

A Portrait of State Revenue and Revenue Sharing Funds

Mineral and Coal Mining Sector



TABLE OF CONTENTS

Mineral and Coal Sector Tax Revenue	2
Mineral and Coal Sector Non-tax Revenue	2
Natural Resource Revenue Sharing Funds from Mineral and Coal Mining	4
A Portrait of Natural Resource Revenue Sharing Funds in Three Mineral and Coal Producing Provinces	5
A Portrait of Natural Resource Revenue Sharing Funds in Aceh Province	6
A Portrait of Natural Resource Revenue Sharing Funds in East Kalimantan Province	7
A Portrait of Natural Resource Revenue Sharing Funds in Southeast Sulawesi Province	8
End Note	9

CHART LIST

Graph1. Mineral and Coal Mining Sector Tax Revenue: 2015-2019	2
Graph 2. Portrait of Non-tax Revenue, Natural Resource Non-tax Revenue, and Mineral and Coal Sector Non-tax Revenue, 2016 – 2020	3
Graph 3. Potrait of DBH, DBH SDA, and DBH SDA Minerba, 2016-2021	4
Graph 4. The State of Reveue Sharing Funds in Aceh Province: 2018 – 2021	6
Graph 5. State of Revenue Sharing Funds in East Kalimantan: 2018 – 2021.	7
Graph 6. Southeast Sulawesi Province Revenue Sharing Fund: 2018 – 2021.	8

A Portrait of State Revenue and Revenue Sharing Funds Mineral and Coal Mining Sector

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The natural resources sector continues to be a pillar of both the central and regional economies and government revenues. Natural resources from the mining sector are the second largest non-oil and gas export after the processing industry. In 2019, the mining sector by itself produced a total of 698,097 million tons, approximately 519.6 million tons or 74 percent of which was exported, and in 2020, a total of 438.9 million tons of mining products were exported. One direct contribution of mining natural resources is the income received by the state, both at the national level and in regions where mining sites are located. The average growth in non-tax state revenue from minerals and coal over the 2016-2020 period was 9.85%.

Natural resource revenues from mineral and coal mining consist of tax revenue and non-tax revenue (PNBP). The state revenue is recorded in the State Budget (APBN) and Regional Budgets (APBD), which are determined by the executive government (President and Regional Heads) in collaboration with the appropriate legislative bodies (the People's Representative Council/DPR at both the national and regional level). The state and regional budgets are planned, determined, and implemented, and their performance evaluated annually. The state and regional budgets also contribute to regional-level income through the Village Fund Budget (Anggaran Dana Desa/ADD).

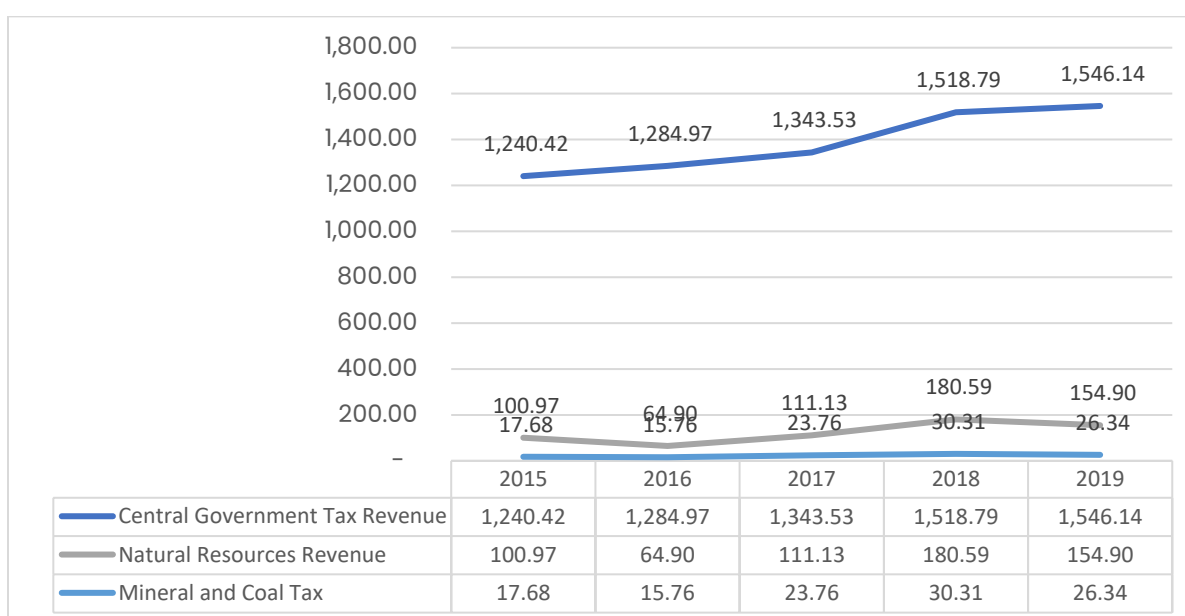
The fact sheets are designed as a resource for public and community education to encourage policy dialogue and the development of social accountability-particularly in regard to state revenue obtained from the mining sector. The first series of fact sheets focuses on illustrating the data and providing a portrait of state revenue (tax and non-tax) obtained from the mining sector, from the national to the provincial and district levels, in 3 (three) regions (Aceh, East Kalimantan, and Southeast Sulawesi) included in the pilot program conducted by PWYP Indonesia in collaboration with program partners. The fact sheets are a joint initiative between PWYP Indonesia and FITRA (the Indonesian Forum on Budget Transparency) in the form of a Mining Sector Social Accountability Program supported by the World Bank's Global Partnership for Social Accountability (GPSA).

