



## INDONESIAN TREASURY REVIEW

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## LOAN MANAGEMENT EFFECTIVENESS AND COMPLIANCE IN THE JAKARTA PROVINCIAL GOVERNMENT

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### ABSTRACT

**Research Originality** — Empirical studies on regional loan management remain limited, particularly in contexts where local governments operate without central fiscal transfers. Jakarta's unique case of maintaining budget surpluses while utilizing loans provides novel insights that contribute to the limited literature on loan management in developing countries.

**Research objectives** — This research examines the effectiveness of loan utilization in Jakarta, which is unique among regional governments for operating without general allocation fund (DAU) transfers until 2023 and for consistently maintaining a budget surplus despite taking loans.

**Research Methods** — A desk-based qualitative analysis was conducted using audited financial statements (LKPD) from 2015 to 2022, along with the unaudited 2023 budget realization report (LRA). Seven performance indicators were applied to rigorously assess the effectiveness of loan utilization.

**Empirical Result** — The findings indicate inadequate loan performance. Jakarta only required loans in 2019, while the 2018 deficit could still be covered by net financing without borrowing. Moreover, of the six budget-year loans, three failed to comply with the provisions of Government Regulation Number 56 of 2018.

**Implications** — The study recommends a rigorous examination of regional cash availability, based on the remaining budget calculation (SiLPA) or year-end cash balance, prior to loan issuance. The findings also highlight the importance of prognosis analysis of local cash in loan decisions, providing a theoretical contribution to public financial management and informing potential policy reforms in loan evaluation by the Ministry of Home Affairs and the Ministry of Finance.

**Keywords:** Budget surplus, compliance, deficit, local loans, performance evaluation

**JEL Classification:** H81, H83, H72, R11, E63

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### INTRODUCTION

The financial relations between the central and local governments in Indonesia are based on four key principles to help achieve equity in providing public services and improve the welfare of the Indonesian citizens. These principles are: (i) creating a taxation system that allows for an effective utilization of national resources; (ii) balancing finances between the two to reduce both vertical and horizontal inequality through debt management policies implemented by local governments and transfers to regions (TKD); (iii) encouraging improvements in the quality of local expenditure; (iv) and adjusting the fiscal policies between the two to guarantee optimal provision of public services and financial sustainability (Badan Pembinaan Hukum Nasional, 2021).

Local expenditure is predominantly allocated to personnel and operational expenditures, which are still inefficient. This can be seen in the Jakarta local government financial statements (LKPD) from 2018 to 2022, where this province allocated an average of 31 percent of its budget to personnel expenditures and 85 percent to operational expenditures. It is fact that the allocation to the development of public infrastructure was still relatively small, resulting in poor achievement of local development and economic growth, as evidenced in research by Luter et al. (2019), showing that infrastructure expenditure has a positive and significant effect on economic growth in East Nusa Tenggara. In addition, the local budgets

(APBD) of provinces and regencies/cities are consistently in deficits, indicating that the local budgets are insufficient to cover all the local expenditures. Local expenditure is predominantly allocated to personnel and operational expenditures, which remain inefficient. This is evident in the Jakarta local government financial statements (LKPD) from 2018 to 2022, where the province allocated an average of 31 percent of its budget to personnel expenditures and 85 percent to operational expenditures. In fact, the allocation to public infrastructure development was still relatively small, resulting in poor local development and economic growth outcomes, as evidenced by research conducted by Luter et al. (2019), which showed that infrastructure expenditure has a positive and significant effect on economic growth in East Nusa Tenggara. In addition, the local budgets (APBD) of provinces and regencies/cities have consistently run deficits, indicating that these budgets are insufficient to cover all local expenditures.

In the state budgets (APBN), revenues from loans are used to cover deficits and debt repayments. However, the infrastructure or physical assets financed cannot always be directly linked to the loans taken. Meanwhile, in the APBD, local loans are used to cover budget deficits or finance specific infrastructure projects. Local loans are used to manage cash flow, finance the development of local infrastructure, repay local debt, and make investment in local enterprises.

Local loans are one source of APBD financing for programs initiated by local governments (Pemda). These loans can be allocated to support infrastructure development or investments in local facilities and infrastructure to improve the provision of public services, or to cover local cash requirements. Local loans should be managed rigorously because risks such as fiscal capacity, interest rate fluctuations, and refinancing challenges.

The financial capacity of local government to finance public infrastructure remains limited. For community services and development, local governments can take on debt from both conventional and Islamic financial institutions, such as local bonds, local *sukuk* (sharia-compliant bonds), and local loans. The approach to local loans is determined by their intended use, not only by their duration. This includes cash flow management, financing of local infrastructure development, monitoring of local debt portfolio, and allocating capital or loans to local government-owned enterprises (BUMD).

From 2015 to 2023, the Jakarta Provincial Government (Pemprov) had a budget balance that exceeded the actual loans taken. This indicates that the loans were inefficiently used or simply deposited in the government's bank account as cash reserves. Meanwhile, the local government still had to pay interest expenses on these loans, even though a budget surplus existed.

