



POLICY ANALYSIS OF TOBACCO EXCISE SHARING FUND (ROCCIPI METHOD)

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ABSTRACT

Indonesia ranks fourth in the world in tobacco production, with an annual production of 237.11 thousand metric tons. With an approximate number of 84.35 million, Indonesia claims the third rank of largest number of smoking individuals in the world. In 2022, the government's revenue from tobacco excise reached IDR 218.64 trillion, with an increase in revenue target of IDR 245.4 trillion in 2023. The government aims to channel these excise revenues back to society for development and addressing the externalities caused by tobacco consumption. To achieve this goal, the government established the Tobacco Excise Revenue Sharing Fund (DBH CHT). However, this earmarking policy has not yielded optimal results, as several externalities related to tobacco consumption remain unaddressed. Considering these challenges, this study aims to (1) identify the national policy, (2) review the content of related legislative regulations, and (3) analyze policy implementation using the ROCCIPI method. The research employs a qualitative approach, drawing from observations, semi-structured interviews, and previous studies. Based on the ROCCIPI analysis, the study suggests the need for adjustments in the content of DBH CHT legislative regulations, particularly regarding the budget allocation formula. Additionally, it highlights the absence of derivative regulations from relevant technical ministries, potential budget misappropriation, limited understanding of legislative regulations, budget absorption difficulties, and insufficient regulation awareness campaigns.

Keywords: Sharing Funds, Excise, Tobacco, ROCCIPI

JEL Classification: H23, K34, K32

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INTRODUCTION

Indonesia has the significant tobacco production globally and is ranked 4th after China, India, and Brazil, with a presentation of 237.11 thousand metric tons/year (FAO, 2023). One of the factors contributing to the high volume of tobacco production in Indonesia is the vast land of tobacco plantations scattered almost throughout Indonesia. From 1998 to 2021, the area of tobacco plantations increased by around 40 thousand hectares, from 165,487 hectares in 1998 to 213,709 hectares in 2021. Community plantations, which contribute 99.96% of the total tobacco plantation area, manage most of the land used for tobacco cultivation (Dirjenbun, 2021). Another factor is the relatively stable and high productivity level of tobacco

plantations, with production reaching 261 thousand tons/year (BPS, 2021b). These tobacco plantations absorb a workforce of 1.7 million people who act as tobacco farmers. The cigarette manufacturing and distribution sector also provides jobs for 4.28 million people. (Kemenperin, 2020).

As a result, Indonesia is included in the group of countries with the 3rd highest number of smokers in the world after China and India, at 84.35 million people (FAO, 2023). The prevalence of Indonesian smokers is at 28.26% in 2022 (BPS, 2022a). Badan Penyelenggara Jaminan Sosial (BPJS) Kesehatan stated that the burden of health costs due to smoking reaches IDR 17.9 trillion to IDR 27.7 trillion every year, and BPJS Kesehatan must bear 10.5-15.6 trillion rupiah of the total cost (Herdiyani, 2020). Health Research Results (Kemenkes, 2018) show

that the prevalence of Non-Communicable Diseases (NCDs) caused by tobacco consumption (cigarettes), such as diabetes, hypertension, stroke, cardiovascular disease, and others, has continued to increase from 2007 to 2018. Smoking is estimated to cause 225,720 deaths in Indonesia each year. Therefore, tobacco products are one of the commodities subject to excise as part of efforts to control consumption, considering its negative impact on health.

State revenue from tobacco excise tax contributes 9% of *Anggaran Pendapatan dan Belanja Negara* (APBN) posture, which increases annually for the last 10 years. The 2022 excise revenue is at IDR 218.64 trillion, with a revenue target in 2023 to reach IDR 245.4 trillion. In Graph 1, it can be observed that the average increase in tobacco excise revenue stands at 10.5% per year. This condition correlates with a yearly increase in tobacco excise rates of 9.8%.

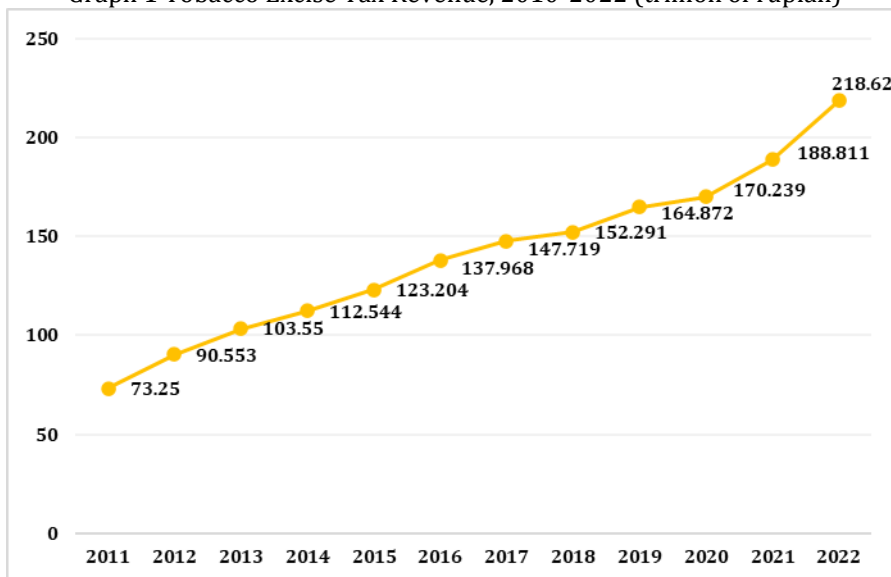
Considered as a Pigouvian tax, the revenue collected from tobacco tax excise is expected to be reinvested into the community for economic development and the mitigation of externalities that arise (A. Pigou, 2012; Chaloupka et al., 2012). The allocation of a portion of tax revenue for specific purposes (earmarking) on tobacco products has been widely practiced in various countries, particularly in Southeast Asia. For instance, in the Philippines, 85% of the revenue collected from tobacco taxes is allocated for the Philhealth program, medical assistance, the improvement of health facilities, and health-related Sustainable Development Goals (SDGs). while 15% is earmarked for alternative employment programs for tobacco farmers and the economic development of tobacco-producing regions (Obermann, 2018). Thailand allocates 2% of the proceeds from tobacco taxes to

APPLICATION FOR PRACTICE

- The DBH CHT policy initiated in 2008 has not optimally addressed the externalities resulting from tobacco consumption and tobacco excise rate increases.
- The policy’s suboptimal fund absorption and imbalanced allocation among provinces indicate a deviation from the principles of collectivity, justice, and balance as outlined in Article 33, paragraph (4) of the 1945 Constitution.
- By incorporating components such as (smoking prevalence x population per province) and (percentage of illegal cigarette circulation/enforcement cases per province) into the DBH CHT allocation formula, it is hoped that this can serve as one of the solutions to address the root issues.
- Redesigning regulations, fostering collaboration, internalization, and capacity-building efforts, along with periodic audits and e-participation, are expected to optimize the effectiveness of policy implementation.

finance the Thai Health Promotion Foundation (ThaiHealth), which conducts campaigns for healthy living and road safety programs (Charoenca et al., 2015; Pongutta et al., 2019). In Malaysia, besides healthcare programs, the funds are also used for providing free breakfast for school children and addressing stunting issues (Hanim et al., 2021). Panama allocates 50% of tobacco tax revenue to healthcare programs, with 40% allocated to the National Cancer Institute, 40% to the Ministry of Health for health campaigns, smoking-related

Graph 1 Tobacco Excise Tax Revenue, 2010-2022 (trillion of rupiah)



Source: MoF (2022)

treatment and prevention programs, and the implementation and monitoring of the Framework Convention on Tobacco Control (FCTC), and 20% to the National Customs Authority (WHO, 2016).