Mineral and Coal Sector Tax Revenue

Mineral and coal sector tax revenue comes from the land and building tax (Pajak Bumi dan Bangunan/PBB Pertambangan), corporate income tax (PPh Badan), and value added tax (Pajak Pertambahan Nilai/PPN). Income from Article 23 Income Tax (PPh 23) from the mining sector has amounted to Rp. 8.07 trillion (with a slight increase of 2.27 persen).

In 2020, corporate income tax from the mining sector slumped with a negative growth of -23.25 percent, one factor for which was the downward trend in mining commodity prices. Graph 1 illustrates tax revenue from the mineral and coal mining sector from 2015-2019.

Graph1. Mineral and Coal Mining Sector Tax Revenue: 2015-2019



Source: Directorate General of Taxes 2019 Annual Report, processed by Seknas Fitra

Mineral and Coal Sector Non-tax Revenue

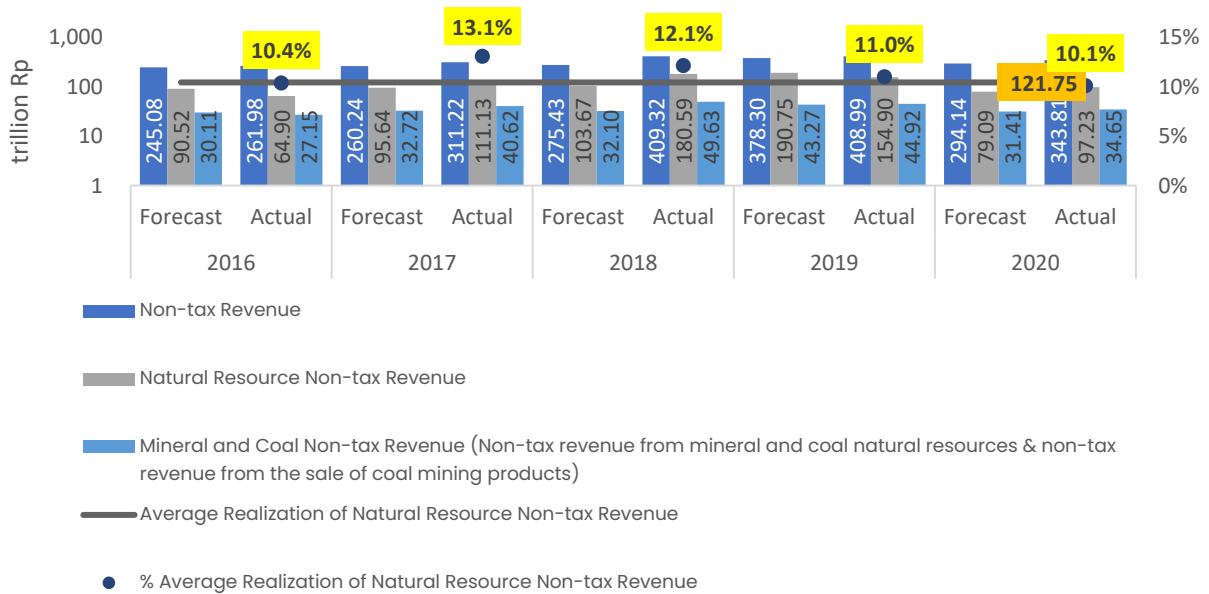
Non-tax revenue is the second largest source of income for the state budget after tax sector revenue. From 2016-2020, non-tax revenue contributed an average of Rp. 347.07 trillion, or 20 percent of state revenue. However, the average growth of non-tax revenue over the same period was only 8.6 percent. Meanwhile, non-tax revenue from natural resources only contributed an average of Rp. 121.75 trillion between 2016 and 2020, which was