Based on Jakarta's LKPD, the budget surplus (SAL) as of December 31 in the research period was recorded as follows: IDR 4.93 trillion in 2015, IDR 7.71 trillion in 2016, IDR 12.16 trillion in 2017, IDR 9.75 trillion in 2018, IDR 1.20 trillion in 2019, IDR 5.16 trillion in 2020, IDR 9.72 trillion in 2021, IDR 8.60 trillion in 2022, and IDR 6.54 trillion in 2023. In comparison, loans taken out in the same period amounted to IDR 48.88 billion in 2015, IDR 335.76 billion in 2016, IDR 1 trillion in 2017, IDR 3.62 trillion in 2018, IDR 1.97 trillion in 2019, IDR 2.9 trillion in 2020, IDR 6.74 trillion in 2021, IDR 979.25 billion in 2022, and IDR 200 billion in 2023. A comparison of SAL and loans is presented in Figure 1.

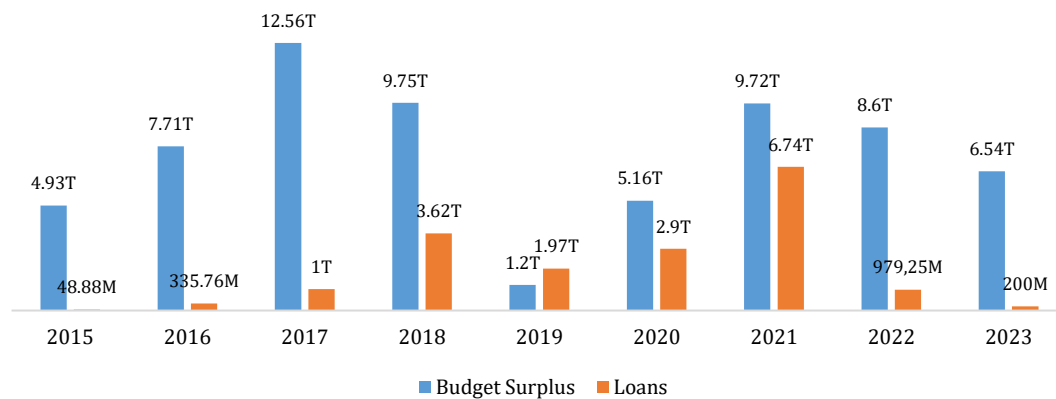
The Jakarta Provincial Government was the only local government that did not receive general allocation fund (DAU) until 2022 because its fiscal capacity exceeded its fiscal requirements. However, in accordance with Law Number 1 of 2022 concerning Central and Local Financial Relations, the Jakarta Provincial Government began receiving DAU in 2023. The DAU regulation ensures that local governments with very high fiscal capacity beyond fiscal requirements do not receive DAU. Nonetheless, during the 2015-2022 period, the Jakarta Provincial Government continued to take out loans. Therefore, it is relevant to study the effectiveness and compliance of local loan management.

Previous research on local loan acceptance have identified many factors contributing to an increase in local loans or debts. A study by Zend & Soetjipto (2022) shows that the local public debts in Indonesia rose significantly and continuously during the 2011-2019 period. Although the ratio of local public debts to local gross domestic product (PDRB) was not very large, this significant growth could pose a threat to the financial sustainability of the local governments.

#### APPLICATION IN PRACTICE

- During the 2015-2023 period, the Jakarta Provincial Government budgeted and realized loans every year. In 2015-2022, the Jakarta Provincial Government did not receive general allocation fund (DAU) due to excess fiscal capacity, so the average government budget balance was far greater than the actual loans taken out by the local government. As a result, interest expenses were incurred on loans that were still deposited in the local government's bank account.
- This condition was caused by poor expenditure management, with an average absorption of 84.10%. As a result, the accumulated budget surplus (SAL) could not be rigorously calculated, leading to excess cash holdings.

Figure 1 Comparison of Budget Surplus and Loans, 2015-2023 (in Trillion Rupiahs)



Source: LKPD DKI (2015-2023)

A study by Qu et al. (2023) showed that PDRB competition has an asymmetric impact on local debts, in which the local governments are motivated to increase their PDRB even if it means they have to take out loans. With PDRB growth left behind that of their competitors, the local governments tend to take out debts more aggressively. Conversely, regions whose PDRB growth exceeds that of competitors experience no significant impact.

Loan-related policies are influenced by local fiscal capacity. According to research by Surya (2016), the loan repayment performance of local governments is significantly affected when loan restructuring and fiscal capacity adjustments are carried out simultaneously. Fiscal capacity components that influence loan repayment performance include local own-source revenue (PAD), revenue-sharing funds (DBH), other revenue (LP), and personnel expenditure (BP). Meanwhile, DAU and poverty rates do not affect loan repayment performance. This is supported by the fact that, although the Jakarta Provincial Government did not receive DAU from 2015 to 2022, it still maintained high fiscal capacity. In the provision of public services, local loans can be used to finance local investments, infrastructure, and facility development. In addition, local loans may also be used to cover cash flow needs. Loan-related policies are influenced by local fiscal capacity. According to research by Surya (2016), the loan repayment performance of local governments will be significantly affected when loan restructuring and fiscal capacity adjustments are carried out simultaneously. Fiscal capacity components that affect loan repayment performance include local own-source revenue (PAD), revenue sharing funds (DBH), other revenue (LP), and personnel expenditure (BP). Meanwhile, DAU and poverty rates do not affect loan repayment performance. This is supported by the fact that, although the Jakarta Provincial Government did not receive DAU from 2015 to 2022, it still maintained high fiscal capacity.