Indonesia has implemented an earmarking policy through the Revenue Sharing Fund for Tobacco Excise (DBH CHT) since 2008. However, its implementation has faced several challenges, resulting in the government's desired objectives not being fully achieved, with many tobacco farmers experiencing declining prosperity and significant debt burdens (Ahsan, 2022; Cahyono & Adhiatma, 2023). The percentage of illegal cigarette circulation remained at 5.5% in 2022, representing a 3% increase from the previous year (UGM, 2022). Additionally, there has been an increase in the prevalence of child smokers to 9.1%, while the prevalence of smokers aged ≥ 15 years has stagnated at 23% (Cameng & Arfin, 2020). Based on these findings, it is essential to conduct an analysis and evaluation to identify issues concerning the implementation of DBH CHT.

In recent years, multiple studies have been conducted on DBH CHT, including quantitative analysis of DBH CHT absorption (Irmawan, 2018; Nurcahyo, 2020), studies on the effectiveness of DBH CHT utilization in healthcare through literature review (Cameng & Arifin, 2020) and statute approach (Wulandari & Waluyo, 2019), literature studies on DBH CHT utilization (Samuel, 2022), and evaluations of DBH CHT for the welfare of tobacco farmers in Temanggung, Jember, and Pamekasan. These studies, which were limited in scope, primarily focused on identifying problems and symptoms through practical evaluation of policy implementation. The majority of these national level studies used secondary data, with only regional-level research incorporating primary data. Notably, none focused on identifying behavioral patterns to ascertain the root causes of issues. Identifying the root causes is crucial in public policy analysis, as inaccuracies in problem definition can lead to regulatory failure (Dunn, 2017).

Therefore, this research uses the ROCCIPI approach (Seidman, 2011), which is generally used to identify the root problems in the implementation of a policy (Arifin, 2022) and as a guideline for evaluating the effectiveness of the current policy implementation (Bappenas, 2012). Additionally, to the author's knowledge, there has not been existing research using this model to analyze the DBH CHT policy, whereas several previous studies have only applied the ROCCIPI model in relation to omnibus law policies (Suriadinata, 2019), business licensing (Abigail Praise et al., 2022), the e-commerce sector (Wicaksana et al., 2019), medical education (Yanping W. et al, 2021), and handling the COVID-19 pandemic (Alif et al., 2023).

This study aims to (1) identify the DBH CHT policy at the national level, (2) review the content of regulations related to the DBH CHT policy, and (3) analyze the implementation of the DBH CHT policy. The significance of this research lies in bridging knowledge gaps and providing evidence-based policy recommendations for an ideal concept of the DBH CHT policy. These recommendations can serve as a foundation for improvements in the formulation and/or implementation stages.

LITERATURE REVIEW

Public Policy Analysis

Public policy involves the decisions and actions of government and public actors that shape society through legislation or specific policies. This process is characterized by complex political dynamics and interactions among various interests and values. It requires careful consideration of social objectives, security, justice, and efficiency. Public policy represents a strategic approach by the government to address societal issues, leveraging its authority to implement appropriate solutions (Knill & Tosun, 2020; Kraft & Furlong, 2020).

The public policy process (Figure 2) consists of a sequence of actions undertaken by the government to formulate and implement public policies. This process involves a series of intricate steps, and scholars have created multiple frameworks to elucidate the policy process. Commonly known as the policy cycle, it delineates the stages of public policy development: (1) Agenda Setting, (2) Policy Formulation, (3) Policy Adoption, (4) Policy Implementation, and (5) Policy Evaluation (Dunn, 2017).

Excise Tax

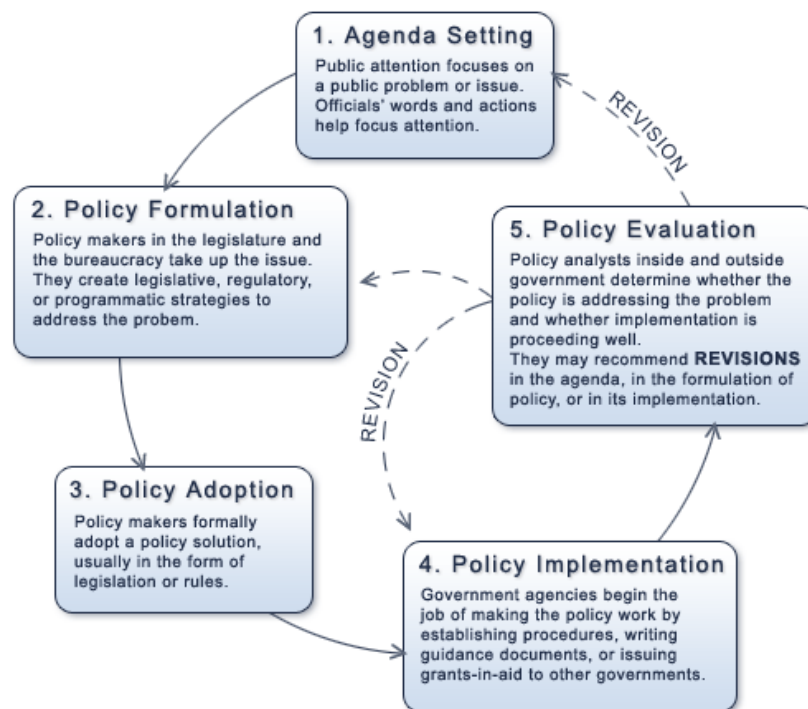
Universally, excise taxes are categorized as Pigouvian taxes, levied on economic activities that result in negative impacts on society (negative externalities) and whose social costs are not reflected in market prices (A. Pigou, 2012; Chaloupka et al., 2012; Rasyid, 2020). These taxes provide incentives aimed at correcting market imperfections, measurable by the magnitude of social costs incurred due to negative externalities. Thus, these taxes not only generate additional revenue for the government but also enhance overall economic efficiency in society (Cnossen, 2005).

Tobacco Excise Sharing Fund

The concept of Revenue Sharing Funds (DBH) involves allocating a specific percentage of tax revenues from particular sources for specific public services. This type of fund is often termed "special funds," "segregated budgets," or "dedicated revenue." (Crowley & Hoffer, 2018; Tahk, 2014).

Several debates have arisen regarding earmarking. Proponents argue that earmarking can safeguard government revenue sources from

Figure 2 Policy Analysis Cycle



Source: William N. Dunn (2017)

political intervention, enhance the efficiency of public expenditure by aligning specific taxes with their utilization, reduce public resistance to taxation, educate the community about particular programs and services, provide budgetary flexibility, and improve public health (Das-Gupta & Bird, 2012; Kutzin et al., 2010; WHO, 2010).

On the other hand, the opposing groups of earmarking argue that it can introduce rigidity and fragmentation in the budgeting process, cause distortions in the economy, increasing during economic expansions and decreasing during downturns, diminish shared responsibility in financing public services, make revenue allocation susceptible to the influence of interest groups and political lobbying, and restrict funds to specific programs without the possibility of reallocation (Tandon & Cashin, 2010; Thomson et al., 2015).

The DBH CHT policy is one of the earmarking concepts applied in Indonesia, which is a manifestation of the Pigouvian tax principle. In this policy, the government uses fiscal instruments to address the negative externalities associated with tobacco consumption and the economic burden imposed on tobacco consumers. According to the Minister of Finance Regulation No. 215/PMK.07/2021 on the Utilization, Monitoring, and Evaluation of DBH CHT, the proceeds from excise taxes are utilized for (1) improving the quality of raw materials, (2) fostering the industry, (3) promoting social and environmental development, (4) disseminating regulations in the field of excise, and/or (5) combating illegal

excisable goods. The allocation of DBH is based on the principle of by origin, and the distribution of DBH is carried out based on the Based on Actual Revenue principle.

