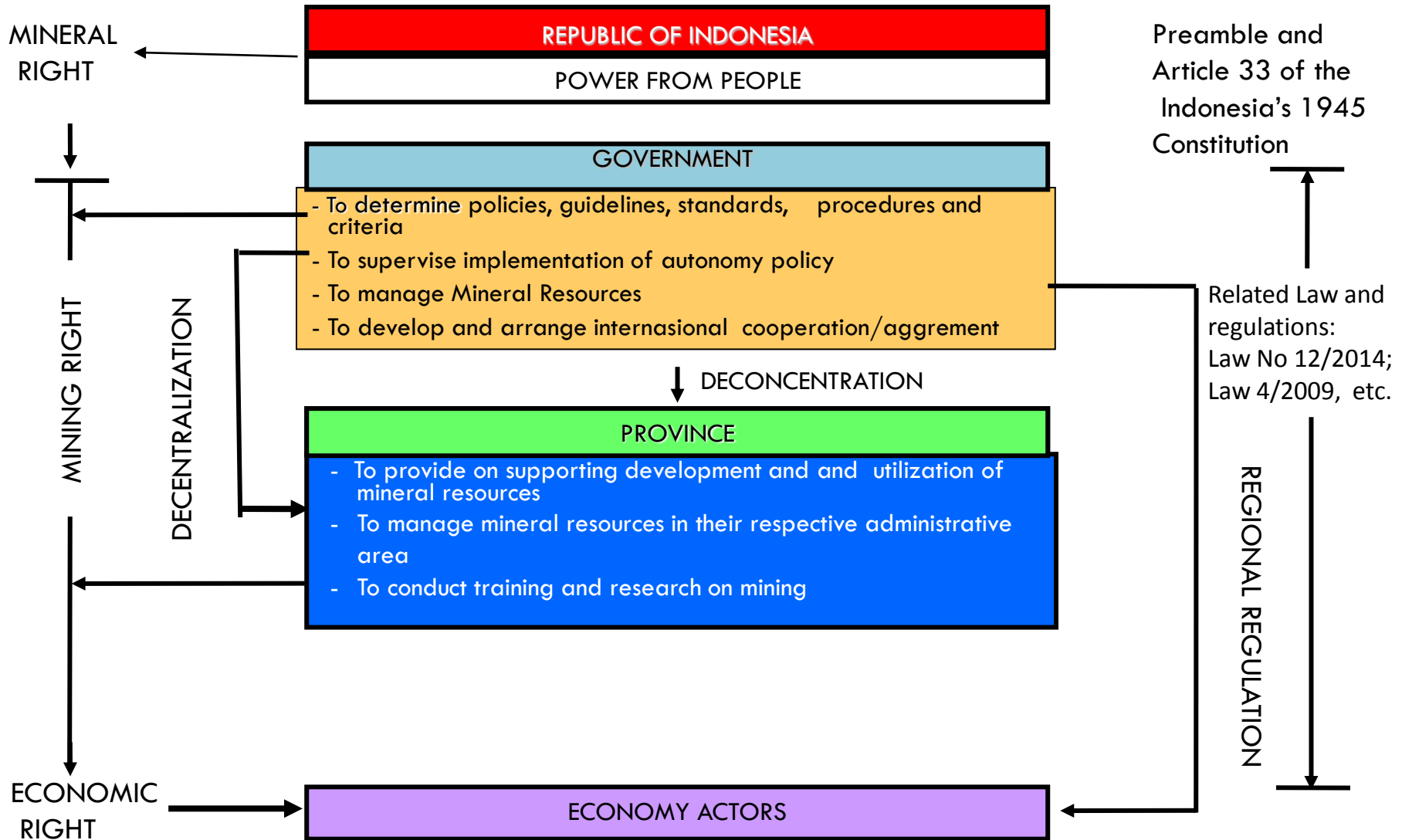
Decentralisation

Year	Central Govt	Province	Regency/City
Before 1999	√	X	X
1999 – 2004 (Law 22/1999)	√	√	√
2004 – 2014 (Law 32/2004)	√	√	√
2014 – (Law 23/2014)	√	√	X

* Natural Resources: Fishery, Forestry, Mining and Geothermal.

Exclude: Oil and Gas (Central Govt Supervision).

