

CONCENTRATION RISK IN A PUBLIC REVENUE PORTFOLIO: WHAT A LEGISLATED REASSIGNMENT REVEALS

Frida Rahayu^{1*}, Ahmad Ali²

¹Universitas Primagraha

²Fakultas Ekonomi Hukum dan Humaniora, Universitas Ngudi Waluyo, Kabupaten Semarang, Indonesia

*Corresponding author: frahayu31@gmail.com

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ABSTRACT

Firms are expected to know their concentration risk. Governments are not usually asked the equivalent question, because public revenue is treated as a policy category rather than as a portfolio with a risk structure. This article applies portfolio reasoning to a case in which the risk crystallized. Central Java Province held 79.2 per cent of its tax revenue in vehicle-related instruments when Law No. 1 of 2022 reassigned 66 per cent of the two largest of them to lower-tier governments with effect from 5 January 2025; provincial tax revenue fell 19.51 per cent in a single year. The article makes three arguments. First, the exposure was observable in advance from published accounts and was not a tail event: the reassignment was legislated three years before it took effect. Second, the conventional public-sector measure of revenue quality — own-source revenue as a share of the total — is insensitive to concentration and would have recorded the province as strong immediately before the loss. Third, the reform did not eliminate the exposure but redistributed it: across the 35 receiving jurisdictions mean dependence on the reassigned stream reached 37.0 per cent, and dependence was inversely related to pre-reform capacity, so that concentration came to rest in the weakest units. The article proposes that public revenue be assessed on two axes rather than one, the second constructed from the counterparty controlling each stream rather than from its accounting classification.

1. INTRODUCTION

An organization that derives most of its income from one source is exposed to whatever can happen to that source. The proposition is elementary in finance and in strategy, and firms are held to it: concentration by customer, by product, and by geography is disclosed, monitored, and priced.

Public organizations are not held to the equivalent standard, and the reason is partly conceptual. Government revenue is classified by legal category — taxes, charges, transfers, enterprise returns — and assessed by the proportion that is locally raised. The resulting measure, fiscal autonomy, answers a question about self-reliance. It does not answer a question about exposure, and the two are not the same.

This article examines a case in which the difference became consequential. On the conventional measure Central Java Province was performing well: own-source revenue

financed 66.9 per cent of total revenue in 2024, high among Indonesian provinces. On a portfolio measure it was carrying an exposure that would be considered severe in any commercial setting: 79.2 per cent of tax revenue in vehicle-related instruments, of which the two largest were removed by a single national statute. Tax revenue fell 19.51 per cent in the following year, in an economy that grew.

The interest of the case is not that a government lost revenue. It is that the loss was announced three years in advance, was visible in the organization's own published accounts, and was invisible to the measure by which its revenue position was routinely assessed. The article asks what a portfolio framing would have shown, and where the exposure went after the reform removed it from the province.

2. LITERATURE REVIEW

2.1 Why the standard measure does not detect it

Fiscal autonomy — own-source revenue as a proportion of total revenue — is the workhorse indicator of subnational revenue quality, used in Indonesian practice and widely in the comparative literature (Bird, 2011; Bahl & Bird, 2018). Its logic is that revenue a government raises itself is better than revenue it receives, because it aligns spending with local willingness to pay.

The measure is a ratio of one aggregate to another and is therefore blind to composition. A government raising all its revenue from a single instrument and a government raising it from twenty score identically. The measure is also blind to control: it classifies revenue by who receives it rather than by who determines whether it continues to arrive. Iacuzzi, Padovani and Canestrini (2025), testing across countries whether fiscal autonomy reliably improves local financial health, find the relationship contingent rather than automatic. Concentration is a plausible source of that contingency: autonomy built on one instrument is not the same asset as autonomy built on several.

2.2 Two dimensions of exposure

Two distinct properties determine how exposed a revenue portfolio is, and public-sector measurement captures neither.