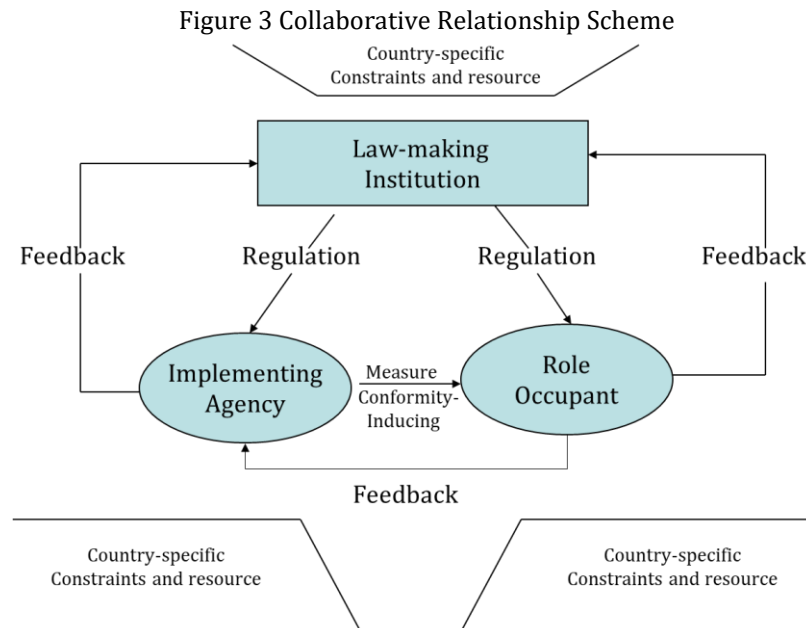
ROCCIPI Method

Ann Seidman and Robert B. Seidman (Seidman & Seidman, 2011) introduced the method of Institutional Legislative Theory and Methodology (ILTAM) in their research, aiming to guide the creation of effective evidence-based legislation for governments to achieve their goals. Collaboration between change initiators and the community is key for fundamental change, as depicted in Figure 3.

In the law-making process, the community, as the occupant, has the responsibility of providing feedback to both law-making institutions and implementing agencies. Implementing institutions, in turn, should contribute insights to the drafters of legislation, particularly concerning its feasibility.

To facilitate policy change or innovation, the ROCCIPI method serves as an instrument for identifying root problems. It comprises the following components:

- a. Rules
Concerning the alignment of regulations, clarity of substantive provisions, authorities, rights, and obligations, and the presence of derivative regulations with clear sanctions
- b. Opportunity
Factors in the environment that can either support or hinder compliance with the intended behavior.
- c. Capacity



Source: Seidman (2011)

The ability of policy actors to implement the drafted legislation.

d. Communication

The knowledge held by policy actors about the legislation and the communication methods used during policy execution.

e. Interest

The perspectives of policy actors regarding the consequences or benefits for themselves.

f. Process

An instrument for uncovering the causes of problematic behavior related to policy acceptance or rejection.

g. Ideology

Human inclinations to either comply with or oppose a policy.

RESEARCH METHODOLOGY

In this study, the author employed qualitative research aiming to explore and understand the meaning among a group of individuals (Creswell, 2018). Primary data were gathered through observations and semi-structured interviews with participants selected through purposive sampling. The participants included officials from the Directorate General of Fiscal Balance (DGFB) and the Directorate General of Customs and Excise (DGCE). Additionally, data were collected from online national-level Forum Group Discussions (FGDs) organized by the DGFB and DGCE, which were attended by representatives from the Ministry of Home Affairs, Ministry of Health, Ministry of Agriculture, Ministry of Industry, representatives from the DGFB, DGCE, representatives from Regional Secretariats, and Regional Development Planning Agencies.

Secondary data consisted of legislative documents, relevant regulations, annual government reports, internal data from relevant agencies, grey literature from official websites, and literature studies from reputable journals accessed through the university library's resources.

The researcher aimed to comprehend the narratives provided by participants by identifying themes, structures, events, contexts, and personal experiences conveyed. These narratives were then connected to previously identified themes. Subsequently, data triangulation was conducted, and additional supporting evidence for the identified themes was sought (Carter et al., 2014).

RESULT AND DISCUSSION

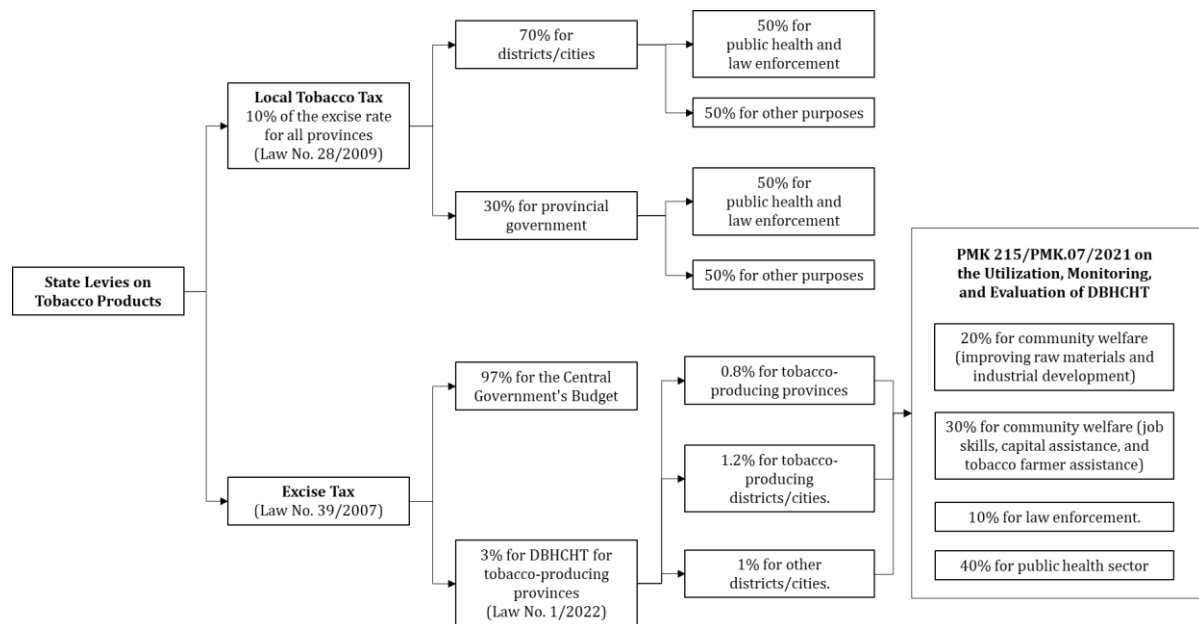
a. Policy Formulation and Adoption Stages

Identify the Tobacco Excise Sharing Fund policy and process

The idea of earmarking was introduced during the formulation of Law No. 39 of 2007, proposed by parliament members representing tobacco-producing constituencies. It aimed to mitigate the negative externalities originating from these regions. Several legal instruments hierarchically govern DBH CHT, including:

1. Law No. 11 of 1995 in conjunction with Law 39 of 2007 concerning Excise;
2. Constitutional Court Decision No. 54/PUU-VI/2008, which declared Article 66A paragraph (1) of Law No. 39 of 2007 in contradiction with Article 33 paragraph (4) of the 1945 Constitution;
3. Law Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments;

Figure 4 Cigarette Tax and DBH CHT Usage Scheme



- Minister of Finance (MoF) Regulation No. 139/PMK.07/2019 amended by 86/PMK.07/2022 concerning the Management of Revenue Sharing Funds, General Allocation Funds, and Special Autonomy Funds;
- MoF Regulation No. 215/PMK.07/2021 concerning the Utilization, Monitoring, and Evaluation of the Tobacco Excise Sharing Fund.