EXAMPLE : GOVERNMENT AUTHORITIES OF MINERAL and COAL MINING



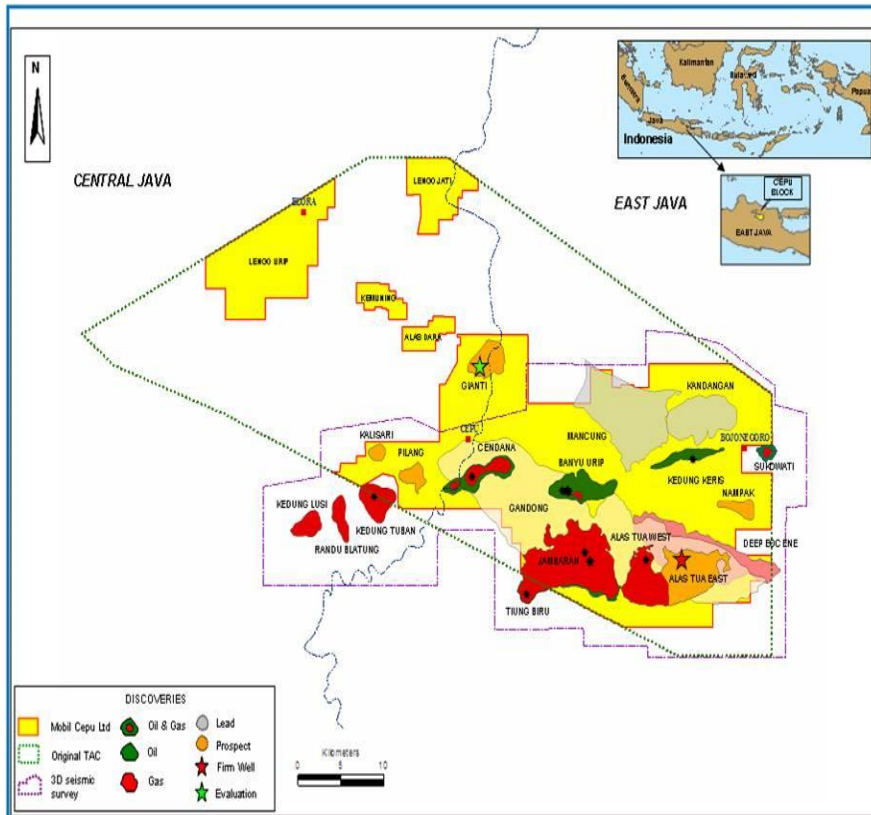
1. Quick Review of Bojonegoro

SNAPSHOTS OF BOJONEGORO



How Important is Cepu Block?

Production Target per Oil & Gas Contractor in 2016:

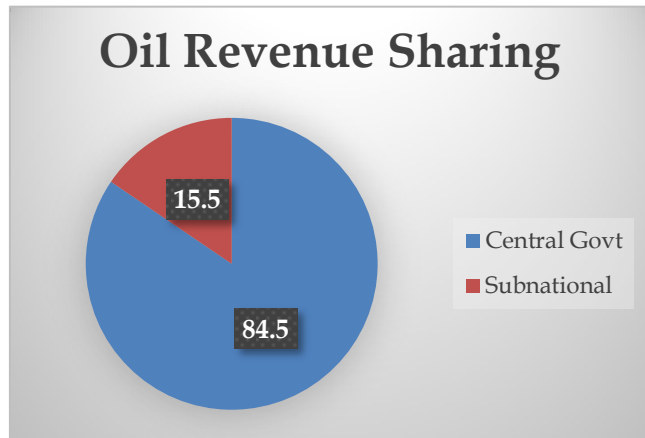


JoA ExxonMobil Cepu, Ltd, 17 September 2005

- 45% Exxon Cepu, Ltd
- 45% Pertamina
- **4,48% PT. Asri Dharma Sejahtera**
- 2,18% PT. Blora Petragas Hulu
- 2,24% PT. Petragas Jatim Utama Cendana
- 1,09% PT. Sarana Patra Hulu