The first is concentration in the ordinary sense: the share of revenue in the largest instrument or group of related instruments. This is measurable from any published set of accounts and requires no information the organization does not already hold.

The second is assignability: the extent to which the continuation of a revenue stream depends on a decision by a party other than its holder. A revenue source can be highly concentrated and secure, if the holder controls the terms on which it is levied. It can be moderately concentrated and fragile, if a third party can withdraw it. In a subnational

government the relevant third party is the national legislature, and the relevant question is how much of the organization's revenue rests on statutory entitlements it cannot defend.

The two dimensions interact multiplicatively rather than additively. Central Java in 2024 scored high on both: heavily concentrated, and concentrated in instruments whose legal basis was national rather than provincial. That combination is the public-sector equivalent of a firm with a single customer on a contract the customer may unilaterally rewrite. The analogy is imperfect in one respect that strengthens rather than weakens it — a firm in that position would be required to disclose it.

2.3 Exposure, adaptation and the limits of capability

Treating a revenue position as a portfolio raises the question of what an organization can do once it recognizes concentration. The strategic management literature supplies three answers that are not interchangeable, and the distinctions matter for a public organization whose instruments are set externally.

The first concerns sensing. Helfat (2022) argues that dynamic capabilities are defined relative to a specific external environment and are not a general adaptive competence, so an organization proficient at reading one kind of environmental signal may be blind to another. Riviere, Zámorský and Dumoulin (2025) develop this into a claim about founding imprint: the environment an organization was configured to read continues to shape what it notices. A revenue administration built to process vehicle tax transactions is configured to observe collection performance, not statutory risk, and a legislative change three years distant is not a signal its instruments are designed to register.

The second concerns seizing and reconfiguring. Colombo, Piva, Quas and Rossi-Lamastra (2021), studying ventures after an environmental jolt, find that dynamic capabilities affect performance principally through the speed of resource reconfiguration rather than through anticipation. Mohaghegh and Größler (2021) distinguish problem-solving modes and show that organizations default to the mode their routines support. Li (2024), examining firms' responses to physical climate exposure, finds adaptation concentrated where the firm controls the exposed asset. Where it does not, adaptation takes the form of absorbing the loss.

The third concerns the repertoire available when the environmental change is legal rather than competitive. Oliver (1991) sets out the classic range of strategic responses to institutional pressure and observes that it narrows as the pressure's coercive force rises. Wu, Wang, Tong and Zhang (2025) show that organizations tailor responses to the type of legitimacy challenge they face, and Ren, Yan, Yao and Du (2025) find that agency in institutional change depends on political connections and on the time horizon of those to whom the organization answers. A provincial government facing a national statute has no compliance choice, a short political horizon, and no exit. The literature predicts acquiescence, and acquiescence is what occurred.

Two further strands bear on the reform's aftermath. Öztürk and Bağış (2025), synthesizing resource dependence theory with the resource-based view, argue that dependence is best understood jointly with the internal resources available to reduce it — a formulation that fits the receiving jurisdictions precisely, since they acquired dependence without acquiring administrative resource. And Choi and Kim (2026) and Hood, Hood and Garrett (2026) show that external accountability and monitoring reshape organizational behaviour durably, which bears on whether the reconciliation and reporting duties attached to the surcharge will alter conduct or merely record it.

2.4 Why exposure persists when it is visible

If concentration was observable from published accounts and the reassignment was legislated three years in advance, the question is why the position was not adjusted. Three literatures bear on this and none of them requires an assumption of incompetence.

The first concerns what an organization can do rather than what it perceives. The dynamic capabilities framework holds that adapting to environmental change requires capacities for sensing, seizing and reconfiguring that are themselves built over time and cannot be summoned on demand (Teece, 2007). Eisenhardt and Martin (2000) add that such capacities are specific rather than general: an organization proficient at one kind of adjustment is not thereby proficient at another. A revenue administration configured for transactional processing of vehicle taxes possesses the capability to collect those taxes efficiently and not the capability to develop alternative bases, and the second is not obtainable within a three-year horizon.