In Indonesia, most loans taken out by local government follow the mechanisms regulated by the central government. Ideally, however, local loans should be more market-based. In fact, local loans should be more market-based. According to Lewis (2003), larger and sustained market-based loans require reduced systemic risks and improved creditworthiness of local borrowers.

Mulyono (2007) investigated the effects of population size, economic growth, local GDP per capita, DAU, capital expenditure, non-financial surplus/deficit factors, and PAD on local debt behavior. Many conclusions can be drawn from this research. However, research on local loans in Indonesia has never investigated the factors influencing the decision-making process of provincial governments. Previous studies have only measured the capacity of these entities to take out local loans. This model meets all classical assumptions according to the results of assumption testing.

If a local government budget (APBD) surplus exists at the time of borrowing, and this surplus exceeds loan and debt repayment obligations, then loans should not be taken out. Conversely, if an APBD deficit exists, and the deficit is smaller than the loans and repayment obligations, then loans may be taken. In addition, loans may also be used when a local government faces an APBD deficit that must be covered by various financial sources, including loans. The novelty of this study lies on the effectiveness and compliance of loan management in terms of cash availability. If a local government budget (APBD) surplus exists at the time of taking out loans, and this surplus exceeds loan and debt repayment obligations, then loans should not be taken out. On the other hand, if an APBD deficit exists, and the deficit is smaller than the loans and repayment obligations, then loans may be taken. In addition, loans may also be used when a local government faces an APBD deficit that must be covered by various financial sources, including loans.

The results of this research contribute to both the regulatory and implementation levels. From a regulatory perspective, this research contributes to revising regulations concerning the term of office of local heads as a limit for medium-term loans. This regulation needs adjustment: local heads with a remaining term of office of no more than two years and six months should be allowed to take out medium-term loans for up to five years before the end of their term. From an implementation perspective, this research contributes to improving loan management by incorporating local cash management, to prevent local governments from borrowing when there is a large budget surplus (SAL). Furthermore, the findings provide input for the Ministry of Home Affairs in formulating local loan policy directions and for the Ministry of Finance in approving loans with regard to their effectiveness and compliance.

The research gap addressed by this study is that works by Qu et al. (2023), Zend & Soetjipto (2022), Lewis (2003), and Mulyono (2007) only investigated the growth of local public debts, the impacts of local GDP competition, and general factors influencing local debt behavior. However, there have been no comprehensive studies focusing on debt effectiveness in relation to local cash availability. This gap includes a lack of in-depth analysis of actual borrowing requirements based on cash availability and SiLPA, particularly in the context of local governments with high fiscal capacity such as DKI Jakarta. This study aims to fill these gaps, contribute to the literature on local public financial management, and provide important insights for policymakers in optimizing local loan management in the future.

## LITERATURE REVIEW

The application of the agency theory in public sector debt management focuses on the relationship between the government (as agent) and the public (as principal). In this context, the government is responsible for managing public debts in a way that maximizes public welfare. Unfortunately, agency problems often arise, including misaligned incentives between the government and the public as well as asymmetric information. The government may have incentives to increase debts to finance popular projects or address budget deficits, while ignoring the long-term impacts on fiscal stability. This problem can be exacerbated by a lack of transparency and accountability in loan management, which may lead to poor decision-making and increase the risk of a debt crisis (Lane, 2012).

Based on the LKPD, the principal can assess the effectiveness and efficiency of local loans. In other words, agency theory emphasizes the importance of strong institutional mechanisms to ensure that governments act in the public interest, especially in managing public debt (Alt et al., 2014). To address agency problems in public debt management, effective supervisory and control mechanisms are crucial. This includes improving fiscal transparency, which requires the government to transparently report the amount of debts, use of funds, and debt repayment projections. In addition, the implementation of a strict fiscal framework and budget rules can help limit irresponsible debt-related policies. The LKPD represents the local government's responsibility to the Local House of Representatives (DPRD) and the community as a medium of public accountability. Based on the LKPD, the principal can assess the effectiveness and efficiency of local loans. In other words, agency theory emphasizes the importance of strong institutional mechanisms to ensure that governments act in the public interest, especially in managing public debt (Alt et al., 2014).

The two main theories in this study, namely agency theory and stakeholder theory, serve as the analytical framework. In the context of building local financial independence, the agency theory explains that the community, as the principal, has the right to assess and evaluate the financial performance of the local governments (Susanto & Murtini, 2015). In this case, the DPRD, as the representatives of the people, evaluates the feasibility of the local heads' loan proposals by taking into account the local capability. Thus, every local loan proposal must obtain DPRD approvals. Meanwhile, stakeholder theory explains that local governments must manage local wealth, income, and assets for the welfare of the people in order to achieve financial independence. Therefore, loans taken by local governments must be used effectively to achieve their intended purposes and comply with existing regulations. Therefore, loans taken out by local governments must be used effectively to achieve their intended purposes and comply with existing regulations.

According to stewardship theory, management should focus on achieving outcomes that benefit the organization rather than individuals. This theory explains the relationship between local loans and the financial performance of local governments. Local governments are expected to manage loans properly in accordance with their intended purposes. Loans are regarded as instruments for improving community welfare (Aji & Mukhibad, 2020).