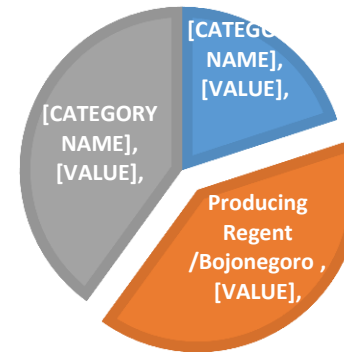
Oil & Gas Contractor	Working Area	2016 State Budget
Chevron Pacific Indonesia	Rokan	243,000
Mobil Cepu Ltd	Cepu	168,430
Pertamina EP	Indonesia	98,510
Total E&P Indonesia	Mahakam	55,720
PHE ONWJ Ltd	ONWJ	37,300
CNOOC S.E.S Ltd	S.E. Sumatra	31,650
ConocoPhillips Indonesia Inc Ltd	South Natuna Sea Block B	19,280
Petronas Carigali Ketapang	Ketapang	18,030
Chevron Indonesia Company	East Kalimantan	14,470
PetroChina International Jabung Ltd	Jabung	13,970
Virginia Indonesia Company (VICO)	Sanga-Sanga	12,110
BOB - BSP Pertamina Hulu CPP		11,450
PHE WMO	West Madura	10,030
Sub Total 13 Largest Contractors		733,950
Remaining 70 contractors		93,940
Total Oil Lifting Indonesia		±830,000

Indonesia Oil Revenue Sharing

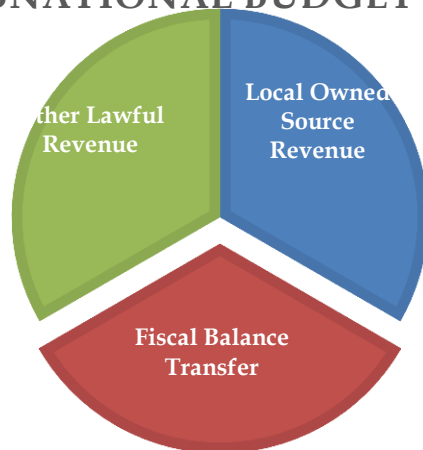


15% SUBNATIONAL OIL REVENUE SHARING

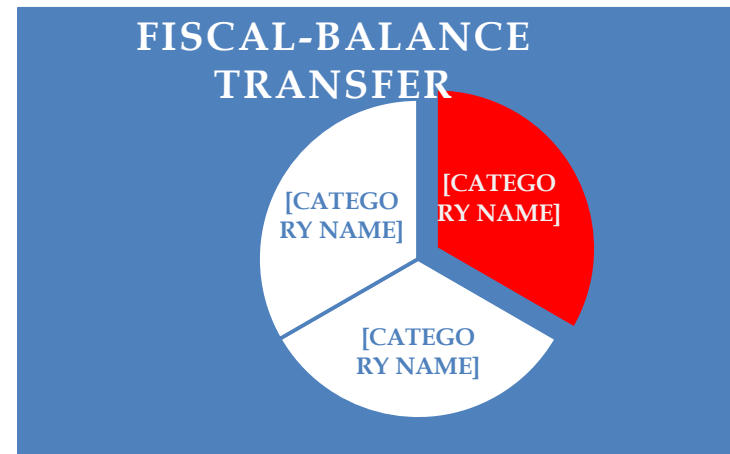
■ Province ■ Production Regent ■ Regencies in the same Province