approximately 35% of all non-tax revenue or approximately 6.94 percent of the total state revenue. Mineral and coal sector non-tax revenue consists of natural resource non-tax revenues on mineral and coal mining and other non-tax revenues originating from the sale of coal mining products. The average realization of non-tax revenue for the mineral and coal sector for the period of 2016-2020 was only Rp. 39.39 trillion or approximately 2.2 percent

of total state revenue. Graph 2 is an illustration of the figures for non-tax revenue, natural resource non-tax revenue, and mineral and coal non-tax revenue between 2016 and 2020,

processed from the Central Government Financial Report (*Laporan Keuangan Pemerintah Pusat/LKPP*).

Graph 2. Portrait of Non-tax Revenue, Natural Resource Non-tax Revenue, and Mineral and Coal Sector Non-tax Revenue, 2016 – 2020



Source : LKPP, processed by Fitra

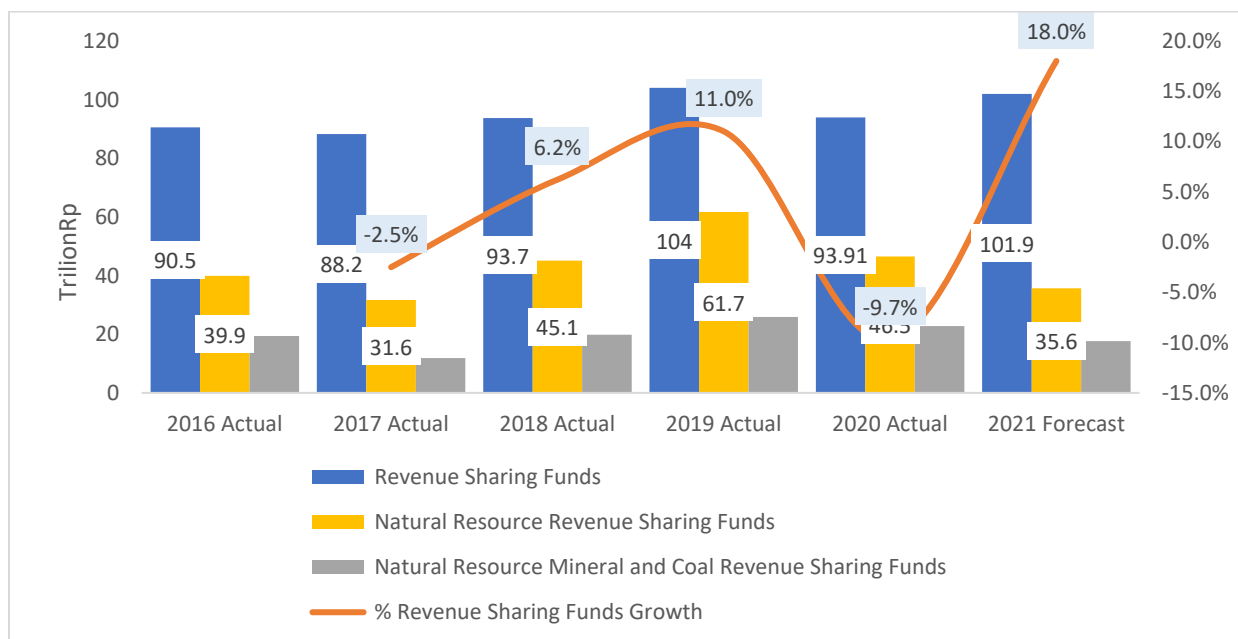
Graph 2 reveals that there was a decrease in non-tax revenue originating from mineral and coal mining in 2019 and 2020, compared to 2018. The 2019 decline had a large impact, particularly in coal-producing areas, due to its role in the decline in mineral and coal revenue sharing funds. The decline was suspected to be a result of the drop in the referral coal price (Harga Batubara Acuan/HBA) between January and December 2019 to USD 77.9 per tonⁱ, lower than the price for the same period in 2018 at USD 99 per tonⁱ, and the decline in 2020 due to the COVID-19 pandemic. As a coal-producing region, East Kalimantan Province experienced a significant 10 percent decline in non-tax revenue in 2019, which fell another 30 percent in 2020. Meanwhile, nickel-producing regions, including North Konawe District, did not experience a decrease in non-tax revenue.