It is important to analyze risks related to the financial performance of local government, particularly given the complexity of debt management. Aribowo et al., (2023) conducted a study to assess the financial performance risks of the Magelang City Government and examine its debt management strategies. The results showed that the independence ratio remained low, the activity ratio increased, the growth ratio improved, the effectiveness ratio was high, and the efficiency ratio was quite poor.

Research by Bao et al. (2024) extended the study of land financing into the context of infrastructure development. They developed an analytical framework to investigate the complex relationship between local government debt issuance for infrastructure financing, central government supervision, land financing, and the development activities of private sectors in China. Using accounting data from the local government financing instruments, they found that the local governments creatively strive to meet the infrastructure development targets set by the central government. Moreover, after the enactment of regulations concerning local government debt issuance in 2013, the local government financing instruments could be more responsive to the development activities of the private sector in debt-related decision-making.

Prihandoko (2017) found that in provinces with a high human development index (HDI), infrastructure generally did not influence outcomes, except for education infrastructure, which had a negative effect. In provinces with a moderate HDI, only health infrastructure was insignificant, while other infrastructure categories including roads, electricity, and water showed significant positive effects. In other words, allocating budget resources for infrastructure development in disadvantaged regions is not only the most efficient way to allocate funds but also promotes equitable economic growth.

Guo et al. (2022) found that without commitment, the central government would transfer excess funds to reduce future local borrowing requirements. Under balanced conditions, both local and central government loans could become very high and inefficient. Consistent with empirical evidence, when fiscal decentralization widens vertical fiscal imbalances, local governments become more dependent on transfers, causing central loans to rise.

Research by Wan et al., (2024) found that “Chengtou” bonds, issued by Local Government Financing Vehicles (LGFVs) and restructured, were implicitly guaranteed by the government, thus decreasing debt financing costs. An analysis of Chengtong bonds from 2017 to 2021 showed that restructured LGFV reduced bond risks and spreads compared to non-restructured LGFVs. Restructuring lowered debt costs through improved credit ratings, operational efficiency, and commitment, with greater impacts on small companies and poorer regions.

Research by Chen et al. (2016), using a sample of Chinese provincial governments from 2006 to 2012, analyzed the effect of local government financial disclosure on debt financing costs. The results showed that financial transparency positively affected public monitoring and increased government credibility, thus reducing debt financing costs. In addition, greater government economic interventions strengthened the relationship between financial disclosure and debt financing costs.

A study by Rambe (2020) evaluated the efficiency of government spending based on data from 34 provinces from 2015 to 2018. Relative efficiency of spending was assessed using a data envelopment analysis method that measures multi-input and multi-output performance. The study identified five provinces that consistently demonstrated relative efficiency and seven other provinces that only achieved relative efficiency in certain years. Among the inefficient provinces, NTB showed the highest level of inefficiency. Logistic regression results indicated that fiscal capacity had a positive effect on the probability of efficiency, whereas local expansion and GDP per capita did not. On the other hand, local expansion and local GDP per capita did not have an effect on the probability of efficiency. To improve efficiency, governments in inefficient provinces should increase outputs to match more efficient provinces. In addition, improving fiscal capacity should be prioritized. When considering municipal governments within each province, between one and five were classified as efficient.

The benefits of local loans can also be measured by their contribution to poverty alleviation and economic growth. Thus, it is important to understand how local loans and local own-source revenue (PAD) affect local poverty and economic growth. A study by Oktaviani (2018) found a relationship between local loans and poverty levels as well as between PAD and poverty levels. The study also showed no correlation between PAD and economic growth, but did identify a correlation between local loans and growth.

Capital expenditure, DAU, and PAD have an effect on local loans. Yulsiati & Maqruf (2022) conducted a study on provincial governments in Indonesia and revealed that capital expenditure had a positive effect on provincial government loans in Indonesia. PAD and DAU had no effect on provincial government loans. On the other hand, in Indonesia, capital expenditure, DAU, and PAD had an impact on local loans from provincial governments. Capital expenditure, DAU, and PAD also influence local loans. Yulsiati & Maqruf (2022) examined provincial governments in Indonesia and found that capital expenditure had a positive effect on provincial government loans. However, PAD and DAU had no effect.

The rise in local loans is also linked to services provided by the Ministry of Home Affairs, which issues recommendations online. However, research by Siagian & Veritawati (2020) concluded that the Ministry of Home Affairs could better utilize technology to provide recommendations to local governments regarding loans. Technology use would make the process easier, faster, and documented electronically. At present, all local governments must submit physical documents directly to the Ministry to propose and obtain

recommendations, a process considered ineffective due to high costs, reliance on single-computer storage, lack of transparency, and the absence of electronic documentation.

According to Government Regulation Number 12 of 2019 concerning Local Financial Management, a surplus occurs when local revenue exceeds local expenditure, while a deficit occurs when local revenue falls short. Local governments may take out short-term loans to cover deficits.

Local loans were initially regulated under Government Regulation No. 30 of 2011 on Local Loans, which applied until December 19, 2018, before being amended by Government Regulation No. 56 of 2018. Medium-term and long-term loans have similar requirements regarding conditions and purposes. Medium-term loans are used to finance infrastructure or public services in regions that do not generate local revenue. Long-term loans are intended to finance infrastructure or other investments aimed at providing public services, which are the responsibility of local governments.