SUBNATIONAL BUDGET

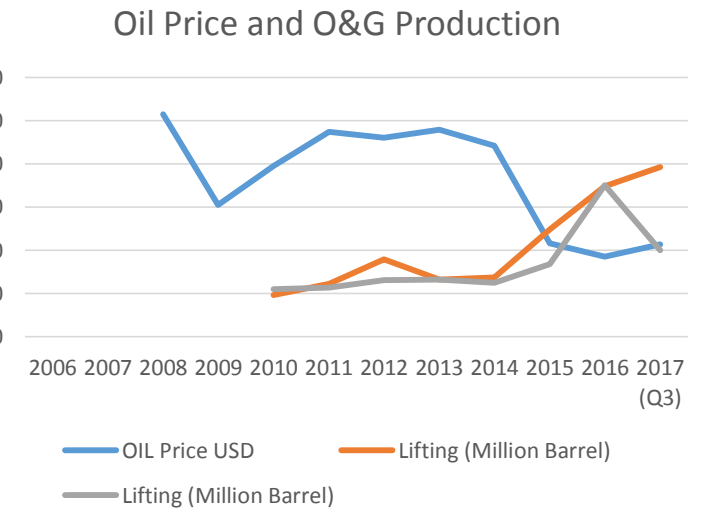


FISCAL-BALANCE TRANSFER



Quick Analysis on Revenue

BOJONEGORO REVENUE SHARING FROM OIL AND GAS						
Years	OIL Price USD pb	Lifting (Million Barrel)		Rev. Sharing (Million USD)		Percentage
		Target	Realisati on	Target	Realisation	
2006				2.1	3.6	171%
2007				1.5	0.94	63%
2008	103			5.1	6.5	127%
2009	60.9			4.6	2.8	61%
2010	79	19.2	22	9.7	12.1	125%
2011	94.7	24.3	22.8	12.4	15.8	127%
2012	92.2	35.7	26.1	21	32.8	156%
2013	95.8	26.4	26.3	32.9	30.3	92%
2014	88.5	27.3	24.8	45.1	45	100%
2015	43.2	49.7	33.5	76.9	55.2	72%
2016	37	69.7	70	60.5	47.5	79%
2017 (Q4)	58			54.3	44.07	80%



<http://dispendabojonegorokab.info/>

Bojonegoro Budget Challenges

- “Pro-Cyclical” Government expenditure
- Policy and Regulation: Limited option to manage the revenue sharing.
- Regional Planning: separated development planning in between Neighboring Regencies.
- Growth of non resource sector is slow - Dependency in Oil (30%).

2. Bojonegoro Fund

What The Government of Bojonegoro Proposed?

Local Regulation on Bojonegoro Fund (Status: Approved by Bojonegoro Parliament. Under evaluation by Provice Govt)

2 Functions:

1. Smoothing Government Expenditure
2. Intergeneration Fund

What is Bojonegoro Fund?

- A Fund specifically allocated from Bojonegoro Budget (APBD) as a regional long-term investment (in compliance with regulations on government investment).
- The Fund shall exist in the term of 30 years with additional 20 years and can be extended.
- **Earnings** from the investment can be used for public service related to Education and Health.
- What are the Source of the Fund?
 - A part of Oil and gas revenue shares from the central government
 - 100% Participating interest (dividend from local Govt. owned enterprise holding stakes in the oil block)
- .

What are the objectives of the Fund?

To save some of the resource revenues and ensure their equitable redistribution for future generations of Bojonegoro by:

- ensuring proper allocation of resource revenue for public service related to education and health.
- preventing wasteful, non-productive spending; and
- ensuring fiscal sustainability after the end of oil and gas production.

SIMPLE FISCAL RULE

I. 40% x 5-year (five year) average of all natural resource revenue sharing (DBH SDA) from oil and gas, and property tax revenue sharing (DBH PBB) from the mining sector, i.e. realization from the previous two years, current year budget, and projection of the next two years; and

Plus

II. 100% Sub. Govt. Owned Enterprise Participating Interest

Principal Fund Simulation

Year	Rev Sharing	Property Tax	PI
2015	7	3	-
2016	7	3	2
2017	8	3	-
2018 (proj)	9	3	-
2019 (proj)	8	3	-
40%X average	3.12	1.2	

Principal 2017 = $3.12 + 1.2 + 2 = 6.32$

What are the investment rules?

- Long-term investment with **sole objective of financial return**, to ensure investment profitability
- Investment instruments:
 - Term deposit; and
 - Central Bank Certificates (SBI)