Natural Resource Revenue Sharing Funds from Mineral and Coal Mining

Non-tax revenue from the mineral and coal sector is transferred to the production areas where the mining industry is located (at both the provincial and district level) through a revenue sharing scheme. Fluctuations in revenue from the sale of minerals and coal have a direct impact on non-tax revenue. The natural resource non-tax revenue from minerals and coal is transferred to the regions as a source of income for provincial and regional level budgets, and village funds, and can be used to finance expenditure for development and public services, for example on education, healthcare, poverty alleviation/welfare improvement, and so on, including financing the development of necessary infrastructure.

Non-tax revenue from the mineral and coal sector contributes to the Village Fund Budget. Village funds are allocated from the state budget, and consist of a minimum of 10% of the general allocation fund (Dana Alokasi Umum/DAU) supplemented with revenue sharing funds. Non-tax revenue from the mineral and coal sector that flows to villages in mining production areas (through the Village Fund Budget) can be used for development and improving the welfare of village communities, particularly those within the vicinity of industrial sites, and which are directly impacted by mining activities. Graph 3 provides an outline of revenue sharing funds (DBH), natural resource revenue sharing funds (DBH SDA), and natural resource revenue sharing funds from minerals and coal (DBH SDA Minerba) between 2016 and 2021.

Graph 3. Potrait of DBH, DBH SDA, and DBH SDA Minerba, 2016–2021



Source: Directorate General of Fiscal Balance (DJPK), processed by Fitra

Over the 2016-2020 period, the average amount of revenue sharing funds transferred to the regions was Rp94,06 trillion, with an average growth of 1.2 percent, this growth declined in 2020 due to the Covid-19 pandemic. In 2021, amount of revenue sharing funds is budgeted at Rp101 trillion or grows 18 percent from the realization in 2020. Meanwhile, the average amount of revenue sharing funds from mineral and coal mining transferred to the regions during the same period was Rp19.94 trillion or 21 percent of all revenue sharing funds, and in 2021 the revenue sharing funds from mineral and coal mining is budgeted for 17.3 percent of the total revenue sharing funds or Rp17.6 trillion. . Mineral and coal revenue sharing fund transfers fluctuate annually due to various factors on non-tax revenues, including fluctuation of commodity prices in international and domestic markets, the number of quotas, and production of each mining commodity in each region, as well as other technical factors, including transportation, trade, and so on.

A Portrait of Natural Resource Revenue Sharing Funds in

Three Mineral and Coal Producing Provinces

The natural resource non-tax revenue from mineral and coal mining transferred to the provincial and district levels as mineral and coal natural resource revenue sharing funds is calculated based on the amount of non-tax revenue deposited by the company to the state treasury (in the form of royalties and land rents) in accordance with tariffs (%) and production and sales (of royalties), as well as the land area used (for land rents). In general, 80% of natural resource non-tax revenue from mineral and coal mining is distributed from the center to production regions as mineral and coal natural resource revenue sharing funds, which is then further divided between the province and regencies in the production area, with 16% going to the province and 64% being distributed to the production districts for land rents, while royalties are divided into 16% for the district, 32% for the province, and 32% for other districts in the same province on a pro-rata basis. The following is an outline of natural resource revenue sharing funds in the 3 (three) provinces included as pilot regions in the GPSA program.