Based on these considerations, the government, through Law No. 39 of 2007, established DBH CHT for tobacco-producing provinces, initially set at 2%, which was later amended by Law No. 1 of 2022 to 3% of the excise revenue. The distribution is as follows: the respective province receives 0.8%, the tobacco-producing districts/cities receive 1.2%, and other districts/cities within the same province receive 1%.

Tobacco products, in addition to excise duties, are subject to local taxes as per Law No. 28 of 2009 on Regional Taxes and Regional Retributions. This is done to maintain a balance between the tax burden imposed on the tobacco industry and the fiscal needs of both the central and local governments. The tax rate is set at 10% of the government-determined excise rate. At least 50% of the revenue from tobacco taxes is allocated by both provinces and districts/cities to fund public healthcare services and law enforcement (Figure 4).

The DBH CHT allocation per province is calculated as follows: DBH CHT allocation = 3% x domestic CHT revenue.

- DBH CHT allocation per province = Performance allocation per province + Formula allocation per province.
- Performance allocation per province = $\{(6\% \times \text{Excise Performance}) + (6\% \times \text{Tobacco Performance}) + (6\% \times \text{Usage priority$

performance) + (2% x Reporting Performance)} x Previous year's DBH CHT Allocation.

- Formula Allocation per province = $\{(60\% \times \text{CHT}) + (40\% \times \text{TBK})\}$ x Total National Formula Allocation.

CHT represents the proportion of the previous year's actual tobacco excise revenue realization for a province relative to the national tobacco excise revenue realization, and TBK is the proportion of the average dry tobacco production in a province over the past three years relative to the national average dry tobacco production.

The allocation of DBH CHT distributed to various regions increases each year in line with the rise in tobacco excise revenue. The largest recipient provinces include East Java, Central Java, West Java, and West Nusa Tenggara, as shown in Appendix 1.

The process of proposing programs/activities and allocating funds from DBH CHT involves several stages: (1) Local leaders are responsible for drafting programs/activities and allocating funds from DBH CHT. (2) The draft programs/activities and fund allocation are then submitted by the Regent/Mayor to the Governor before the fiscal year begins. (3) The Governor has the authority to facilitate the process of drafting programs/activities and fund allocation from DBH CHT. (4) The draft programs/activities are eventually included in the Regional Medium-Term Development Plan (RPJMD). (5) The amount of fund allocation from DBH CHT is determined in the Regional Budget (APBD).

In its implementation, the allocation of DBH CHT undergoes annual changes due to budget refocusing, influenced by the evolving composition of externalities. The following are the changes in

Finance Minister Regulations related to the Use, Monitoring, and Evaluation of DBH CHT:

- PMK 84/PMK.07/2008
Initial utilization of DBH CHT with an unspecified percentage allocation for each sector.
- PMK 20/PMK.07/2009
Increased utilization of DBH CHT by specifying activities in the areas of community welfare and law enforcement.
- PMK 28/PMK.07/2016
Introduction of a percentage composition of the budget, with 50% allocated to Specific Grants (addressing externalities) and 50% for Block Grants (activities according to regional needs and priorities).
- PMK 222/PMK.07/2017
Change in budget composition, allocating 50% to Specific Grants and 50% to support the National Health Insurance Program (JKN).
- PMK 07/PMK.07/2020
Addition of activities in the health sector, specifically targeting the reduction of stunting rates.
- PMK 19/PMK.07/2020
Budget refocusing towards addressing the COVID-19 pandemic.
- PMK 206/PMK.07/2020
Change in the percentage composition of the budget to 50% for community welfare, 25% for law enforcement, and 25% for health, with a focus on JKN and regional economic recovery.
- PMK 215/PMK.07/2021
Addition of activities in the health sector, addressing stunting reduction and COVID-19 management. Further changes in the percentage composition allocate 50% to community welfare, 10% to law enforcement, and 40% to health, with a focus on JKN and regional economic recovery.

DBH CHT funds are disbursed quarterly. A delay in disbursement of 15% of the quarterly allocation occurs if the governor does not provide a consolidated report on the use of DBH CHT, a statement regarding the budgeting of SILPA DBH CHT from the previous year, and if the specified percentage of allocation for designated activities is not met. Once these conditions are met, DBH CHT can be disbursed. Discontinuation of disbursement occurs if a region experiences two consecutive delays in the disbursement of DBH CHT.

Review of statutory regulations and analysis of DBH CHT policy implementation using the ROCCIPI method

Rules

1. Consistency with other legal regulations

The key principle in legislative regulations is the principle of legal certainty (*het rechtszekerheids beginsel*). This principle emphasizes the need for

legal regulations to be internally consistent, avoiding conflicts between different regulations (Afif, 2018; van der Vlies, 1984). During the initial implementation of DBH CHT in 2008, West Nusa Tenggara (NTB) province filed a lawsuit with the Constitutional Court to challenge the constitutionality of Law No. 11 of 1995 Jo. Law No. 39 of 2007 concerning Excise. The crux of the matter was related to Article 66A paragraph (1) of the Excise Law, which stipulated:

"The state revenue from excise on domestically manufactured tobacco products in Indonesia shall be distributed to tobacco-producing provinces at a rate of 2% (two percent) aimed to improve the quality of raw materials, industrial development, social and environmental development, dissemination of provisions in the field of excise, and/or combating illegal excisable goods".

Consequently, West Nusa Tenggara (NTB), a major tobacco-producing province in Indonesia (Appendix 2), was excluded from benefiting DBH CHT. This exclusion derived from a legal interpretation specifying that state revenue from tobacco excise would only be allocated to "provinces with cigarette factories" in the definition of "tobacco-producing provinces" (Figure 5).

In response to this matter, the Constitutional Court issued Decision No. 54/PUU-VI/2008, which declared that Article 66A paragraph (1) of Law No. 39 of 2007 was conditionally contradictory to Article 33 paragraph (4) of the 1945 Constitution, which states:

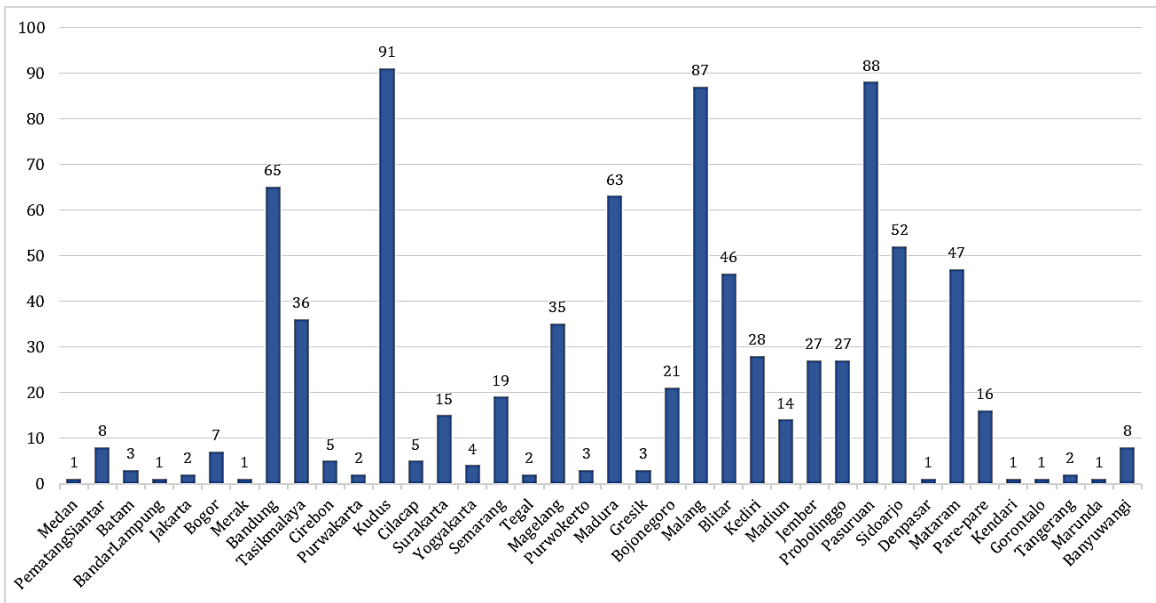
"The national economy is organized based on the principle of a democratic economy with the principles of togetherness, efficiency with justice, sustainability, environmental awareness, self-reliance, and by maintaining a balance of progress and the unity of the national economy."