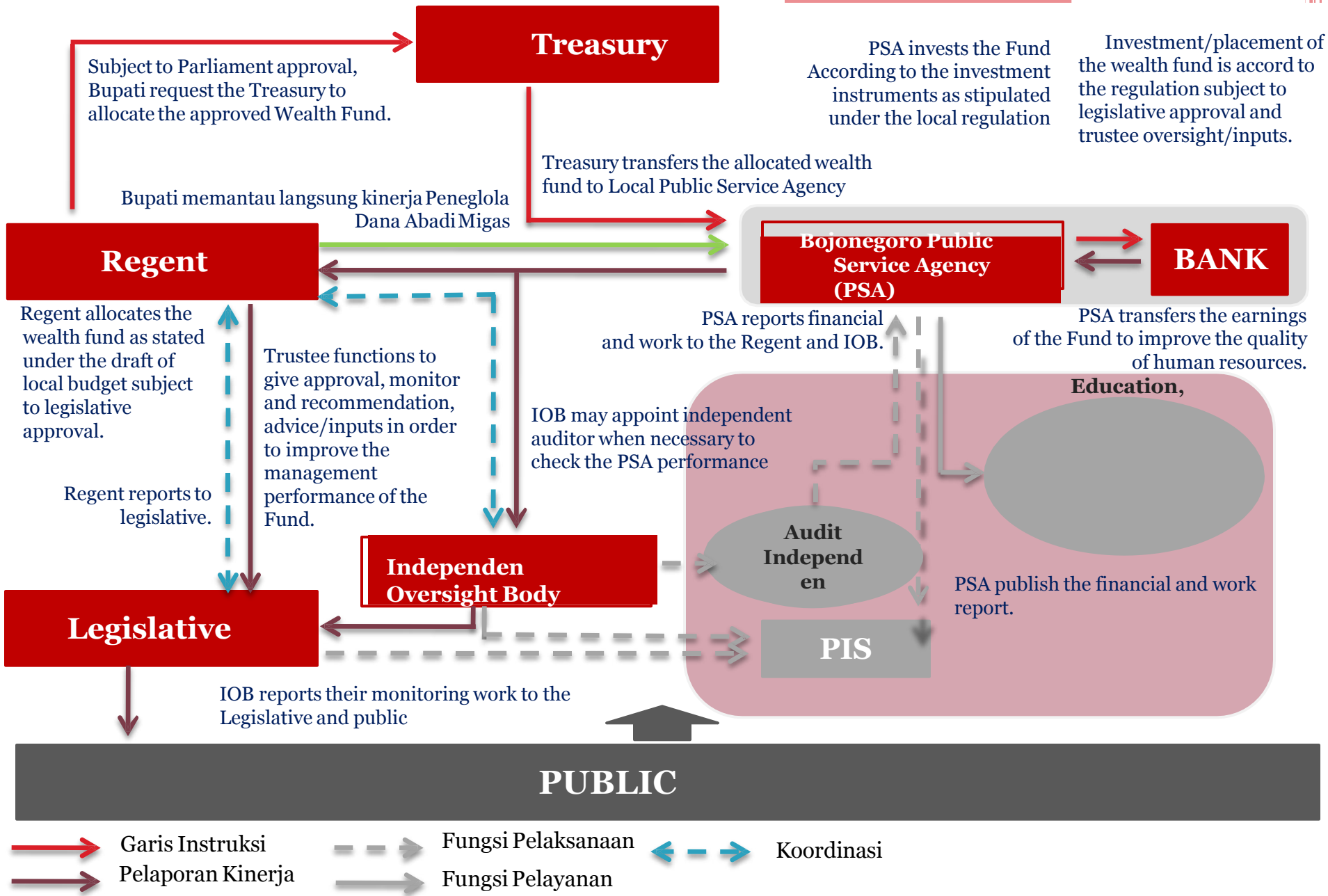
What are the withdrawal rules?

- **All earnings/interest** from investment will be allocated back to the budget (APBD)
- A public service agency will be established to manage the use of earnings for public service delivery.
- The use of earnings from investment will go through the normal budget procedure, but it is earmarked for Education and Health.

Bojonegoro Fund Independent Oversight Body

- Independent.
- Multi stakeholder
- Expert in finance, local development and Investment
- Monitoring Function
- Submit annual Bojonegoro Fund Report to local Parliament.

