

# Dependence of Local Governments on Transfer Fund (Study of Riau Islands Province)

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**Abstract**—Local governments make every effort to increase the Regional Revenue and Expenditure Budget. The Riau Islands Provincial Government received a transfer of ± 2 trillion to support development. This study seeks to analyze how the local government is dependent in this context the Riau Islands Provincial Government on transfer funds. The research method used is descriptive qualitative research with a literature study approach. The conclusion obtained in this study is that the Riau Islands Provincial Government's dependence on transfer funds is still very large. For this reason, the Riau Islands Provincial Government continues to seek to explore the original potential of the region in order to increase Regional Original Income.

**Keywords**—local government, transfer funds, local revenue

## I. INTRODUCTION

There are three main missions in the implementation of regional autonomy, namely improving the quality and quantity of public services and community welfare, creating efficiency and effectiveness of regional resource management, and empowering and creating space for communities to participate in the development process [1].

The success of local government can be assessed from the regional finances. In connection with the importance of financial position, effectiveness and efficiency in providing services and development as a function of regional autonomy will be choked. Therefore, the welfare of a region is said to be good if the income of its inhabitants is high [2].

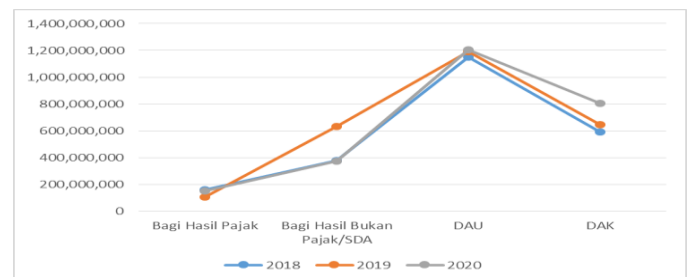
According to Halim [3], APBD can be interpreted as a financial performance that describes how the government's financial condition as well as the government's ability to obtain and use funds for state development.

On its way, many local governments both provinces, districts/cities rely solely on their budget allocation from the central government. The amount of costs and expenditures that must be spent by the local government is not directly proportional to the original revenue received by the region. This is because the social, economic, community and income

sources in the region become variables that determine the size of the original income of the region obtained. Of course, the inability of local governments in increasing regional revenues will greatly affect the improvement of regional welfare and development. The greater the revenue will provide free wiggle room for local governments to maneuver to build the area. On the contrary, the smaller the managed budget will make the local government's wiggle room very limited.

However, although there is room to explore the potential of the region's original income, there are still areas that have problems in financing [4], one of the reasons is the reduction of some authority owned by the [5], whereas PAD is a benchmark of regional independence [6]. The results of previous research showed that pad sources in districts/cities in Indonesia in 2007-2013 are volatile based on the potential of each region [7]. In line with that, the results of other studies show that regional independence significantly affects economic growth [8]. Therefore, fiscal decentralization is one of the solutions [9]. In fact, it is undeniable that previous findings suggest that transfer funds greatly affect capital expenditures in the region [10], health cost [11], economic growth in the region [12].

Dependence on budget sources from the central government is also experienced by the government of Riau Islands Province, this can be seen in the budget posture of the Kepri Budget in the last 3 years (figure 1).



Source: BPS, Financial Statistics of The Provincial Government of Kepri, Processed 2021.

Fig. 1. DBH, DAU and DAK of Kepri Province in the last 3 Years.

The purpose of this study is to look at the receipt of Riau Islands Province from the allocation of transfer funds over the last few years as a reflection to increase regional revenues from all aspects that do not solely depend on the receipt of the allocation of transfer funds.

**II. RESEARCH METHODS**

This type of research is normative research with a literature study approach. The location of this research was conducted in Riau Islands Province, especially the Riau Islands Provincial Government. Data analysis conducted will use qualitative descriptive analysis.

**III. DISCUSSION**

Many regions in Indonesia rely on transfer funds as a source to increase the rate of economic growth in the region [13]. The provision of budgets through transfer funds should be correlated with increased regional revenues from other sources so as to finance public services [14]. The Balance Fund is part of the Central Government's transfer fund to local governments that aims to be vertical imbalance and horizontal imbalance, as well as reduce the disparity of public services between regions [15]. The following are the regional original revenues, transfer funds as well as the total revenue of Riau Islands Province in 2009-2020.