Hence, if all tobacco-producing provinces are excluded from those eligible for tobacco excise allocation, Article 66A of the Excise Law would lose its legally binding force. Although it remains valid under the law until officially revoked by the authorized institution, it is deemed to have lost its efficacy. This means that the article is no longer effective and can be disregarded based on the Constitutional Court's decision (Hermanto et al., 2020).

In response to this, the government, through the MoF, specifically the DGFB, introduced the component of the average proportion of dry tobacco production in a province over the past three years relative to the national average dry tobacco production (TBK) into the formula for DBH CHT allocation per province.

The distribution of DBH CHT based on Regulation No. 139/PMK.07/2019 in conjunction with 86/PMK.07/2022 can be regarded as deficient in upholding the principles of unity, efficiency, and

Figure 5 Distribution of the Number of Tobacco Product Factories in Districts/Cities



Source: DGCE (2021)

justice. Philosophically, DBH CHT is earmarked to address negative externalities resulting from tobacco product consumption. Therefore, these funds should also be allocated to provinces where tobacco products are consumed. The responsibility for settling excise taxes on products manufactured in Indonesia rests with the factory owners. However, in reality, the cost is not solely covered by the factory owners but by cigarette consumers. Essentially, consumers make excise payments.

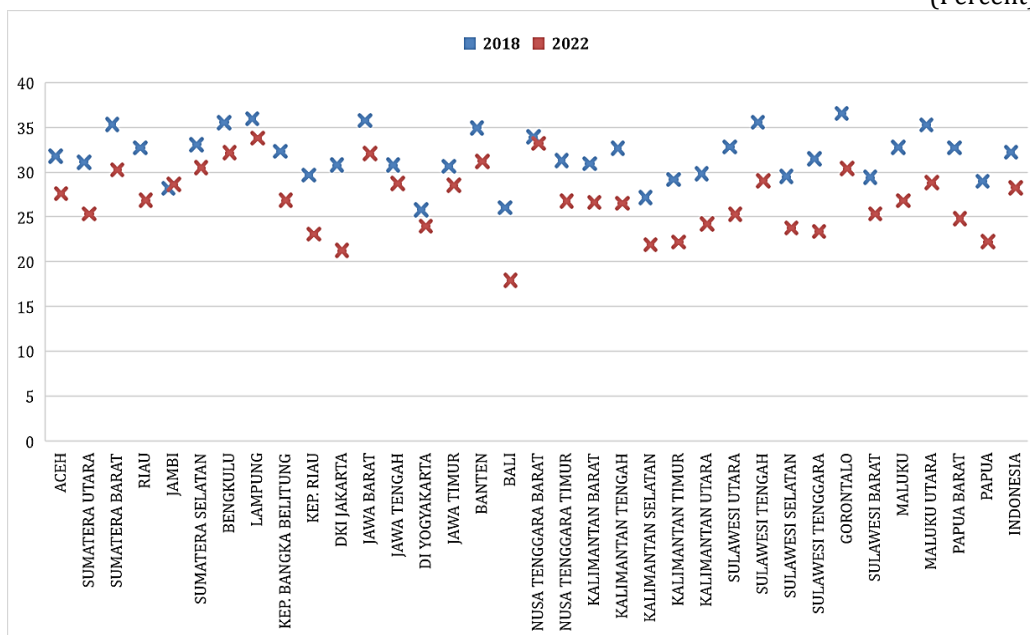
The Excise Law provides various facilities or conveniences to factory owners, including deferred

excise tax payments (Aprila Sari, 2010). When considering the prevalence of smokers (Figure 6), it is important to also refer to Appendix 3, which details the population per province.

The percentage of illegal cigarette circulation and enforcement cases by the DGCE (see Figure 7) in each province also plays a crucial role in assessing the effectiveness of regulatory measures. As stated by the Technical Director of Customs and Excise Facilities, in the Riau Islands where the DBH CHT is minimal, amounting to only IDR 141,852,000 in 2023 due to the absence of cigarette factories and

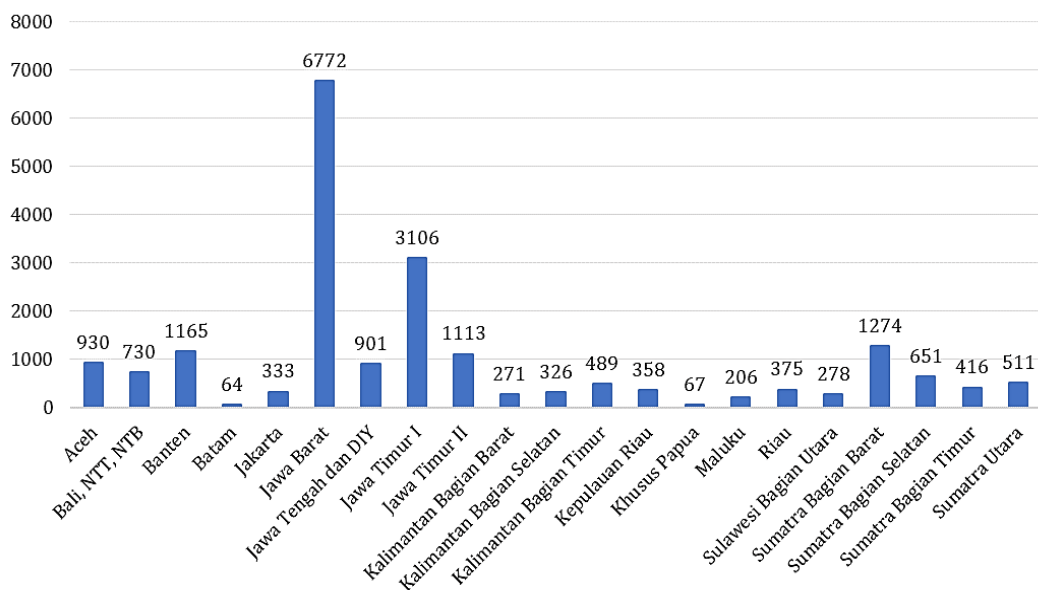
Figure 6 Prevalence of Smokers ≥ 15 years old per Province in 2018 and 2022

(Percent)



Source: BPS (2022)

Figure 7 Number of Cases of Illegal Cigarette Enforcement per DGCE Working Area in 2022



Source: DGCE (2022)

tobacco plantations, illegal cigarette circulation is very high. DJBC routinely conducts operations to seize illegal cigarettes, with potential losses reaching tens of billions.

2. Clarity of substantive formulation

Law Number 12 of 2011 establishes a principle that significantly influences the effectiveness of legislative regulation implementation, namely the "Principle of Clarity of Formulation." This principle encompasses clarity in systematics, word choice or terminology, and the language used in legislative regulations. Consequently, the regulation becomes clear and easily understood, avoiding various interpretations that may arise during its implementation. In PMK Number 215/PMK.07/2021, there are several types of programs mentioned in the article that are too general and not specific enough. However, providing more detailed descriptions of program types can enhance the successful utilization of DBH CHT.

