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Relationship Between Regional Economic Growth and Regional Original Revenue to Regional Financial Independence

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***Abstract*— Regional autonomy requires independence and genuine regional income which reflects regional economic growth. This study provides empirical evidence about the relationship between regional economic growth, regional own-source revenue, and financial independence. Descriptive and explanatory methods were used to analyze the unit of analysis in 27 local governments in West Java by purposive sampling in order to be tested using correlation analysis. Empirical research proves that partially there is a relationship between economic growth in regional own-source revenue, economic growth in regional financial independence, and regional own-source income to regional financial independence. The benefits of research for local governments in West Java are to increase the potential of jurisdiction, it is necessary to increase regional income so that regional economic growth increases and dependence on the central government is low so that regional financial independence in West Java can be achieved.**

Keywords— Regional Economic Growth, Regional Original Income, Regional Financial Independence, Local Government.

I. Introduction

Economic Growth is a process of increasing output per capita that is continuous in the long run, which is an indicator of the success of development and improving welfare [1]. Meanwhile according to M.L. Jhingan long-term increase in the ability of a country to provide more and more types of economic goods to its population, this ability grows according to economic progress and the institutional and ideological adjustments that it needs [2]. According to Sadono Sukirno economic growth can be seen from Gross Regional Domestic Product Growth (GRDP), which is the amount of added value generated by all business units in a particular region, or is the total value of final goods and services produced by all economic units in an area [3]. Regional Original Income (PAD) is the revenue that is obtained by the regional government from sources in its own region which are collected based on Regional Regulations in accordance with the prevailing laws and regulations. While the Regional Original Revenue indicator is a group of regional original income separated into four types of income, namely regional taxes, regional levies, the results of the management of separated regional assets, and other valid regional income [4]. Regional Financial Independence shows the ability of regional governments in self-financing government activities, development, and services to people who have paid taxes and levies as a source of income needed by the region to minimize dependence on funds from the central government [5]. According to Abdul, one measure of regional financial independence is regional financial dependency, which aims to find out how much local government is dependent on central government transfer funds. Eka stated that the economy can be said to experience growth if there is additional income [7]. Renny also stated that economic growth influences the financial independence of the region [8]. This shows that the level of economic growth is one of the important objectives of the regional and central government. [9] Research by Farida Khansa and Reza M. stated that Regional Original Revenue influences regional financial independence [10, 11]. This proves that the increase in regional original income will lead to an increase in regional independence. Previous studies showed different years and methods for measuring research indicators from variables of economic growth, regional own-source revenue, and regional financial independence. This study measures empirically the partial relationship between regional economic growth, regional own-source revenue and regional financial independence. To prove that efforts to implement regional autonomy require increased regional economic growth so that regional own-source revenue can develop. Thus, the regional financial independence becomes high so that the dependence of the region to the center can be reduced and prosperity in West Java can be achieved.

II. Methods

This research used descriptive methods to describe and explanatory methods to explain the relationship between regional economic growth, regional original income, and regional financial independence. The type of research used is verification research to empirically prove the relationship between the three research variables with a partial correlation test. Research analysis unit in 27 regional governments (*Pemda*). The secondary data type is statistical data from BPS (Statistics Indonesia) of the regional government in West Java for the period of 2015-2017. The sampling method uses the saturated sample (survey) because the population and sample used are the same, namely 27 local government entities in West Java for 3 years (2015-2017) of 81entities. The research variables consist of independent variables: independent variables 1. Regional economic growth with GRDP indicators reference, and independent variables [3]. 2. Local own-source revenue with indicators of regional own-source revenue consisting of local taxes, regional levies, the results of separated regional wealth management, and other valid regional income [5]. The dependent variable is the independence of regional finance with indicators of regional financial dependence [7].

In figure 1 shows the relationship of regional economic growth increases regional original income, and regional economic growth that supports regional financial independence [8, 9]. As well as local revenue supporting the independence of regional finance refer to references [10-11].

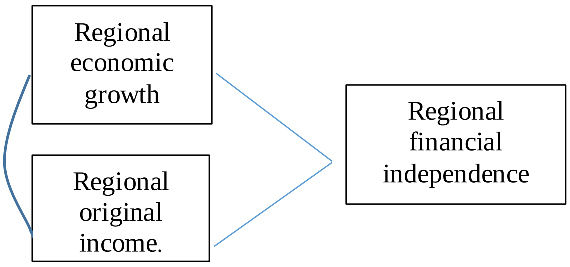

Fig.1. Research paradigm

Based on the description of previous research, the paradigm of this study can be explained in Figure 1 shows the relationship between regional economic growth variables, regional own-source revenue to regional financial independence.

III. Results and Discussion

This study uses 27 local government entities (provinces, cities and districts) in West Java. Correlation analysis serves to find the level of relationship between the independent variables with the dependent variable. Interpretation of the correlation coefficient obtained, researchers refer to the correlation interpretation guidelines in table 1 [12].