As in the previous regulation, Government Regulation No. 56 of 2018 set limits on medium-term loans, stipulating that their duration cannot exceed five years. Given that application and approval processes can take up to six months, the effective period during which a local head can secure loans within their term of office is a maximum of four years. In contrast, for long-term loans, the term of office of a local head is not an obstacle, provided the infrastructure developed generates local revenue.

Key differences exist between local loans and state budget loans in terms of allocation and time limits. In state budgets, loans are not always tied to financing specific assets or projects but are often taken to cover deficits. Similarly, government bonds are generally not linked to particular projects or asset procurement. Loan-based financing in state budgets primarily covers deficits, while foreign loans are usually designated for specific development or procurement projects.

In the context of long-term loans, there are no limits on loan duration or ties to local heads' terms of office. As stipulated in Article 14 Paragraph (3) of Government Regulation No. 56 of 2018, long-term loans are used to finance infrastructure development or investments aimed at providing public services. These loans are intended to generate direct APBD revenue from infrastructure development, reduce APBD expenditures that would otherwise be incurred, and deliver both economic and social benefits.

## METHODS

This study adopted a qualitative research design using a desk review method by analyzing available literature and data. Secondary data were collected from various individual and institutional sources to answer pre-designed questions (Qodri, 2019). The data used were the audited 2015-2023 Financial Statement of the Jakarta Provincial Government (<https://ppid.jakarta.go.id/laporan-keuangan-pemerintah-daerah>). These were empirical data, whose accuracy had already been tested (Rahmansyah et al., 2020). Once collected, the data were then processed using predetermined performance indicators.

This research also used a case study approach, which provides an in-depth examination of a particular event or phenomenon (Creswell et al., 2007). The case study was chosen because the study aimed to thoroughly examine the effectiveness of local debt management in DKI Jakarta over a nine-year period (Saleh & Rahadian, 2023).

The analysis proceeded in several stages. First, the effectiveness of loan utilization was evaluated by examining the performance of the actual local budget. Second, sunk costs were analyzed to measure the fiscal burden of loans on the local government. Third, compliance was evaluated to determine whether loan management aligned with the applicable local loan regulations.

To evaluate effectiveness, measurable indicators of local financial management performance were applied. For compliance, the main indicators were (i) the loan period relative to the governor's term of office, i.e., medium-term debts may not exceed the governor's tenure, and (ii) the purpose of loans, which must be directed toward local infrastructure or public services that generate revenue, unless otherwise prohibited. Additional indicators used to assess the effectiveness of loan utilization are presented in Table 1.

The effectiveness of loan utilization was analyzed using the indicators in Table 1. Data on these parameters were taken from the 2015–2023 audited LKPD (Local Government Financial Statements) available at [ppid.jakarta.go.id](https://ppid.jakarta.go.id). Effectiveness was further investigated using loan proposal documents submitted by the Governor of Jakarta to the Ministry of Home Affairs.

To assess compliance in local loan management, the author analyzed loan proposals, loan approvals, and relevant regulations. Loan maturity dates and purposes were determined from proposal and approval documents, while loan period requirements were checked against regulations.

The loan dataset consisted of actual loan amounts, principal installments, interest payments, and debt positions. Compliance was assessed using two indicators: (i) whether loan maturity coincided with the governor's term of office, and (ii) whether loan utilization conformed to the purposes stated in the proposals. The analysis revealed cases of non-compliance by local officials with local loan regulations.

Table 1 Effectiveness Indicators

Performance Indicators	Measures	Criteria
<b>Performance of local budget absorption</b>	Percentage of actual budget expenditures	Excellent (95-100%) Good (90-<95%) Moderate (85-<90%) Poor (80-<85%)
<b>Sufficient allocation for capital expenditure</b>	Percentage of capital expenditure to total local-budget expenditure	Excellent (>30%) Good (25-30%) Moderate (20-<25%) Poor (<20%)
<b>Difference between capital expenditure and actual APBD loans</b>	Capital expenditure minus actual APBD loans	Excellent (negative) Good (positive <50% actual loans) Moderate (positive 50-100% actual loans) Poor (greater than actual loans)
<b>Difference between unspent funds (SiLPA) and actual APBD loans</b>	SiLPA minus actual APBD loans	Excellent (negative) Good (positive <50% actual loans) Moderate (positive 50-100% actual loans) Poor (greater than actual loans)
<b>Difference between SiLPA (outside loans) and surplus/deficits</b>	SiLPA (outside loans) compared with surplus/deficits	Good (deficit < SiLPA outside of loans) Moderate (surplus < SiLPA outside of loans) Poor (surplus > SiLPA outside of loans)
<b>Allocation for capital expenditure compared with APBD expenditure</b>	Percentage of actual capital expenditure compared with actual APBD expenditure	Good (>30%) Moderate (25-<30%) Poor (<25%)
<b>Loans that meet the provision concerning the governor's term of office</b>	Percentage of loans compliant with the provision	Good (>60%) Moderate (40-60%) Poor (<40%)

Sources:

1. Regulation of the Minister of Home Affairs No. 19 of 2020 concerning Measurement of Local Financial Management Index
2. Report on the Results of Review of Local Fiscal Independence in 2020
3. Modifications to indicators based on (1) and (2)

## RESULTS AND DISCUSSION

### Low Absorption of APBD Expenditure Reflects Poor Expenditure Management

The absorption of the APBD expenditure is an indicator of local financial management performance. When outputs are achieved, higher absorption reflects stronger financial performance. Conversely, low absorption indicates inaccurate calculations or failure to carry out some budgeted activities. The analysis of the actual expenditure in the 2015-2023 period are shown in Table 2.