Structure of Bojonegoro Fund



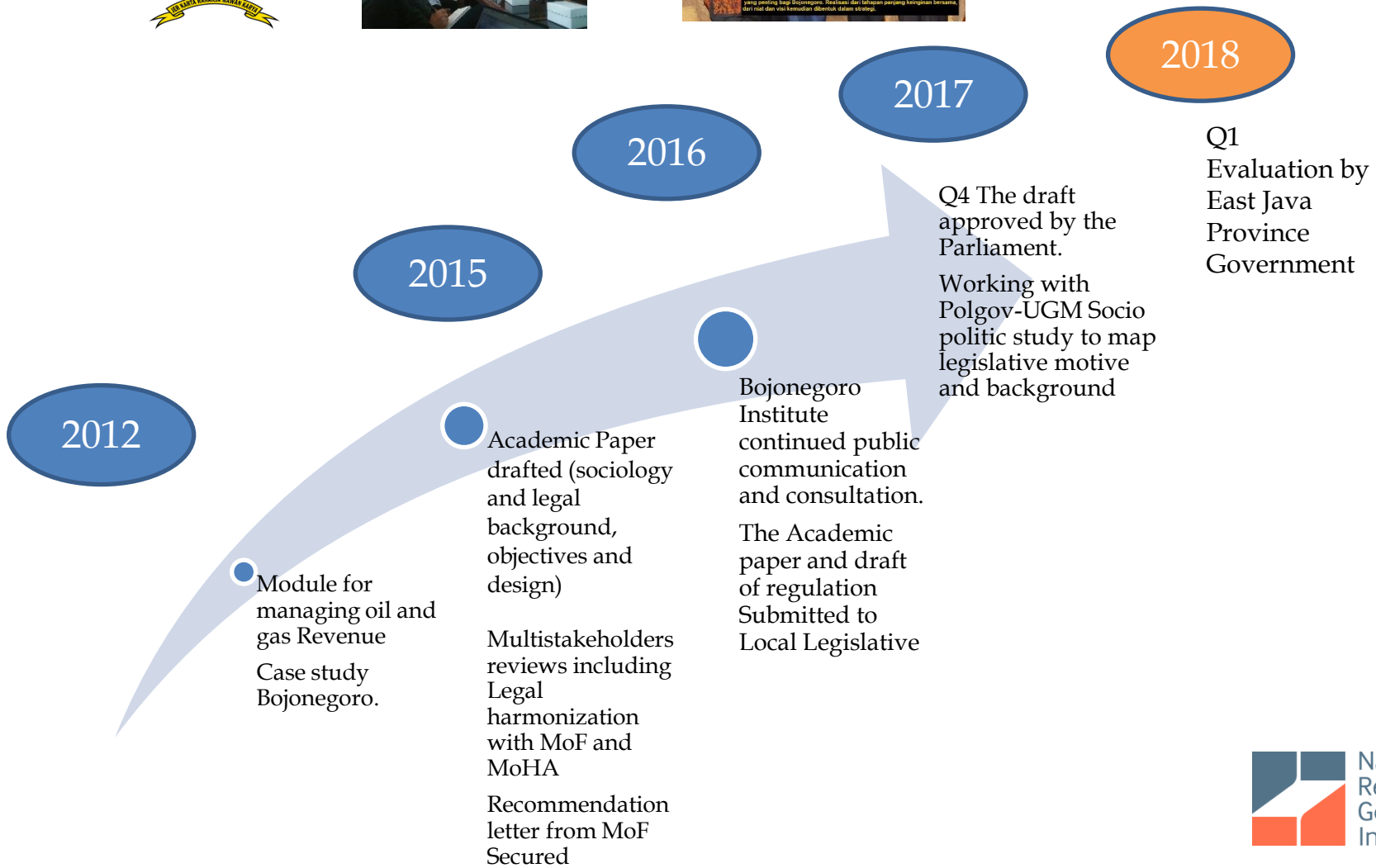
3. Lesson Learned

Lessons

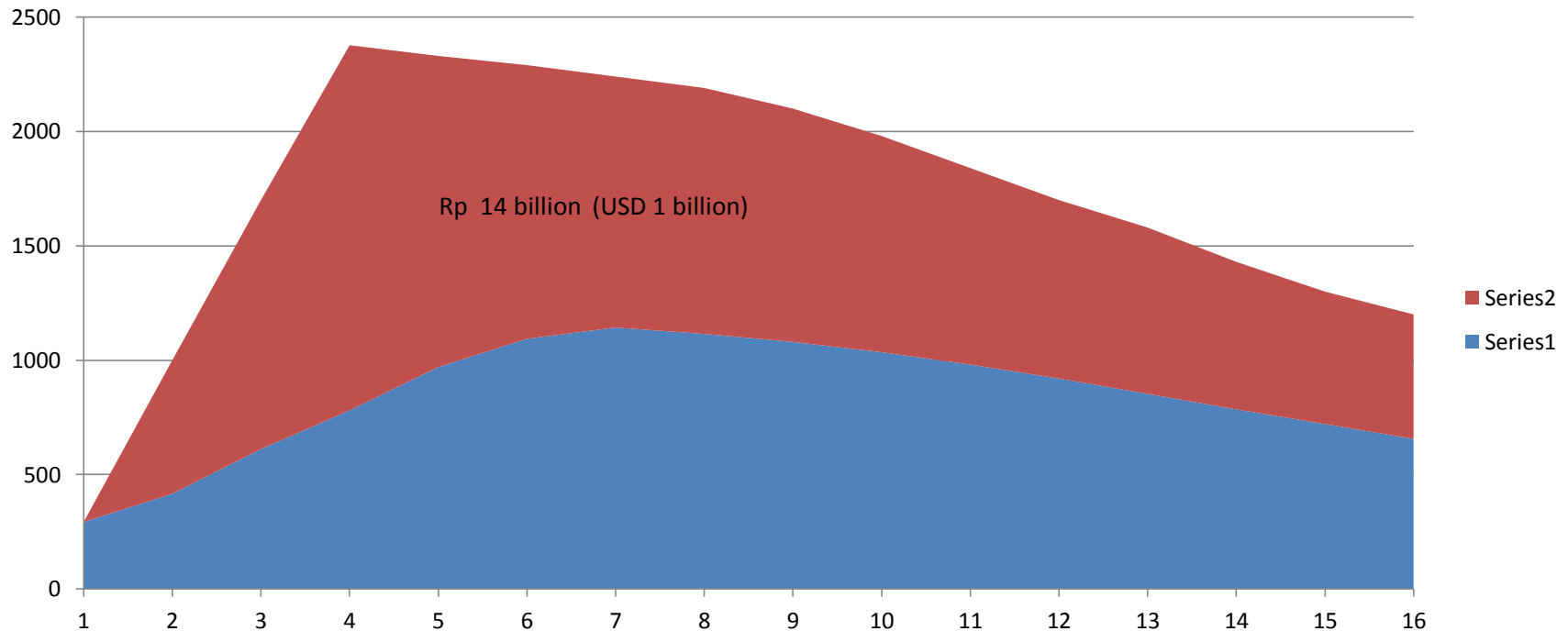
Current Status of the draft: AGREED by local Parliament waiting for Evaluation by Province Government

- Initiative Based – the Law is “silent”
 - Need strong Political will.
 - Requires Ability to Forecast the Revenue and
 - Requires Ability Recognises the Challenges
 - Multi Stakeholder Engagement is A MUST from very beginning.
- (Central Government, LGU, Community and Company)
