Financial Independence of The South Sumatra Regional Government

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Abstract—Research to prove the influence of regional wealth, natural resources revenue funds and general allocation fund to regional financial independence was carried out on the districts/cities in South Sumatra Province. Multiple linear regression analysis was used to analysis data from the Budget Realization from the Audit Result Report BPK RI. The regional wealth and general allocation fund partially influenced the direction of positive relationship to regional financial independence. Natural resources revenue funds influence with the negative direction towards the regional financial independence. Simultaneously regional wealth, natural resources revenue funds and general allocation fund have a significant effect on regional financial independence.

Keywords—financial, independence, regional, government

I. INTRODUCTION

A common phenomenon faced by most regional governments in Indonesia is the relatively small role of Regional Original Income (ROI) in the structure of the Regional Revenue and Expenditure Budget. Revenue contributions from the central government dominate the budget structure. This must be considered by the regional government in order to become an independent region and reduce dependence on the central government or external parties. Each region is expected to further improve the service and welfare of the people in the region by way of further exploring the resources owned by the region. Thus the area is able to carry out all of its own government affairs because funding sources have been handed over to the local government [1].

Another obstacle in the implementation of regional autonomy, namely the existence of fiscal disparities between regions. For this reason, the central government provides assistance to the regional government, one of which is the provision of general allocation funds (GAF). Reality shows that the regional government cannot be completely separated from the central government in regulating regional households, which is indicated by a greater dependence on the GAF than the ROI in funding regional expenditures. The role of transfers to ROI in financing actual expenditure does not provide good guidance for the government on the flow itself.

South Sumatra is one of the provinces in Indonesia that has the largest area on the island of Sumatra, which is 91.592,43 km2 and consists of 17 districts/cities. Geographically South Sumatra has a very potential position because it has a lot of mineral resources, non-metallic mining materials, beauty of tourism and various crops that can be maximized as a source of ROI to accelerate regional financial independence. But the reality that happens at this time many districts/cities in South Sumatra actually became areas that are still very dependent on central government assistance. This is also because a lot of potential is taken over by the central government and returned to the regions in the form of revenue sharing funds. Revenue sharing is a component of the general transfer fund which has an important role in organizing regional autonomy because its revenue is based on the potential of the producing region, even though it is returned to the region in a relatively small percentage, the revenue sharing fund is also one of the basic capital of local governments in obtaining development funds and fulfilling regional expenditures that are not from ROI.

Based on data obtained from the Republic of Indonesia Supreme Audit Agency (BPK RI), the level of financial independence of districts/cities in South Sumatra has not shown optimal results. The highest level of independence from 17 districts/cities in South Sumatra Province for 3 years only 41.6% owned by Palembang in 2016. The lowest level of independence is less than 2.0% owned by the Penukal Abab Lematang Ilir Regency (PALI) in 2016. Based on this, it can be seen that the financial independence of district/city governments in South Sumatra Province in 2016 to 2018 is still below the 50%, meaning that it still shows low financial independence.

Regional financial independence [2] is indicated by the size of the ROI compared to regional income derived from other sources such as central government assistance or loans, in addition to regional financial independence is also caused by many factors, including revenue sharing, allocation funds general. According to Law Number 33 of 2004 Article 1 [3], the original regional income is income derived from the area collected based on regional regulations in accordance with the legislation. ROI has a positive influence on the level of regional financial independence [2].

General transfer funds are funds allocated in the Budget to regions and to be used to fund regional needs in the context of implementing decentralization. The general transfer fund consists of revenue sharing funds and GAF. Revenue sharing funds are funds derived from APBN revenues allocated to regions based on percentage figures to fund regional needs in the context of implementing decentralization. Revenue sharing funds do not differentiate between the level of regional independence and the level of regional financial independence [4]. Whereas was proved that revenue sharing had a positive effect on the level of regional financial independence.

GAF is a fund sourced from APBN revenues allocated with the aim of equal distribution of financial capacity between regions to fund regional needs in the context of implementing decentralization. GAF has a positive effect on the level of regional financial independence [5, 6]. While Halim proved that GAF has a negative influence on the level of regional financial independence [7].

II. Research Method

A. Population and Sample

The population of this study is the district/city regional government at South Sumatra Province in 2016-2018. The type of data used in this study is secondary data. The sampling method is purposive sampling, and the sampling criteria are presented in Table I.

TABLE I.   POPULATION AND SAMPLE

No.	Identification	Amount Local Government
1	Districts/cities in South Sumatra Province audited by BPK in 2016-2018	17
2	Amount of regencies/cities in South Sumatra Province that are used as samples	17
3	Amount of years of research	3
	Amount of units of analysis	51

B. Research Variables

The dependent variable in this study is regional financial independence (RFI). Independent variables used are regional wealth (RW), profit sharing funds of natural resources (PSF) and general allocation funds (GAF). An explanation of the operational definitions and measurements of each variable is explained in Table II.