Table 2 Performance of APBD Absorption in Jakarta (Billion Rupiahs)

Year	Budget	Realization	Absorption (%)
<b>2015</b>	59,685.55	43,031.32	72.10%
<b>2016</b>	57,365.04	47,128.81	82.16%
<b>2017</b>	61,821.92	51,066.08	82.60%
<b>2018</b>	75,093.83	61,410.12	81.78%
<b>2019</b>	77,857.61	64,938.36	83.41%
<b>2020</b>	58,951.07	52,088.13	88.36%
<b>2021</b>	69,992.62	61,619.04	88.04%
<b>2022</b>	76,972.17	64,865.12	84.27%
<b>2023</b>	72,144.89	66,770.61	92.55%
<b>Average</b>	67,764.97	56,990.84	84.10%

Source: Audited LKPD of Jakarta

Table 2 highlights weaknesses in expenditure management by the Jakarta Provincial Government, showing that several planned APBD activities were not realized or only partially realized. This made the loans taken by the government ineffective and inefficient, as they contributed to budget surpluses.

Since the average expenditure absorption was 84.10% (below 85%), APBD absorption contributed most significantly to the unspent budget (SiLPA) and annual budget surplus (SAL). Had the Jakarta Provincial Government been able to estimate potential SiLPA more accurately, loans would not have been taken or would have been taken in smaller amounts—thus avoiding unnecessary interest expenses.



To understand the outcome of low budget realization, it is important to review the performance of the Jakarta Provincial Government. The data are drawn from the annual performance assessment conducted by the Ministry of State Apparatus Utilization and Bureaucratic Reform (PAN-RB). The low absorption of APBD expenditure is positively correlated with the LAKIP performance score of the Jakarta Provincial Government in the same period, as shown in Table 3 below.

Table 3 Report on Performance of Jakarta Provincial Government

Year	Score	Performance	Category
2014	58.10		CC
2015	59.73		CC
2016	58.87		CC
2017	60.13		B
2018	65.05		B
2019	71.04		BB
2020	73.84		BB
2021	74.41		BB
2022	80.10		A

Source: Ministry of PAN-RB

Loan decisions were made during budget discussions at the Local House of Representatives. However, financial managers failed to project cash flows accurately because of recurring low absorption. Although the Jakarta Local Budget showed deficits in 2015, 2016, 2018, 2019, 2020, 2021, and 2023, actual spending in these years ended in surplus. Given these repeated patterns, better forecasts could have prevented the loans, which were ultimately unnecessary.

#### Allocation for Capital Expenditure Below Requirements Indicates Poor Management Quality

The quality of capital expenditure management is assessed by absorption levels. Ideally, unspent capital budgets should result only from differences between planned budgets and contract values in the procurement process. When unspent budgets are due to unrealized projects or fixed assets, capital expenditure performance is considered poor. Moreover, financing capital expenditure with loans becomes ineffective if significant funds remain unspent. Table 4 shows the allocation and absorption of capital expenditure in Jakarta during 2015–2023.

Table 4 Proportion of Capital Expenditure to the Total Jakarta Local Budget Expenditure and Its Absorption (Billion Rupiahs)

Year	Budget	Percentage (%)	Realization	Absorption (%)
2015	18,425.71	30.87%	10,244.02	55.60%
2016	12,626.15	22.01%	8,965.47	71.01%
2017	15,410.23	24.93%	11,045.72	71.68%
2018	17,438.08	23.22%	14,118.61	80.96%
2019	17,394.38	22.34%	11,551.93	66.41%
2020	3,896.68	6.61%	3,173.22	81.43%
2021	8,761.14	12.52%	6,865.83	78.37%
2022	10,800.99	14.03%	8,808.19	81.55%
2023	10,850.18	15.04%	8,857.26	81.63%
Average	12,844.84	18.95%	9,292.25	72.34%

Source: Audited LKPD of Jakarta

Table 4 shows that capital expenditure allocation declined from 30.87% in 2015 to 12.52% in 2021 (excluding 2020 due to the COVID-19 pandemic). This reduction prompted the Jakarta Provincial Government to rely on loans to meet capital expenditure needs.

Capital expenditure absorption was also poor: the highest was 81.63% and the lowest 55.60%, with an average of only 72.34%. Weak capital expenditure management therefore contributed to unnecessary borrowing. Table 5 compares unspent capital budgets with actual loan amounts. Table 5 demonstrates that in six out of nine fiscal years, the unspent budget exceeded the actual loans. This confirms that borrowing to finance capital expenditure was largely unnecessary.

#### Actual SiLPA Exceeds Actual Loan Acceptance and Payments for Interest on Unused Loans

Actual SiLPA, the unspent budget after revenues and expenditures in the APBD, reflects the year-end cash balance (as of December 31). If loan acceptance is lower than SiLPA, this indicates that loans remain deposited in the local treasury. Table 6 compares SiLPA with actual loans.