Some units with low budget absorption have criticized this issue. The head of the economic division of Kudus local authority's secretariat stated that the grouping of the five program types funded by DBH CHT is still too general, leading to multiple interpretations by various parties, and potentially resulting in legal consequences. This lack of consensus between role occupants and implementing agents places the role occupants in position of which prone to legal problems.

Furthermore, the head of the Economic Bureau in the East Java Provincial Secretariat raised concerns about the mechanism of fund distribution related to Direct Cash Assistance (BLT). There is a lack of explanation regarding the criteria for BLT

recipients, whether double recipients within the same household are allowed, and whether individuals who have already received benefits from the Family Welfare Program (PKH) are still eligible for BLT. This lack of clarity ultimately renders the program ineffective and less targeted.

3. The completeness of "derivative" legislative regulations or applications for implementation.

Several areas of DBH CHT activities lack Implementation Guidelines (*Juklak*) and Technical Guidelines (*Juknis*) for the programs mentioned in the PMK. Only activities related to improving the quality of tobacco plantation raw materials have guidelines issued by the Ministry of Agriculture (Directorate General of Plantations letter No. 474/KB.110/E/7/2020 regarding the Details of the Quality Improvement Program for Raw Materials). Some implementing units face confusion in implementing social welfare activities because the derivative regulations have not been completed by the Ministry of Home Affairs. The Sub-directorate of DBH and DAU at the Ministry of Home Affairs stated that the regulations being developed require time as they will cover all aspects comprehensively, for DBH CHT.

Representatives from Kudus and Soppeng local authorities mentioned that derivative regulations for Tobacco Industrial Zone (KIHT) were only realized by the Ministry of Industry in 2020, after waiting for 10 years to commence development in those areas. Following the issuance of these regulations, there have been plans for KIHT development in Jepara, Mataram, and Madura, which are in progress. However, other regions like Malang, Cilacap, Pasuruan, Yogyakarta, and Sidoarjo are still in the process of studying and discussing

KIHT at the regional level. Some implementing units are uncertain about using DBH CHT funds for KIHT. The Head of Bappeda in Pamekasan regency expressed doubts about whether DBH CHT could finance KIHT study processes due to the lack of a legal framework accommodated in PMK or specific regulations from the Ministry of Industry concerning KIHT.

The Head of the Planning and Budgeting Bureau at the Ministry of Health mentioned no plans to issue a ministerial regulation related to DBH CHT. Only regulations related to cigarette taxes have been issued. They believe the existing PMK regulations provide sufficient clarity regarding program details in the field of health. Additionally, different regions have varying stances on derivative regulations, with some desiring them while others do not. Some regions are hesitant about derivative regulations as they want to innovate in the field of health programs in their respective areas.

b. Policy Implementation Stages Opportunity

Some of the negative practice that emerged were related to corruption and the use and DBH CHT which was not in accordance with the program of activities listed in the PMK (Dika & Mukiwihando, 2021; Maulana Abdillah & Halimah, 2021). For instance, DBH CHT corruption case that occurred in Pamekasan (Kompas, 2022) caused tobacco farmers to experience a shortage in terms of welfare because of the non-delivery of tax revenue sharing funds to them (Ahsan, 2022).

Capacity

One of the fundamental principles in regulations is the principle of feasibility. To ensure that regulations can be effectively implemented, the capabilities of the implementing parties must be considered, including the availability of human resources, time, and necessary infrastructure.

1. Human Resource Availability and Competence

During forum group discussions, there were hardly any issues or constraints related to the capability and availability of human resources at each local implementing unit (SKPD) because the quarterly monitoring and evaluation reporting activities between DGFB and SKPD in the regions were consistently efficient and timely. Any disruptions in reporting could lead to delays in the disbursement of DBH CHT funds from DGFB to the respective regions.

2. Ease of Implementation mechanism

Several regions have encountered implementation challenges due to the specific nature of DBH CHT (Excise Tax Revenue Sharing Fund) activities. Budget absorption for DBH CHT between 2017 and 2021 ranged from 77% to 87%, except in 2020 when the COVID-19 pandemic led to

a budget absorption rate of only 42.09%. This decline was attributed to the enforcement of Community Activity Restrictions (PPKM) across Indonesia (Table 4.2). As expressed by the Head of the Economic Division of the Kudus Local Authorities, difficulties in budget absorption have persisted annually in Kudus, resulting in a surplus of DBH CHT funds, or Surplus Expenditure of the Current Year's Budget (SILPA), ranging from 30% to 40%. These surplus funds must be reallocated in the subsequent year for the same specific-purpose activities, making it unlikely for the budget to be fully absorbed. In response to this issue, Kudus Regency sent a letter to the Ministry of Finance, and in 2016, a block grant scheme was introduced to ensure the complete utilization of the allocated budget even though it was limited to one year.

Table 1 DBH CHT absorption in 2017-2021
(Thousands of rupiah)

Year	Allocation	Realization	Percentage
2017	2,949,744,450	2,506,102,885	84.96%
2018	3,468,398,000	2,835,762,205	81.76%
2019	3,739,472,754	3,218,938,147	86.08%
2020	3,462,912,000	1,457,539,661	42.09%
2021	3,475,618,000	2,676,225,860	77%

Source: DGFB (2021)

A similar situation was also encountered by the Head of the Kediri Customs and Excise Office, where a large tobacco factory existed, resulting in a substantial DBH CHT allocation. However, the utilization was minimal, with 50% of the allocated funds remaining unabsorbed out of a 66 billion Rupiah allocation for three districts in Kediri. This occurred because of limitations related to specific grants. Kediri lacked tobacco plantations, and most workers in the tobacco industry came from outside Kediri, making it challenging to fully utilize the allocation for welfare programs. Additionally, the absence of illegal cigarette circulation meant that law enforcement funds could not be fully absorbed.

The Head of the DBH Sub-directorate at DGFB stated that many other regions also faced similar challenges, primarily related to SILPA due to limitations associated with specific grants.

Communication

While the legal maxim asserts that everyone is presumed to know the regulations published in the State Gazette, this maxim has often faced criticism from legal experts. The effectiveness of regulations can be enhanced through public awareness campaigns and dissemination. Furthermore, successful internalization of regulations is more likely to occur through intensive technical guidance or advocacy.

1. Dissemination

DGFB and DGCE conduct annual dissemination efforts regarding the latest MoF Regulation. These efforts are necessary because the utilization of DBH

CHT is dynamic and subject to annual budget refocusing by the government. Consequently, program types and budget allocations change frequently, necessitating awareness-building among local implementing units to optimize budget absorption.

In addition to dissemination, DGFB guides implementing activities and utilizing funds in regions with smaller budgets. However, the intensity of this guidance is perceived as insufficient, as some regions still lack a comprehensive understanding of the DBH CHT utilization process and the concept of earmarking. This is evidenced by numerous requests from several districts and cities for video conferences related to DBH CHT implementation, along with the presence of many programs that, upon evaluation by DGFB, are considered non-compliant with regulations.

2. Internalization

Officials from various regions, including East Java, Bone, and Magelang, have expressed difficulties in aligning program activity names between PMK 215/PMK.07/2021 and the Ministry of Home Affairs Regulation Number 90 of 2019 concerning the Classification, Codification, and Nomenclature of Regional Development and Finance Planning. The latter serves as the reference for program implementation planning in regions.

Officials from DGFB acknowledge that internalization still requires significant improvement. One recurring issue is that many regional implementing units (SKPD) lack a clear understanding of the philosophy and implementation process, resulting in minimal DBH CHT absorption.

3. Compliance efforts through communication

DGFB consistently reminds regions to submit their quarterly reports on time. If a region faces consecutive sanctions due to delayed submissions, it may ultimately face the cessation of DBH CHT disbursements. This, of course, has negative consequences, especially for the communities relying on DBH CHT benefits. The Head of the DBH Section at DGFB emphasizes that regional units should not hesitate to communicate with them via WhatsApp or the contact center, assuring that assistance will be provided for any issues in the region.