C. Research Variables

This research model uses multiple linear regressions:

$$RFI = a + b_1RW + b_2PSF + b_3GAF + e \qquad (1)$$

where
Y   : Regional financial independence (RFI)
a   : Constants
b   : Regression coefficient
X1   : Regional Wealth (RW)
X2   : Profit Sharing Funds of Natural Resources (PSF)
X3   : General Allocation Fund (GAF)
e   : error

III. Result and Discussion

A. Result

Descriptive statistical test results, the average financial independence of regency/city government in South Sumatra Province is 8.93% with a standard deviation of 0.075. The highest independence ratio was 41.6%, while the lowest ratio was 2.03%. Regency/city wealth in the South Sumatra provincial government averaged 7.41% with the lowest regional wealth 1.9% and the highest 25.7% with a standard division of 5.04%. PSF averaged Rp 217.7 billion with the lowest amount of Rp 25.8 billion and the highest amount Rp 1.8 trillion with a standard deviation of Rp 292.6 billion from the average. The GAF is Rp 573.6 billion with the lowest GAF Rp 110.3 billion and the highest GAF Rp 1.2 trillion with a Division Standard of Rp 262.4 billion from the average.

Multiple linear regression analysis is useful for analyzing the linear relationship between 2 independent variables or more with one dependent variable. The results of testing the hypothesis can be arranged multiple regression equations as follows:

$$RFI = -0,616 + 1,083 \, RW - 0,031 \, PSF + 0,051 \, GAF \qquad (2)$$

The value of Adjusted R Square is 0.985. This means that 98.5% of the dependent variable or the financial independence of local governments is influenced by the RW, PSF and GAF.

RW shows the value below the significant level of 5% ($\alpha = 0.05$) and t-count 46.472 > t-table 2.012 which means that Ho is rejected and Ha is accepted. PSF shows a value below the significant level of 5% ($\alpha = 0.05$) and t-count value of -2.280 > t-table of -2.012, which means that Ho is rejected and Ha is accepted. GAF shows a value below the significant level of 5% ($\alpha = 0.05$) and a value of 2.078 t count > t-table of 2.012, which means that Ho is rejected and Ha is accepted.

F-calculated value of 1092.400 with a significance value of 0.000. This means that the significance level is < 5% ($\alpha = 0.05$) and F-count is 1092.400 > F-table is 2.798. This means that H4 is accepted, it can be concluded that RW, natural resources revenue sharing and GAF simultaneously have a significant effect on RFI.

B. The Influence of RW on RFI

ROI had a positive influence on the direction of a positive relationship to the level of regional financial independence in the district/city in South Sumatra Province. If the ROI of an area is greater than that of the central/provincial government and loans, the area is already financially independent so that the regional government can reduce the allocation of balancing funds to the region. Conversely, if the region's original revenue is smaller than the regional borrowing and the assistance of the central/provincial government such as DBH, GAF and DAK, the area is said to be not yet financially independent because the region still relies on the central government.

In the implementation of regional autonomy, financial resources originating from ROI are more important than

other sources of income. ROI is a regional financial source that is excavated in the area concerned, so that the optimization of ROI sources needs to be carried out to improve regional financial capacity. ROI aims to give authority to the regional government to fund the implementation of regional autonomy in accordance with the regional potential as a manifestation of decentralization [4]. This means that the amount of ROI is a manifestation of the success of decentralization.

C. The Influence of Natural Resources Sharing Funds on RFI

Natural resource revenue sharing is a component of the general transfer fund which has an important role in organizing regional autonomy because its revenue is based on the potential of the region to produce potential sources of regional income and is one of the basic capital of the regional government in obtaining development funds and meeting regional expenditures which are not derived from local revenues other than general allocation funds and special allocation funds. Therefore, if the local government wants a high transfer of profit sharing, the regional government must be able to optimize the natural resources owned by each region, so that the contribution given by the revenue sharing to regional revenues can increase.

Local governments have the flexibility to determine the direction of the uses of DBH [6-7]. The local government has the freedom in using DBH according to the needs and aspirations of each region. In this study, natural resource revenue sharing funds allocated by the central government to district/city governments in South Sumatra province have not been able to be used and utilized effectively and efficiently. This shows that the use of natural resources revenue sharing has not been able to achieve the targets and objectives of the public interest, and its use has not been able to produce output that has an impact on increasing and generating maximum regional income. This condition occurs due to the problem of the distribution of natural resources revenue sharing that often arises, namely the existence of a practice of quarterly distribution that is not timely is a complaint for the recipient area of natural resource revenue sharing funds. When it has been paid, there are still problems that arise, namely excess or lack of payment for an area. This resulted in disruption of the development planning system in the region.

D. The Influence of GAF on RFI

The need for funds for general allocation of a region is determined by using the fiscal gap approach, where the fiscal gap is determined by the needs of regions with regional potential. The GAF is the transfer of funds in the form of block grants [7], so that local governments have the freedom to use DAU according to the needs and aspirations of each region.