Excess SiLPA over actual loans proved that the Jakarta Provincial Government did not need funding from loans. When there is a cash surplus, taking out loans only adds to the financial burden of the Jakarta Provincial Government. Table 7 shows the actual increasing interest expenses paid from 2015 to 2023.



Table 5 Variance Between Unspent Budgets and Actual Loans of the Jakarta Provincial Government (Billion Rupiahs)

Year	Unspent Budget	Actual Loans	Spending Variance
2015	8,181.70	48.88	8,132.81
2016	3,660.68	335.76	3,324.92
2017	4,364.51	1,003.99	3,360.52
2018	3,319.47	3,619.44	(299.97)
2019	5,842.46	1,971.24	3,871.22
2020	723.45	2,903.53	(2,180.08)
2021	1,895.31	6,744.33	(4,849.02)
2022	1,992.79	979.25	1,013.55
2023	1,992.92	286.28	1,706.64
Average	3,552.59	1,988.08	1,564.51

Source: Audited LKPD of Jakarta

Table 6 Variance Between SiLPA and Actual APBD Loans of the Jakarta Provincial Government (Billion Rupiahs)

Year	SiLPA	Actual Loans	Spending Variance
2015	4,933.52	48.88	4,884.64
2016	7,706.29	335.76	7,370.53
2017	13,165.98	1,003.99	12,161.99
2018	9,755.08	3,619.44	6,135.64
2019	1,203.97	1,971.24	(767.27)
2020	5,165.70	2,903.53	2,262.17
2021	9,721.72	6,744.33	2,977.39
2022	8,600.10	979.25	7,620.85
2023	6,542.42	286.28	6,256.14
Average	7,421.64	1,988.08	5,433.56

Source: Audited LKPD of Jakarta

Table 7 Actual Interest Expenses of the Jakarta Provincial Government (Billion Rupiahs)

Year	Actual Interest Expenses
2015	54.8
2016	11.74
2017	31.90
2018	44.05
2019	60.78
2020	62.30
2021	86.12
2022	270.63
2023	229.70
Average	94.67

Source: Audited LKPD of Jakarta

The loan burden shown in Table 7 indicates ineffective loan management. These costs could have been avoided had the government refrained from realizing unnecessary loans, provided sufficient cash was available. An accurate analysis of cash availability is therefore essential for sound loan decision-making.

#### Actual SiLPA outside of Local Net Loans Exceeds the APBD Deficit

The actual SiLPA, net of loans, serves as an indicator of a local government's ability to finance deficits independently. In deficit conditions, if SiLPA (outside loans) is greater than the deficit, the government demonstrates independent financial capacity and has no need to borrow. Table 8 compares SiLPA outside loans with Jakarta's APBD surplus/deficit.

As shown in Table 8, in 2015, 2016, 2017, 2020, 2021, 2022, and 2023, Jakarta's annual budget (LRA) recorded surpluses. In those years, external financing was unnecessary, but financial policies nonetheless required borrowing despite the surplus. Even in 2018, SiLPA outside loans was much larger than the deficit, suggesting that loans were redundant. The only year when loans were genuinely required was 2019.

#### Proportion of Actual Capital Expenditure to APBD Expenditure Declines During Loan Period

The growth in the proportion of capital expenditure to total APBD expenditure indicates the extent to which local loans contribute to development. Normally, additional capital expenditure from local loans should increase both total expenditure and the proportion of capital expenditure. The percentage of actual capital expenditure relative to actual APBD expenditure is presented in Table 9. Table 9 shows that during the period of local loan disbursement, the proportion of capital expenditure did not increase. This indicates that loans did not contribute to growth in regional net wealth. In fact, loan use reduced the allocation of local funds that could otherwise have been directed to capital expenditure.

Table 8 Variance Between SiLPA Outside Loans and  
Jakarta APBD Surplus/Deficit, 2015–2023 (Billion Rupiahs)

Year	SiLPA Outside Loans	Surplus/Deficit	Spending Variance
2015	4,884.64	1,177.92	6,062.56
2016	7,370.53	6,655.90	14,026.43
2017	12,161.99	13,757.81	25,919.80
2018	6,135.64	(174.30)	5,961.34
2019	(767.27)	(2,637.68)	(3,404.95)
2020	2,262.17	3,798.87	6,061.04
2021	2,977.39	3,947.97	6,925.36
2022	7,620.85	2,425.36	10,046.21
2023	6,256.14	4,294.92	10,551.06
Average	5,433.56	3,694.09	9,127.65

Source: Audited LKPD of Jakarta

Table 9 Proportion of Actual Capital Expenditure to Actual Jakarta APBD Expenditure (Billion Rupiahs)

Year	Actual Capital Expenditure	Actual Expenditure	Percentage (%)
2015	10,244.02	43,031.32	23.81%
2016	8,965.47	47,128.81	19.02%
2017	11,045.72	51,066.08	21.63%
2018	14,118.61	61,410.12	22.99%
2019	11,551.93	64,938.36	17.79%
2020	3,173.22	52,088.13	6.09%
2021	6,865.83	61,619.04	11.14%
2022	8,808.19	64,865.12	13.58%
2023	8,857.26	66,770.61	13.27%
Average	9,292.25	56,990.84	16.30%

Source: Audited LKPD of Jakarta

In principle, the proportion of capital expenditure should remain stable even without loans. Law Number 1 of 2022 concerning Central and Local Financial Relations stipulates that capital or infrastructure expenditure must reach a minimum of 40% in accordance with local financial management policy.