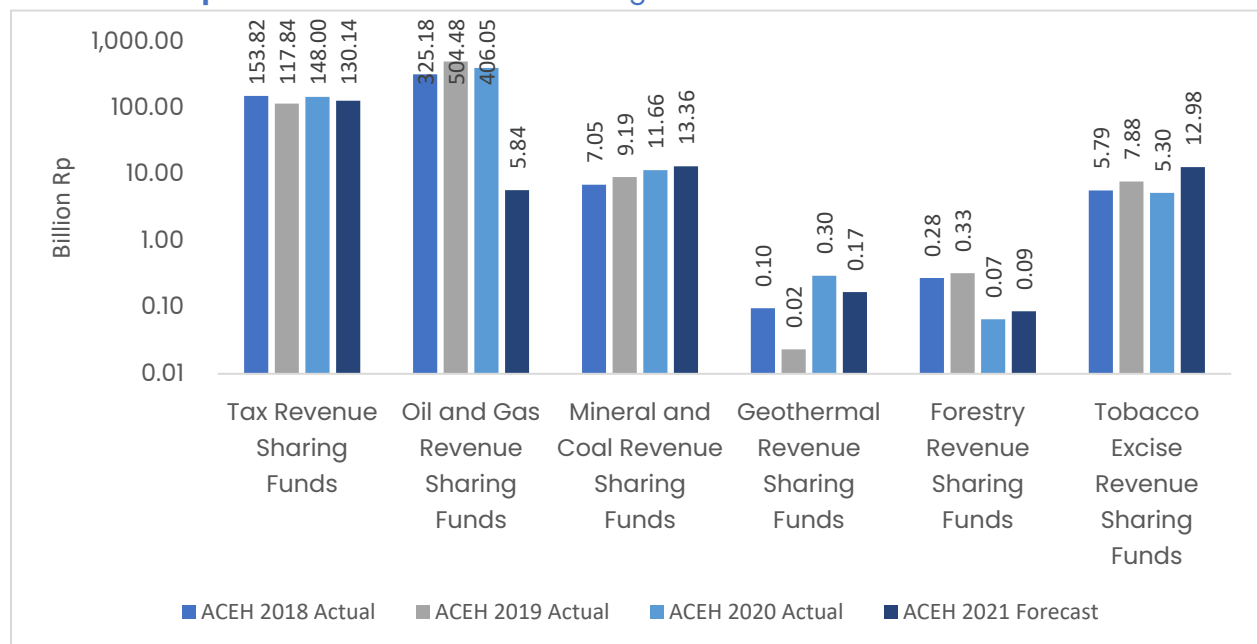
A Portrait of Natural Resource Revenue Sharing Funds in Aceh Province

Aceh is one of Indonesia's mineral and coal mining and oil and gas producing provinces. From a historical perspective of politics and governance, Aceh has special autonomy, including in the management of the mining and oil and gas sectors, as well as in terms of its finances (fiscal capacity). In general, the largest portion of the special autonomy fund constitutes financial transfers and village funds (Transfer Keuangan dan Dana Desa/TKDD) from the central government.

Income from revenue sharing funds in Aceh is dominated by revenue from the natural resource sector, particularly oil and gas and mineral and coal mining. Natural resource revenue sharing funds in 2018 up until the 2021 budget reached Rp. 321.04 billion, or 58

percent of the total revenue sharing fund. Meanwhile, the average amount of revenue sharing sourced from taxes was only Rp. 145.44 billion, or 42 percent. The natural resource revenue sharing fund in Aceh Province is dominated by natural resource revenue sharing from the oil and gas sector, with an average income from 2018-2020 of Rp. 411.91 billion, or 98 percent of the total natural resource revenue sharing fund. Meanwhile, mineral and coal revenue sharing funds from 2018-2020 contributed only 9.30 billion, or approximately 2 percent of the total natural resource revenue sharing fund. Graph 4 illustrates the state of revenue sharing funds and natural resource revenue sharing funds in Aceh Province.