4. Feedback for continuous improvement

The DBH CHT policy has been in place since 2008, and each year, DGFB engages in discussions, including dissemination and focus group discussions (FGD), to optimize the policy. For instance, the introduction of block grants in 2016 was a proposal from regions to utilize the accumulated SILPA. Similarly, program activity specifications are continually improved. However,

these changes have not fully addressed the recurring issue of regional budget absorption challenges.

Interest

In the implementation of DBH CHT utilization, the role occupant's interest can be influenced by the benefits of submitting monitoring and evaluation reports. In this regard, the advantages that SKPD can gain include the timely submission of monitoring and evaluation reports, which ensures the prompt disbursement of DBH CHT funds to the region. Consequently, this timely allocation allows the local community to experience the benefits of programs and activities organized by SKPDs in their respective areas.

Process

The clarity of reporting, monitoring, and evaluation mechanisms outlined in the MoF Regulation also significantly impacts implementation effectiveness. The more detailed the mechanisms described, the higher the compliance rate in their execution. Conversely, if the prescribed mechanisms are not sufficiently clear, role occupants may encounter difficulties.

Officials from DGFB stated that the business process has been extensively detailed in the DBH CHT regulation, and there are derivative regulations at the regional level, both from the Ministry of Home Affairs and regional regulations, governing the business process mechanism. In discussions, there were hardly any complaints regarding the business process and implementation. The confusion that has persisted pertains mainly to the allocation of funds for various program activities.

Ideology

1. Implementation of monitoring and evaluation

DGFB officials stated that quarterly monitoring and evaluation are consistently carried out by the DGFB to ensure the smooth disbursement of funds. They have a key performance index, which is the percentage of fund disbursement realization, with an annual target of 100%. Evaluation also encompasses assessment of the efficiency of fund utilization, and whether program activities align with the MoF Regulation or not. If there are discrepancies, DGFB will issue reminders and warnings.

2. Formal sanctions for violations

Sanctions for violations are stipulated in the MoF Regulation, involving the suspension and cessation of fund disbursement in cases of consecutive delays in fund disbursement to regional units in provinces, districts, and cities.

Discussion

Based on research findings, it is apparent that the implementation of programs funded by the DBH CHT exhibits notable differences between Indonesia

and other nations, as previously delineated. The DBH CHT policy, primarily focused on the curative aspects of health issues, concurrently acts as an intervention mechanism to alleviate economic and social impacts derived from excise tax increases in the tobacco industry and plantations. In Indonesia's earmarking practice, the government allocates tobacco excise revenues to two ministries: the Ministry of Finance and the Ministry of Health. The Ministry of Health's approach is more comprehensive, addressing both preventive and curative aspects and the regulation of tobacco product consumption, financed by the "tobacco tax". In contrast, the Ministry of Finance is principally concerned with augmenting fiscal space through the collection of excise taxes, deploying DBH CHT for tobacco-producing regions

The proposal to escalate tobacco excise rates consistently encounters opposing arguments from the Tobacco Industry Handicrafts (IHT) and parliamentarians, predicated on the belief that such policies could exacerbate unemployment in the labor-intensive tobacco industry and plantation sector. Hence, the DBH CHT is geared towards mitigating the burden on the tobacco product industry in optimizing the creation of new fiscal space. This is reflected in the continuous augmentation of state revenue from excise taxes, where an uptick in excise rates is paralleled by increased revenue. According to the Laffer Curve principle, the tobacco industry would be encumbered by a hike in excise rates if the excise revenue curve declines, potentially due to a reduction in tobacco product consumption or an upsurge in the circulation of illegal cigarettes, as the tax increase is perceived as excessively overwhelming for the industry. The government's dependence on the tobacco sector for fiscal space is also a factor in its decision not to ratify the Framework Convention on Tobacco Control (FCTC), thereby retaining greater flexibility in regulating the tobacco sector to preserve national economic stability.

This study probes why the DBH CHT policy has not effectively addressed externalities like high smoker prevalence, diverging from previous research perspectives (Irmawan, 2018; Nurcahyo, 2020; Cameng, 2020). This ineffectiveness is attributed to the policy's design, which is not intended to curb tobacco product consumption but rather to incentivize the optimization of excise revenue in producing regions. Suppose there is a shortfall in reducing smoker prevalence. In that case, the "tobacco tax" policy should also be scrutinized, rather than solely concentrating on DBH CHT due to a trade-off between the policies of the Ministry of Finance and the Ministry of Health.

Another key issue is the persistently low welfare of workers in the tobacco industry and

farmers, owing to the DBH CHT program being a specific grant, deficient in technical regulations as guidelines for the concept of program activities, and indicative of inadequate collaboration among relevant agencies. This program, as a specific grant, has led to a Budget Surplus (SILPA) in several regions, signifying that the budget has not been entirely disbursed, where the allocation for community welfare is predominant, constituting 50% of the total DBH CHT budget ceiling. Moreover, corruption acts by certain civil servants exacerbate this scenario.

The escalation in illegal tobacco circulation is partially attributed to the disparity in law enforcement budget allocations, which predominantly favor producing regions, despite the enforcement against illegal cigarettes in 2022 being dominated by imported cigarettes, especially along the east coast of Sumatra, a major conduit for illegal cigarettes. The absence of a law enforcement budget allocation impedes collaboration and synergy between local governments and customs in addressing illegal cigarettes.

The DBH CHT policy endeavors to tackle non-communicable disease (NCD) prevalence-related externalities by allocating 40% of the health sector funds to support the attainment of Universal Health Coverage (UHC) through the JKN, which currently stands at approximately 90.3%. UHC is deemed achieved if coverage attains 98%, as per the National Medium-Term Development Plan (RPJMN) 2020-2024.

The ROCCIPI method has been efficacious in analyzing and pinpointing root problems related to policy implementation, primarily focusing on regulation formulation during the evidence-based legislation phase. However, at the policy implementation stage, this method's limitation lies in its sole measurement of implementing capacity from a human resource perspective. At the same time, financial resources are also vital in influencing the achievement of a policy's objectives.

CONCLUSION

This research contributes to our understanding of regulatory changes in the DBH CHT policy formulation and implementation process and identifies underlying issues that can influence policy reform to address negative externalities and promote national economic recovery.

The review of legislative materials uncovered changes and additions necessary to refine the current policy, aligning it with principles of justice and equality. Implementation issues related to DBH CHT policy include the absence of derivative regulations from relevant technical ministries, the potential for budget misappropriation, limited legislative understanding, budget absorption challenges, and insufficient efforts in disseminating

regulations, internalizing them, facilitating discussions, and providing technical guidance.

However, this research has limitations, primarily due to its qualitative nature, resulting in interpretive findings that may lack generalizability. The study heavily relies on primary data and has a limited range of participant diversity. Future research should quantitatively investigate the impact of the DBH CHT policy formulation process on the national well-being and health sectors, as well as its societal implications. Comparative studies with other countries, both within ASEAN and globally, can offer a more comprehensive understanding and serve as references for policymaking.

Recommendation

The author recommends several policy actions based on policy instrument approach (Howlett, 2018), 1) modifying the allocation formula to include factors such as smoking prevalence and illegal cigarette circulation, is expected to ensure a more equitable distribution of funds, thereby addressing regional disparities and optimizing resource allocation; 2) Strengthening collaboration among relevant government agencies to create comprehensive technical guidelines is anticipated to improve the implementation consistency of DBH CHT activities; 3) Introducing performance-based allocations and conducting regular audits are expected to enhance transparency and accountability, motivating local governments to optimize fund utilization and minimize misappropriation; 4) Public awareness campaigns to disseminate the earmarking philosophy and the DBH CHT policy roadmap, along with capacity-building programs for regional governments and stakeholders, are expected to increase understanding and support for the policy, leading to better compliance and more effective implementation; and 5) Integrating e-participation platforms will enable broader public engagement and feedback, ensuring that the policy is responsive to community needs and concerns. These integrated actions are expected to ensure that the DBH CHT policy effectively mitigates tobacco consumption's externalities and supports the socio-economic development of tobacco-producing regions.