The second concerns the range of responses institutionally available. Oliver (1991) sets out the repertoire an organization holds when confronted with an institutional demand — acquiescence, compromise, avoidance, defiance and manipulation — and observes that the repertoire narrows as the demand's legal force rises. A statutory reassignment enacted by the national legislature admits of acquiescence and very little else. The province could not defy the law, could not negotiate its terms, and could not exit the jurisdiction. Where the only available response is acceptance, the interval between announcement and effect is not a period in which exposure can be reduced; it is a period in which its consequences can be prepared for.

The third concerns whether the constraint is capability or opportunity, and the case supplies an unusually clear answer. The instruments with unused capacity — surface water tax and heavy equipment tax — together produced less than 0.15 per cent of tax revenue, and their rates are capped nationally. Full realization of both would not have replaced a material fraction of the loss. The general point is that organizational learning converts into performance only where the organization holds discretion over the process being learned about, and here it held none: not over rates, which are capped nationally; not over the list of permissible instruments, which is set nationally; and not over the timing of the change, which was fixed by statute. The

exposure persisted not because it was unseen but because the actions that would have reduced it were outside the organization's authority.

3. METHOD

The case is the provincial government of Central Java, Indonesia, in the fiscal years 2024 and 2025, with the 35 regencies and cities within the province as the counterpart population. The province is chosen because its exposure was extreme, its accounts are audited and published, and the reassignment provides a clean before-and-after observation.

Provincial revenue by instrument is taken from the audited financial statements for fiscal years 2024 and 2025 and from the provincial accountability regulation for 2024. District revenue is taken from the Regional Financial Information System maintained by the Directorate General of Fiscal Balance at the December cumulative period; these are figures reported by local governments and are unaudited. Surcharge entitlements by jurisdiction are derived as 66 per cent of principal collection reported by the provincial revenue agency, the statutory proportion under Article 83(1) of Law No. 1 of 2022. The derivation reproduces the aggregate surcharge target published in the provincial legislature's policy study, and the derived total is 96.8 per cent of the independently observed increase in district tax revenue.

Two limitations apply. District figures are unaudited and subject to revision. Surcharge realization by jurisdiction is derived rather than reported, so individual jurisdiction values carry timing error; the analysis therefore rests on distributional patterns rather than on any single value.

4. RESULTS AND DISCUSSION

4.1 *The exposure before the reform*

Table 1 sets out the provincial tax portfolio in 2024, the last year before the reassignment took effect.

Table 1. Provincial tax revenue by instrument, FY2024

Instrument	Realization	% of tax	% of PAD
Motor vehicle tax (PKB)	IDR 5.47 tn	38.5	31.0
Vehicle transfer duty (BBNKB)	IDR 3.10 tn	21.8	17.6
Cigarette tax	IDR 2.95 tn	20.8	16.7
Motor fuel tax (PBBKB)	IDR 2.69 tn	18.9	15.2
Surface water tax (PAP)	IDR 18.9 bn	0.13	0.11
Heavy equipment tax (PAB)	IDR 51.96 mn	<0.01	<0.01
Vehicle-related subtotal	IDR 11.26 tn	79.2	63.8

Instrument	Realization	% of tax	% of PAD
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Source: audited financial statements of Central Java Province, fiscal year 2024 (retrieved 2026). Vehicle-related subtotal comprises motor vehicle tax, vehicle transfer duty, motor fuel tax and heavy equipment tax.

Three features of this portfolio are worth stating in portfolio terms. It is concentrated: four instruments account for essentially the whole of tax revenue, and one group of related instruments accounts for 79.2 per cent. It is correlated: fuel tax, vehicle tax and transfer duty all respond to the same underlying variable, the vehicle fleet and its use, so they do not diversify one another. And it is assignable in its entirety: every instrument in the table exists by force of national statute, and none is within the province's power to preserve.