Graph 4. The State of Reveue Sharing Funds in Aceh Province: 2018 – 2021



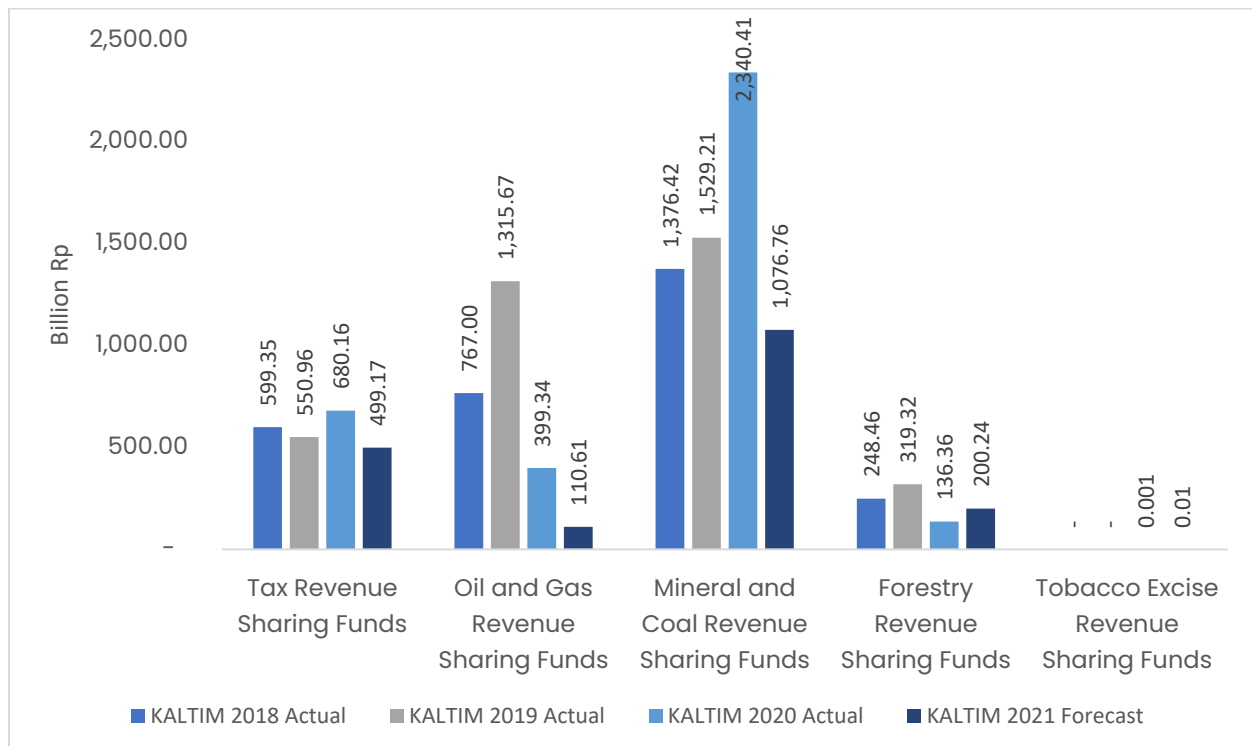
Source: DJPK, Fincance Ministry, processed by Fitra

A Portrait of Natural Resource Revenue Sharing Funds in East Kalimantan Province

East Kalimantan is one of Indonesia's mineral and coal mining and oil and gas producing provinces. Currently, East Kalimantan is the largest coal producer in Indonesia, with a high rate of operation. The income from revenue sharing in East Kalimantan Province mostly originates from natural resource revenue sharing funds. The average amount of natural resource revenue sharing funds from 2018-2020 was Rp. 2,810.73 billion, or 82 percent of the total revenue sharing fund. Two key commodities are sources of income for the natural resource revenue sharing sector in East

Kalimantan Province: oil and gas, and minerals and coal. However, the mineral and coal sector dominates income from the natural resource revenue sharing fund in East Kalimantan, with the average amount of natural resource revenue sharing from minerals and coal from 2018-2020 being Rp. 1,748.68 billion, or 62 percent of the total natural resource revenue sharing fund. Meanwhile, the average income from the oil and gas revenue sharing fund was only Rp. 827.34 billion, or 29 percent of the total natural resource revenue sharing fund.