### The Jakarta Provincial Government Has Not Assessed Loan Feasibility

The Jakarta Provincial Government should conduct feasibility studies before loan disbursements to ensure that borrowing generates added value. For example, research by Manuhutu & Louhenapessy (2013), showed that the Ambon City Government (2007–2011) demonstrated strong repayment capacity, with an average Debt Service Coverage Ratio (DSCR) of 7.48 per year—well above the upper limit of 2.5. This allowed Ambon to expand loan capacity based on the Analysis of Maximum Credit Limits (BMPK).

Sulistiyono (2019) found that the central government's cash estimates were not fully aligned with the framework established by the Government Finance Officers Association, with gaps in scope, timeframe, exploratory analysis, and managerial use. Similarly, the Jakarta Provincial Government still lacks comprehensive cash planning to guide loan decisions. In this context, the most suitable form of borrowing would be precautionary loans, where disbursement depends on actual cash conditions relative to funding needs.

Lin et al. (2022) provided evidence of the positive role of audits in mitigating local debt risks. Using the 2015 audit reform in China as a natural experiment, they found that stronger audit independence significantly reduced excessive borrowing. Local government audits also helped control debt risks, depending on legal and bureaucratic conditions. In contrast, Jakarta's Audit Board (BPK) has never issued a special-purpose audit report specifically addressing loan management.

Similar to central government loans, BPK conducts annual performance audits, issuing reports on fiscal transparency. These reports identify weaknesses in loan management and provide recommendations for improvement.

### Evaluation of Compliance of Loan Terms with the Governor's Term of Office

The policy concerning the end of a local head's term of office limits their authority to make financial management decisions. Government Regulation No. 12 of 2019 stipulates that multi-year contracts and medium-term loans cannot extend beyond the local head's term. The regulation defines the "end of term" not as the official date of appointment expiry, but as the end of the calendar year (December 31).

For the Governor of Jakarta serving 2012–2017, whose official term ended on October 17, 2017, the loan limit applied until December 31, 2017. Similarly, for the 2018–2022 governor, whose official term ended on October 17, 2022, the loan limit was December 31, 2022.

The results show that in 2015–2017, no loans were accepted beyond the governor's tenure because the loans during that period were long-term loans, which are not bound by the head's term. However, three loans exceeded the 2017–2022 governor's term:

1. The 2020 local PEN loan (IDR 2,664,083,583,739) with an eight-year term, September 2020–September 2028.
2. The 2021 local PEN loan (IDR 3,192,635,570,093) with an eight-year term, April 2021–March 2029.
3. A 2021 local PEN support loan (IDR 4,074,967,079,587) with a five-year term, September 2021–October 2026.

These loans violated Government Regulation No. 56 of 2018:

1. *Article 13 paragraph (1): "Medium-term loans must be repaid fully within the remaining term of office of the local head."*
2. *Article 14 paragraph (3), "Long-term loans must support infrastructure or investment activities intended to:*
  - a. *Generate direct revenue for the local budget (APBD);*
  - b. *Reduce APBD expenditures that would otherwise occur;*
  - c. *Deliver positive economic and social impacts.*

Further analysis revealed that the three loans failed to comply with Article 13, as their terms extended beyond the governor's tenure. They also did not meet the requirements of Article 14, since their allocation/purposes were inconsistent with the stipulated conditions for long-term loans.

## CONCLUSION

The analysis of loan effectiveness indicates that the Jakarta Provincial Government required loans only in 2019, when the deficit could not be covered by net financing outside local loans. Although 2018 also recorded a deficit, it was still manageable without borrowing.

From 2015, 2016, 2017, 2018, 2020, 2021, 2022, and 2023, the spending variance between SiLPA and local loans was positive, showing that loans did not contribute to covering deficits. In fact, in 2015, 2016, 2017, 2018, 2022, and 2023, SiLPA exceeded the value of loans, further proving their redundancy.

Of the six loans, three were non-compliant with Government Regulation No. 56 of 2018. The non-compliance stemmed from two issues: (i) loan purposes that did not qualify as long-term loan requirements, and (ii) loan periods that exceeded the governor's term of office.

Accordingly, it is recommended that the Jakarta Provincial Government conduct thorough cash availability analyses before borrowing, based on SiLPA or year-end cash balances. Moreover, the government should ensure that loan purposes are aligned with regulatory requirements and that loan periods are consistent with the governor's term.

To strengthen loan governance, performance audits or evaluations by the Audit Board (BPK) or the Financial and Development Supervisory Agency (BPKP) are necessary. The governor should request such audits to enhance accountability in loan management.

This study has several limitations. First, it did not assess the capacity of local financial managers in estimating revenue, expenditure, surplus/deficit, and SAL financing. These variables could be projected using time-series data based on past budgetary behavior. Second, the study should take into account past budget behaviour in which longer periods of data is needed. Future research should incorporate these factors to better explain the effectiveness of local loan utilization.

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