A commercial analyst presented with this composition would identify the exposure immediately. The relevant observation is that no adjustment appears to have been made to it between the promulgation of Law No. 1 of 2022 on 5 January 2022 and the effective date of the surcharge on 5 January 2025 — a three-year interval in which the loss was certain in timing and in amount. The exposure was not merely observable; it was scheduled.

4.2 The realized loss

Provincial tax revenue fell from IDR 14.21 trillion in 2024 to IDR 11.44 trillion in 2025, a decline of 19.51 per cent against a target attainment of 91.81 per cent. Own-source revenue fell 15.17 per cent and total revenue 9.92 per cent, the difference reflecting intergovernmental transfers that were broadly stable. Expenditure fell 12.42 per cent.

The attainment pattern across the revenue portfolio in 2025 is itself informative. User charges reached 123.05 per cent of target; taxes 91.81 per cent; other lawful own-source revenue 83.41 per cent; and returns from separated regional assets — dividends from provincially owned enterprises — 79.21 per cent, the weakest component, on a base that had fallen 20.52 per cent from the previous year. The ordering is the reverse of the usual expectation that tax revenue is the most reliable component of a public revenue portfolio.

The enterprise result deserves emphasis in a management context. Returns from separated regional assets are the one component of the portfolio the province controls through ownership rather than through statute, and in the year the province most needed them they performed worst. This article does not establish why, and doing so would require enterprise-level financial data not examined here. But it bears on the portfolio argument: the instrument least exposed to assignability risk was not thereby more dependable, which indicates that assignability is one dimension of exposure rather than the only one.

4.3 The exposure was redistributed, not removed

The province's concentration fell because the concentrated instrument was removed. Whether the system as a whole became less exposed depends on what happened to the transferred stream in the hands of its recipients.

Across the 35 receiving jurisdictions, mean dependence on the surcharge is 37.0 per cent of local tax revenue, with a range from 18.5 to 67.4 per cent. This is lower than the province's pre-reform 79.2 per cent, so on a simple reading the exposure was diluted. Two features qualify that reading.

The first is that dependence is inversely related to pre-reform capacity: the correlation between dependence and 2024 local tax revenue across the 35 jurisdictions is -0.50 . Concentration came to rest disproportionately in the smallest units. In portfolio terms the exposure was not diversified across the system but reallocated toward the holders least able to absorb it.

The second is that the receiving jurisdictions hold the stream on weaker terms than the province did. The province at least administered the tax: it maintained the register, issued assessments, and conducted enforcement, so a decline in collection was in part within its control. The receiving jurisdictions do none of these. Their 37 per cent is held with no operational capability behind it, which in portfolio terms is a position with the same concentration and less recourse. Table 2 compares the exposure before and after the reassignment.

Table 2. Exposure before and after the reassignment

Holder	Concentration	Administers the base	Can preserve entitlement
Province, 2024	79.2% of tax revenue	Yes	No
Province, 2025	≈61% of tax revenue	Yes	No
35 jurisdictions, mean	37.0% of tax revenue	No	No
Most exposed jurisdiction	67.4% of tax revenue	No	No

Concentration for receiving jurisdictions is derived surcharge realization as a percentage of reported local tax revenue in fiscal year 2025. The provincial 2025 figure is approximate, reflecting the residual vehicle-related share after reassignment. Sources: audited financial statements of Central Java Province, fiscal year 2024; Directorate General of Fiscal Balance, Regional Financial Information System, fiscal year 2025 (retrieved 2026).

4.4 Reading the enterprise result

The weak performance of returns from separated regional assets invites a portfolio interpretation that the data do not fully support, and the distinction is worth drawing. Ownership removes assignability risk, since no statute can reassign a dividend the province is entitled to as shareholder. It does not remove operational risk, and the 2025 result indicates that the second was material where the first was absent.