- Availability of Information and Public reporting

How has the legislation evolved?



Bojonegoro Fund Projection



"We target to achieve Rp 20 trillion Bojonegoro Fund from 15 years oil and gas production"
<http://www.jpnn.com/news/bojonegoro-siapkan-dana-abadi-minyak>

Terima Kasih

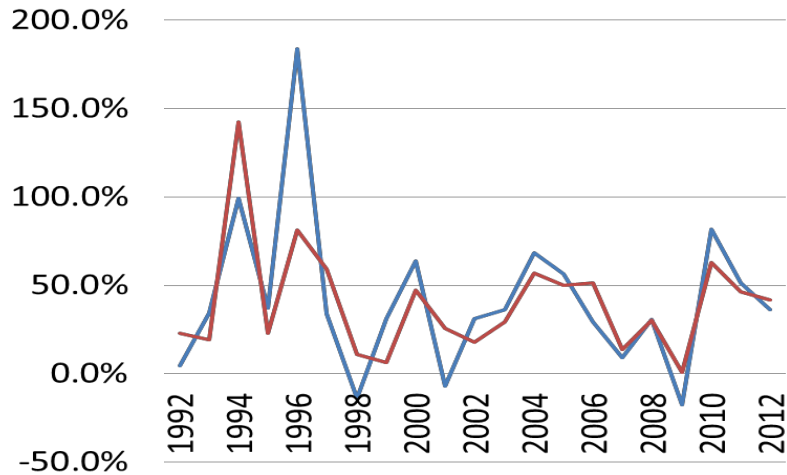
Thank You



Which Expenditure is Better?

Chile

Venezuela



- Government revenue growth (bolivares)
- Government expenditure growth (bolivares)



- Government revenue growth (pesos)
- Government expenditure growth (pesos)