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Appendix 1 Tobacco Excise Revenue Sharing Fund Details
Year 2019-2023

(Thousands of rupiah)

Provinsi	2019	2020	2021	2022
Jawa Timur	1.842.770.283	1.937.895.941	2.141.975.778	3.074.758.874
Jawa Tengah	748.364.526	743.460.332	879.960.580	1.207.312.334
Jawa Barat	413.071.215	401.659.159	439.054.841	609.892.575
Nusa Tenggara Barat	359.966.285	318.716.620	329.269.117	473.601.509
Sumatera Utara	16.604.411	12.794.951	18.562.638	26.120.074
Aceh	19.455.826	12.979.708	13.165.565	19.250.849
Sulawesi Selatan	15.017.532	12.931.680	13.511.936	18.866.557
DI Yogyakarta	13.067.750	10.072.363	11.566.773	15.019.833
Nusa Tenggara Timur	7.824.012	5.402.834	5.158.057	6.442.849
Lampung	6.457.450	4.442.907	4.802.197	6.213.751
Bali	9.215.790	7.255.187	5.905.197	4.952.040
Sumatera Barat	4.967.482	3.079.849	2.293.992	2.302.118
Jambi	2.325.031	1.783.056	1.760.563	1.885.178
Kalimantan Barat	123.755	113.005	394.598	976.651
DKI Jakarta	154.059	723.798	1.024.798	896.343
Banten	203.134	802.853	970.036	695.722
Sulawesi Tengah	910.695	478.974	536.466	619.920
Sumatera Selatan	1.935.708	822.957	455.080	231.885
Kepulauan Riau	9.342	163.956	199.823	141.852
Kalimantan Selatan	1.019	6.296	11.871	13.922
Kalimantan Timur	4.883	10.470	7.558	7.644
Riau	455.898	11.300	9.246	4.153
Gorontalo	1.254	697	618	735
Sulawesi Tenggara	4.412	7.572	2.641	322
Kalimantan Tengah	-	26	58	77
Bangka Belitung	248	-	-	-
Total	3.462.912.000	3.475.618.000	3.870.600.000	5.470.207.767

Source: Ministry of Finance (2022)

Appendix 2 Distribution of Area, Production, and Number of Farmers
Tobacco Plantation

NO	PROVINSI	2017			2018			2019			2020		
		Areal (Ha)	Produksi (Ton)	Jumlah Petani	Areal (Ha)	Produksi (Ton)	Jumlah Petani	Areal (Ha)	Produksi (Ton)	Jumlah Petani	Areal (Ha)	Produksi (Ton)	Jumlah Petani
1	DI Aceh	3.009,77	3.181,75	2.882	1.894,00	1.734,00	3.060	1.923,00	1.889,00	3.106	1.930,00	1.933,00	3.118
2	Sumatera Utara	1.407,50	1.238,07	1.548	1.542,00	1.321,43	2.548	1.463,00	1.406,00	2.548	1.493,00	1.400,00	2.548
3	Sumatera Barat	743,00	537,97	2.217	482,00	469,00	2.207	471,00	560,00	2.269	455,00	553,00	2.269
4	Jambi	726,00	136,30	406	306,00	307,00	730	792,00	390,00	678	726,00	420,00	678
5	Sumatera Selatan	323,00	276,49	243	300,00	277,00	282	302,00	372,00	282	300,00	300,00	282
6	Lampung	442,00	495,10	1.150	885,00	555,00	1.500	789,00	999,00	1.100	990,00	1.110,00	1.110
7	Jawa Barat	9.711,00	8.470,40	27.015	9.570,00	9.476,00	25.350	9.564,00	8.765,00	24.175	9.800,00	9.000,00	24.175
8	Jawa Tengah	50.965,05	50.604,71	112.999	50.704,00	60.141,00	104.179	47.665,00	52.635,00	101.281	47.900,00	60.412,00	101.281
9	DI Yogyakarta	1.517,75	1.451,62	3.502	1.520,00	1.595,00	3.000	1.600,00	1.650,00	2.900	1.650,00	1.700,00	2.900
10	Jawa Timur	108.524,04	99.742,20	265.743	108.400,00	104.100,00	284.121	100.658,00	90.000,00	284.050	105.800,00	100.000,00	285.000
11	Bali	816,75	813,76	2.035	820,00	844,00	2.400	816,00	820,00	2.453	818,00	823,00	2.453
12	NTB	23.759,87	34.448,51	36.089	32.402,00	32.400,00	52.453	31.997,00	32.100,00	51.246	32.300,00	32.500,00	51.500
13	NTT	21.060,03	13.240,30	2.433	21.005,00	21.065,00	3.300	21.060,00	21.400,00	3.350	21.300,00	21.600,00	3.400
14	Sulawesi Tengah	167,00	130,00	243	167,00	300,00	243	164,00	134,00	243	168,00	170,00	243
15	Sulawesi Selatan	28.480,00	15.355,00	2.803	25.000,00	17.000,00	2.856	25.100,00	18.000,00	2.856	25.000,00	19.000,00	2.860
TOTAL		206.702,23	194.235,02	464.256	204.424,00	195.348,00	524.898	204.716,00	197.121,00	525.856	204.879,00	198.615,00	526.389

Source: Directorate General of Plantations (2020)

Appendix 3 Proportion of Total Cigarette Consumption per Province in 2022

Provinsi	2019	2020	2021	2022
Jawa Timur	1.842.770.283	1.937.895.941	2.141.975.778	3.074.758.874
Jawa Tengah	748.364.526	743.460.332	879.960.580	1.207.312.334
Jawa Barat	413.071.215	401.659.159	439.054.841	609.892.575
Nusa Tenggara Barat	359.966.285	318.716.620	329.269.117	473.601.509
Sumatera Utara	16.604.411	12.794.951	18.562.638	26.120.074
Aceh	19.455.826	12.979.708	13.165.565	19.250.849
Sulawesi Selatan	15.017.532	12.931.680	13.511.936	18.866.557
DI Yogyakarta	13.067.750	10.072.363	11.566.773	15.019.833
Nusa Tenggara Timur	7.824.012	5.402.834	5.158.057	6.442.849
Lampung	6.457.450	4.442.907	4.802.197	6.213.751
Bali	9.215.790	7.255.187	5.905.197	4.952.040
Sumatera Barat	4.967.482	3.079.849	2.293.992	2.302.118
Jambi	2.325.031	1.783.056	1.760.563	1.885.178
Kalimantan Barat	123.755	113.005	394.598	976.651
DKI Jakarta	154.059	723.798	1.024.798	896.343
Banten	203.134	802.853	970.036	695.722
Sulawesi Tengah	910.695	478.974	536.466	619.920
Sumatera Selatan	1.935.708	822.957	455.080	231.885
Kepulauan Riau	9.342	163.956	199.823	141.852
Kalimantan Selatan	1.019	6.296	11.871	13.922
Kalimantan Timur	4.883	10.470	7.558	7.644
Riau	455.898	11.300	9.246	4.153
Gorontalo	1.254	697	618	735
Sulawesi Tenggara	4.412	7.572	2.641	322
Kalimantan Tengah	-	26	58	77
Bangka Belitung	248	-	-	-
Total	3.462.912.000	3.475.618.000	3.870.600.000	5.470.207.767

Source: Central Bureau of Statistics (2022)