The management literature offers candidate explanations that this article cannot adjudicate. Liang and Bo (2025) find organizational resilience associated with growth through strategic rather than structural channels; de Abreu Saraiva Monteiro Alves and Carvalho (2025) locate the antecedents of organizational dynamic capability in managerial capability specifically; and Fang, Kim and Yang (2025) show that learning in temporally complex settings depends on external knowledge the organization must deliberately acquire. Bor and Cropper (2023), extending meta-organization theory to resource flows, provide a frame for the case where the owner and the operating entity are formally separate but fiscally joined. Vanneste and Gulati (2022) find that trust-based external sourcing performs differently in downturns than in normal conditions, which is relevant where an owner under fiscal stress is also a counterparty. Establishing which of these operates would require enterprise-level financial and governance data, and the analysis here establishes only that the instrument least exposed to statutory reassignment was not thereby the most dependable.

Hudson and Morgan (2024) provide the closest methodological parallel in the private sector, showing that industry-level exposure translates into firm idiosyncratic risk through channels moderated by board composition. The public-sector analogue — whether governance arrangements moderate how a common statutory exposure translates into individual fiscal risk — is the natural extension of the present analysis and is testable across the 35 receiving jurisdictions once a second post-reform year is available.

4.5 Discussion

The case supports three propositions of general application, and refuses a fourth.

The first is that public revenue has a risk structure that public revenue measurement does not record. The province's own-source share rose over the period preceding the loss; its exposure rose with it, since the growth was in the instruments that would be reassigned. A single measure that improves while the underlying position deteriorates is not merely incomplete but misleading, and this is a defect of the indicator rather than of the organization using it.

The second is that assignability should be assessed by counterparty rather than by accounting category. Standard classification groups revenue by legal type — tax, charge, transfer, enterprise return — which sorts by how the money is raised. The exposure-relevant question is who can stop it arriving. Sorted that way, the province's 2024 portfolio had a single dominant counterparty, the national legislature, across instruments that the accounting classification distributes across several categories. The concentration is invisible in the statutory classification and obvious in the counterparty one.

The third is that a reform which relocates a concentrated exposure has not reduced systemic risk merely by dividing it. Division reduces exposure only if the recipients hold the stream on terms at least as good as the transferor did, and here they hold it on worse terms: the same statutory fragility, without the administrative capability. That the mean dependence figure

is lower than the province's former concentration is arithmetically true and analytically insufficient.

The proposition the case does not support is that the province should have diversified. It is easy to observe, after the event, that an organization holding 79.2 per cent of its revenue in one exposed group should have built alternatives. What the province could actually have done is constrained: the permissible instruments are set nationally, the rates are capped nationally, and the two instruments with headroom — surface water tax at 0.13 per cent of tax revenue and heavy equipment tax at less than 0.01 per cent — are small relative to the exposure by three orders of magnitude. Full realization of both would not have offset a fraction of the loss. The recommendation to diversify is standard in the policy literature and, in this instance, is not available as a remedy. What was available was to know the exposure, to disclose it, and to plan the expenditure consequence of a loss whose date was fixed by statute.

Two further considerations qualify the argument. Singh and Dubey (2026), examining fiscal shocks to Indian states, find that the transmission of a shock depends on the composition of the affected revenue rather than on its magnitude — which is the portfolio claim in a different vocabulary, and independent support for it. Saens, Cox and Villalobos (2026) find that the flypaper effect varies with fiscal capacity, implying that identical exposures are not identical risks across differently endowed holders; applied here, the 37 per cent mean dependence among receiving jurisdictions understates the position of the weakest of them. Pill (2024) makes the complementary point that local capacity is a property of the state apparatus rather than of the resources passing through it, which is why the recipients' higher own-source share does not represent a stronger position.

For the wider Indonesian setting, Lewis (2023) argued when the law was enacted that its consequences for subnational finance had not been adequately modelled. The portfolio framing offered here suggests one reason the modelling was incomplete: the measures in routine use record the level of own-source revenue and not its structure, so the exposure the reform would crystallize was not a quantity anyone was reporting.