TABLE I. GUIDELINES FOR INTERPRETATION OF CORRELATION COEFFICIENTS

Coefficient interval	Relationship Level
0,00 – 0,199	Very low
0,20 – 0,399	Low
0,40 – 0,599	moderate
0,60 – 0,799	Strong
0,80 – 1,000	Very strong

The results of this study show empirical evidence that can be seen in table 2, namely 1. Relationship of regional economic growth with regional original income, 2. Regional economic growth with regional financial independence; and 3. Regional original income with regional financial independence. Based on table 2, the output results from data processing calculate the correlation between 1. Regional economic growth with regional original income or vice versa results obtained by -0.094 where these results are included in the interval scores between 0.00 – 0.199. This shows that there is a very low relationship between regional economic growth and regional own-source revenues or vice versa. The negative calculation results between the two variables indicate that there is an unidirectional relationship between regional economic growth and regional original income or vice versa, where if regional economic growth rises, regional original income will actually go down or vice versa, meaning that the higher the regional economic growth then the decline in local revenue is increasingly down. Likewise, on the contrary if the higher the original regional income, the possibility of a decline in regional economic growth will decrease. 2. Regional economic growth with regional financial independence or vice versa obtained a result of 0.019 where the results are included in the interval score between 0.00 – 0.199. This shows that there is a very low relationship between regional economic growth and regional financial independence or vice versa. The positive calculation results between the two variables show that there is a direct relationship between regional economic growth and regional financial independence or vice versa, where if regional economic growth rises, regional financial independence increases or vice versa, meaning that the higher the regional economic growth, the possibility of an increase in independence regional finances are increasingly high. Likewise, the opposite if the higher the financial independence of the region the possibility of an increase in regional economic growth is higher. 3. Regional original income with regional financial independence or vice versa obtained a result of -0.204 where the results are included in the interval scores between 0.20 – 0.399. This shows that there is a low relationship between local own-source revenue and regional financial independence or vice versa. The negative calculation results between the two variables indicate that there is an unidirectional relationship between regional own-source revenue and regional financial independence or vice versa, where if regional own-source revenue rises, regional financial independence will actually go down or vice versa, meaning that the higher the regional own-source revenue is likely the decline in regional financial independence decreases. Likewise, on the contrary if the higher the independence of regional finances, the possibility of a decline in regional original income decreases.

TABLE II. CORRELATION

		Regional Economic Growth	PAD	Regional Financial Independence
Regional Economic Growth	Pearson Correlation	1	-,094	,019
	Sig. (2-tailed)		,404	,869
	N	81	81	81
PAD	Pearson Correlation	-,094	1	-,204
	Sig. (2-tailed)	,404		,068
	N	81	81	81
Regional Fund Independency	Pearson Correlation	,019	-,204	1
	Sig. (2-tailed)	,869	,068	
	N	81	81	81

The Coefficient of Determination (Kd) analysis is used to see how much the independent variable influences the dependent variable expressed as a percentage [13]. The magnitude of the coefficient of determination is calculated using the following formula :

$$\boxed{Kd = r^2 \times 100\%}$$

Information:
Kd = Determination Coefficient
r2 = Correlation Coefficient

The purpose of the coefficient of determination method can find out how much 1. the effect of regional economic growth on regional own-source revenue, 2. regional economic growth on regional financial independence and 3. regional original income on regional financial independence.

1. Effect of regional economic growth on regional own-source revenue.
   The coefficient of partial determination of regional economic growth variables on regional own-source revenue is calculated as follows

   Kd = (-0,094)2 x 100%
   = 0,88 %

Based on the above calculation, it can be seen that the influence of regional economic growth variables on regional original income is 0.88%, while the remaining 99.12% is another factor not examined.

2. The effect of regional economic growth on regional financial independence.
   The coefficient of partial determination of regional economic growth variables on regional financial independence is calculated as follows:
   Kd = (0,019)2 x 100%
   = 0,04 %

Based on the above calculation, it appears that the influence of regional economic growth variables on regional financial independence by 0.04%, while the remaining 99.96% is another factor not examined.

3. The effect of regional own-source revenue on regional financial independence.
   The coefficient of partial determination of the region's original income variable towards regional financial independence is calculated as follows:
   $Kd = (-0,204)^2 \times 100\%$
   = 4,1 %

Based on the above calculation, it can be seen that the influence of regional original income variable on regional financial independence by 4.1%, while the remaining 95.84% is another factor not examined.

IV. Discussion

The local government in West Java showed an increase in economic growth, but it was not followed by an increase in regional financial independence. This refers to Wahyudi's research which explains the growth process one of which is in economic growth, fostering regional independence that can increase regional competitiveness [14]. In addition, other factors that influence regional financial independence are such as income from each sector, natural resources, population growth, capital accumulation and technological advancement in a region. This study supports the results of the study by Renny Nurainy which shows the positive influence between regional economic growth on regional financial independence [9]. While the regional original income in the West Java regional government showed an increase, but it was not followed by an increase in regional financial independence. Factors that cause local revenue to decline due to lack of compliance of taxpayers in paying local taxes, the receipt of levies in local governments has not been optimal, even though taxes and levies as the largest contributor to local revenue. This study supports Farida's research which states that there is an influence of regional own-source revenue on regional financial independence in the Central Java government [10].

V. Conclusion

This study shows empirical evidence of the relationship between regional economic growth to regional own-source revenue, the relationship of regional economic growth to regional financial independence, and the relationship of regional original income to regional financial independence. Regional economic growth in a region can illustrate the economic potential of an area in implementing regional autonomy, while regional original income illustrates the original potential of a region in exploring the empowerment of its regional resources to be pursued as an economic value of a region. It generates authentic regional income that is typical of the region. Regional financial independence is an indicator of a regional government in optimizing central transfer funds to the regions, but with maximum efforts from the results of exploration of resources and regional potential, the lack of funds from the center can be minimized. That an area can be said to be economically independent if the financial independence of the region maximizes the original revenue of the region. This research can be used by regional government implementers to further optimize the economic utilization of their regions, so that the original regional income will increase. As a result, regional financial independence can be realized. This effort is a follow up of regional decentralization towards prosperous areas with development in their respective regions.

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