Local governments have the flexibility to determine the direction of use. In this study the GAF allocated by the central government to district/city governments in the province of South Sumatra have been used and used effectively and efficiently to improve infrastructure needed by the community. The fulfillment of the needs of the community so that the community feels satisfied has an

impact on the productivity of the industrial sector increases and produces maximum regional income.

This shows that the use of GAF can already achieve the targets and objectives of the public interest and their use can produce maximum and efficient output. This can be seen from the positive relationship between general allocation funds and increasing regional financial independence. This indicates that the use of general allocation funds transferred by the central government to district/city governments in the province of South Sumatra has been utilized for productive sectors that contribute to increasing local revenues, not only projected to meet consumptive needs. The results of this study are in line with [5] and [6] which states that general allocation funds affect regional financial independence. It can be concluded that the general allocation fund influences the positive direction of regional financial independence in the district/city government in the province of South Sumatra.

E. The Influence of RW, PSF and GAF on RFI

RW, Profit Sharing Funds of Natural Resources and GAF simultaneously have a significant effect on the regional financial stagnation. When the regency/city in South Sumatra Province has a high level of RW, obtains high results from the Natural Resource Sharing Fund, and receives transfers from the GAF with large amounts and with the right distribution system and management right it will affect both the level of financial stagnation in the region.

The influence of local taxes, regional retributions, other legitimate local revenue and tax sharing simultaneously have a significant effect on the level of regional financial independence [8]. The results of this study in line with [5] states that the effect of general allocation funds, special allocation funds and capital expenditures simultaneously has a significant effect on the level of regional financial independence.

IV. CONCLUSION

Regional wealth and general allocation funds partially have a significant effect on the positive direction of regional financial independence. The higher regional wealth and general allocation funds, the regional financial independence will increase. Natural resource revenue sharing funds have a significant effect on the negative direction of regional financial independence. The higher the natural resource sharing fund, the regional financial independence will decrease.

Regional wealth, natural resources revenue sharing and general allocation funds simultaneously have a significant effect on the positive direction of regional financial independence. The regional wealth is quite high, the receipt of high natural resource revenue sharing funds, as well as receiving the transfer of general allocation funds with a large amount and with the right distribution system and proper management will affect both the level of regional financial stagnation.

Revenue sharing funds received by districts/cities in South Sumatra Province have a negative effect on the level of financial independence of local governments. It is expected that the regency/city government in South Sumatra

Province in its management is not only projected to meet consumptive needs but also must achieve the goal of public interest in order to produce outputs that have an impact on increasing and generating more optimal regional income.

Subsequent research is recommended to increase the time period and expand the object of research in order to improve the accuracy of the quality of research results.

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TABLE II.   OPERATIONAL OF RESEARCH VARIABLES

Variable	Definition	Calculation	Data Source
Regional wealth/RW (X1)	RW is the ability to meet regional needs. in this study regional wealth is measured by looking at the contribution of ROI to total income. Regional Original Revenue is income obtained by the region collected based on regional regulations in accordance with the legislation.	$\dfrac{ROI}{Total\ Regional\ Income} \times 100\%$	LHP 2016-2018 from the Information and Communication Center (PIK) BPK RI
Profit Sharing Funds for Natural Resources/PSF (X2)	PSF is a part of the region that comes from the receipt of natural resources of forestry, minerals and coal, fisheries, petroleum mining, natural gas mining, and geothermal exploitation.	Total Revenue from Natural Resource Sharing Funds	LHP 2016-2018 from the Information and Communication Center (PIK) BPK RI
General Allocation Fund/GAF (X3)	GAF are funds sourced from APBN revenues allocated with the aim of equal distribution of financial capacity between regions to fund regional needs in implementing decentralization	Total Acceptance of GAF	LHP 2016-2018 from the Information and Communication Center (PIK) BPK RI
Regional Financial Independence /RFI (Y)	RFI is indicated by the size of the region's original income compared to regional income derived from other sources such as central government assistance or loans	$\dfrac{ROI}{Central\ Funds + Loans} \times 100\%$	LHP 2016-2018 from the Information and Communication Center (PIK) BPK RI
Regional wealth/RW (X1)	RW is the ability to meet regional needs. in this study regional wealth is measured by looking at the contribution of ROI to total income. Regional Original Revenue is income obtained by the region collected based on regional regulations in accordance with the legislation.	$\dfrac{ROI}{Total\ Regional\ Income} \times 100\%$	LHP 2016-2018 from the Information and Communication Center (PIK) BPK RI
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General Allocation Fund/GAF (X3)	GAF are funds sourced from APBN revenues allocated with the aim of equal distribution of financial capacity between regions to fund regional needs in implementing decentralization	Total Acceptance of GAF	LHP 2016-2018 from the Information and Communication Center (PIK) BPK RI
Regional Financial Independence /RFI (Y)	RFI is indicated by the size of the region's original income compared to regional income derived from other sources such as central government assistance or loans	$\dfrac{ROI}{Central\ Funds + Loans} \times 100\%$	LHP 2016-2018 from the Information and Communication Center (PIK) BPK RI