Graph 5. State of Revenue Sharing Funds in East Kalimantan: 2018 – 2021



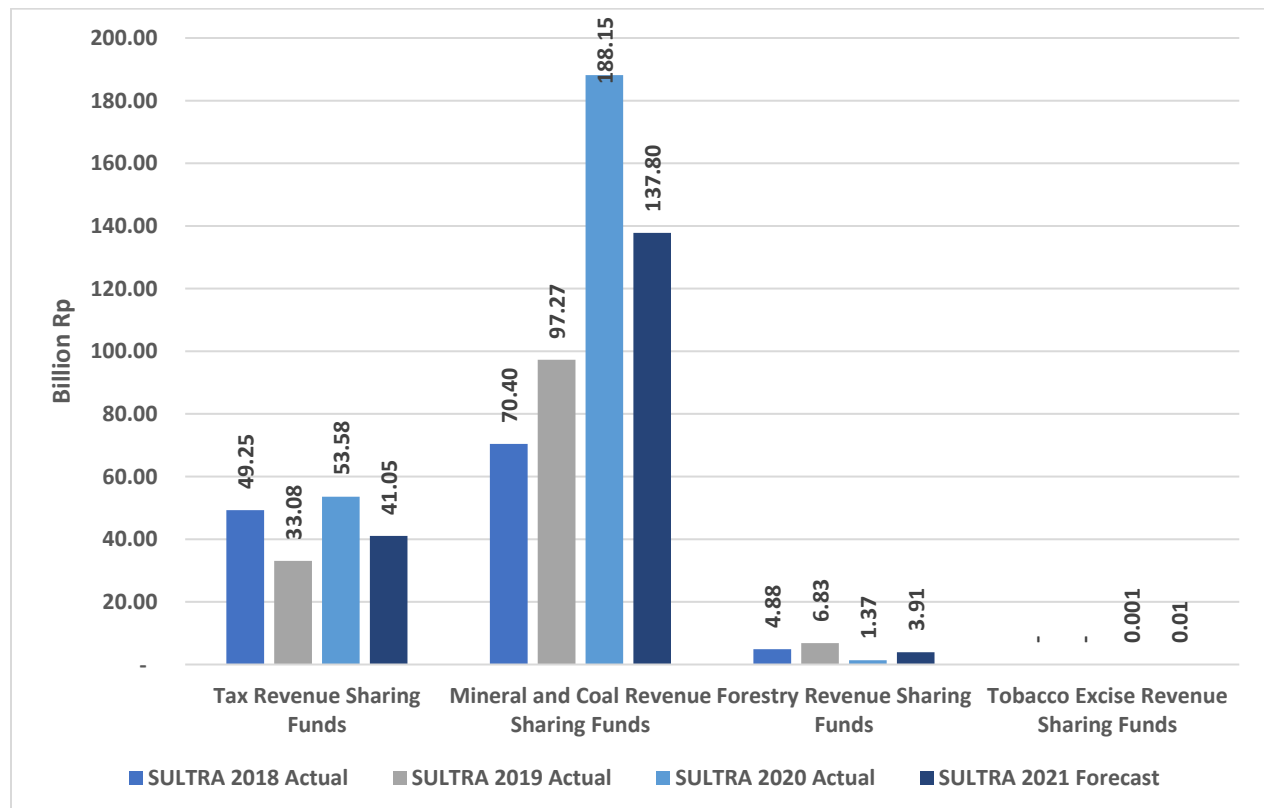
Source: DJPK, Fincance Ministry, processed by Fitra

A Portrait of Natural Resource Revenue Sharing Funds in Southeast Sulawesi Province

Southeast Sulawesi is one of Indonesia's mineral mining regions, representing one of Indonesia's largest nickel producers. The general allocation fund (DAU) continues to constitute the largest portion of financial transfers and village funds (TKDD) in Southeast Sulawesi Province. Meanwhile, the natural resource revenue sharing fund in Southeast Sulawesi is dominated by income from natural resource revenue sharing from the mineral and coal sector. On average, natural resource revenue sharing funds from 2018 up until the 2021 budget reached Rp.

127.66 billion, or 73 percent of the total revenue sharing fund. Meanwhile, the average amount of revenue sharing from taxes was only Rp. 44.24 billion, or 27 percent. As a nickel-producing region, the natural resource revenue sharing fund in Southeast Sulawesi consists mainly of revenue sharing from mineral and coal mining. The average contribution of natural resource revenue sharing from mineral and coal mining from 2018 up until the 2021 budget was 96.7 percent of the total natural resource revenue sharing fund, or 72 percent of all revenue shares.

Graph 6. Southeast Sulawesi Province Revenue Sharing Fund: 2018 – 2021.



Source: DJPK, Fincance Ministry, processed by Fitra

Endnote

ⁱ Statistics of Non-Petroleum and Natural Gas Mining Company 2019, Statistics Indonesia 2020

ⁱⁱ Analisis Komoditas Ekspor 2013–2020 [*Export Commodity Analysis 2013–2020*], Statistics Indonesia 2021

ⁱⁱⁱ <https://momi.minerba.esdm.go.id/public/>

^{iv} 2019 Central Government Financial Report, Finance Ministry 2020