4.6 What the recipients would need in order to hold the exposure safely

If the exposure has been relocated rather than removed, the operative question is what would make the new holders more secure than the old one. The public management literature converges on administrative apparatus rather than on revenue level.

Kim and Kang (2024) find administrative intensity associated with local fiscal performance, and Tran and Dollery (2022) reach a compatible conclusion for Australian local government. Collazos-Ortiz and Schakel (2023) show that administrative efficiency determines whether Colombian municipalities convert entitlement into fiscal effort, and Zhu, Xiao and Wu (2022) demonstrate that investment in information systems raised bureaucratic capacity at scale. Lee (2022) finds that collaborative platforms produce results where they allocate tasks rather than merely convene participants — relevant here, since the surcharge creates a

standing coordination requirement between province and district that no party is presently obliged to service.

The constraints are equally well documented. De la Riva Agüero (2021) identifies administrative capacity as the binding constraint on complex service delivery in lower-income settings, and Yu, Kim and Sim (2022) show that fiscal capacity governs the scope of local response when a shock arrives. Kim (2024) and Lamothe (2024) caution that reported performance can diverge from delivered performance where reporting systems are not designed to detect the difference. Taken together these imply that the receiving jurisdictions' position will improve only through investment in capability they do not currently possess, and that the improvement will be slower than the exposure it is meant to offset.

4.7 Managerial implications

The portfolio reading of public revenue yields three implications for the management of an organization whose income is concentrated in instruments it does not control.

The first is a reporting change. An organization holding 79.2 per cent of its tax revenue in two related instruments was, on the conventional public-sector measure of revenue quality, in a strong position: own-source revenue as a share of total revenue records nothing about concentration. Adding a second axis — the share of revenue arising from instruments whose statutory basis a counterparty may alter unilaterally — would have made the exposure visible in the accounts for the three years between the statute's promulgation and its taking effect. The measure costs nothing to compute and is constructed from the counterparty controlling each stream rather than from its accounting classification.

The second concerns what an organization should do with advance notice of a loss it cannot prevent. The three-year interval was used to plan for a smaller budget; the companion analysis of pricing headroom shows that the obvious revenue response could have recovered at most 11 per cent of the loss, and the analysis of capability specificity shows that developing alternative instruments was a multi-year programme rather than a policy adjustment. Managers in this position should be advised to treat the interval as a period for restructuring cost rather than for replacing revenue, and to say so explicitly rather than committing to diversification targets the interval cannot deliver.

The third is for the receiving organizations, which acquired the exposure the province shed. Mean dependence of 37.0 per cent on a stream they neither assess nor collect, concentrated in the units with the weakest prior capacity, is a concentration position of the same character as the one that crystallized. The managerial recommendation is that they hold the exposure knowingly: measure it, report it to the body that approves their budget, and treat any plan that assumes its permanence as resting on a legislative choice rather than on an asset.

5. CONCLUSION

A provincial government held 79.2 per cent of its tax revenue in one correlated group of instruments, every one of which existed by force of a national statute it could not amend. Three years after the statute reassigning them was promulgated, and on the date that statute specified, it lost 19.51 per cent of its tax revenue. Throughout the period its performance on the conventional measure of revenue quality was strong and improving.

The general claim is that public revenue should be assessed on two axes: how much a government raises itself, and how much of what it raises depends on decisions it cannot make. The second axis is constructible from information already published, requires no new reporting infrastructure, and would have identified this exposure at any point in the decade preceding its realization.

Two extensions follow. Enterprise-level analysis of the returns from separated regional assets would establish whether the weak dividend performance reflects governance, market conditions, or the fiscal position of the owner, and would test whether ownership genuinely reduces exposure or merely relocates it into a different form. And constructing the counterparty-based exposure measure for all 38 Indonesian provinces would establish whether Central Java's position was exceptional or typical, which determines whether the finding concerns one organization or the design of a fiscal system.

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