TABLE I. PAD, TRANSFER FUND AND TOTAL REVENUE OF KEPRI PROVINCE 2009-2020

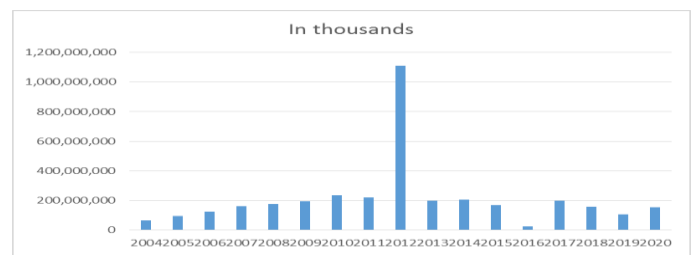
No	Years	PAD	Transfer Funds	Total Revenue
1	2009	398.951.424	1,077,053,057	1.481.489.820
2	2010	521.053.882	1,310,792,978	1.852.646.012
3	2011	620.901.423	1,246,904,170	2.093.853.228
4	2012	572.308.355	1.302.611.457	2.038.209.392
5	2013	907.982.039	1,753,710,493	2.843.717.790
6	2014	1.070.208.289	1,664,959,883	2.919.185.332
7	2015	1.012.146.824	1,246,121,773	2.513.438.254
8	2016	1.039.401.353	1,248,444,283	2.852.614.783
9	2017	1 093 710 866	2,156,268,926	3.251.159.752
10	2018	1.220.599.290	2,278,002,977	3.499.838.267
11	2019	1 298 917 001	2,573,155,269	
12	2020	1.303.321.350.464	2.539.569.841.559	3.882.832.227.023

Source: Kepri in Numbers 2009 – 2020

Referring to the data table 1 above, the receipt of Riau Islands Province from transfer funds is greater than the original regional revenue obtained by the Provincial Government of Riau Islands. The spirit of the law on central-regional financial balance is actually by reducing the dependence of local government finances to the central government through the delivery of several sources of income to local governments. However, on the way this cannot be realized to the maximum considering there are still many areas that depend on transfer funds from the central government. Colin Mas Andrew as quoted by Aries Djaenuri explained that one of the factors that can disrupt and damage the harmony of central-regional relations is the lower level of the central ability to provide subsidies to the region [16].

Furthermore, revenue sharing funds are funds sourced from certain incomes of the State Budget allocated to producing regions based on a certain percentage figure with the aim of reducing financial capability inequality between the Central and Regional Governments [17]. Revenue sharing fund (DBH) is a fund sourced from state budget revenue. DBH is allocated to regions based on a certain percentage figure to fund regional needs in order to implement decentralization [17]. In principle, the revenue sharing fund is divided into tax revenue sharing funds and non-tax revenue sharing funds.

DBH Pajak Riau Islands Province itself consists of DBH Tax PPh Psl 21; DBH Tax PPh Psl 25/29; DBH UN Central Government which is returned equally to the City District; DBH Wages Tax Levy UN City District; DBH UN Tax For City Districts [18]. For more details, the following is the receipt of transfer funds from the Tax Revenue Sharing of Riau Islands Province in 2004-2020.



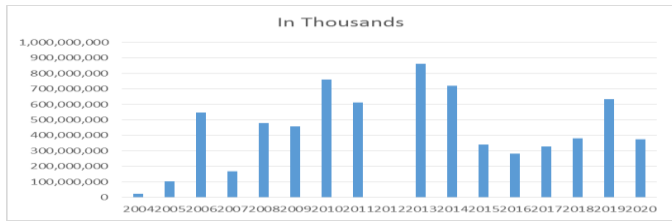
Source : BPS, Financial Statistics of The Provincial Government of Kepri, Processed 2021.

Fig. 2. Transfer fund for tax revenue sharing of Riau Islands Province 2004-2020.

Based on the figure 2 above, the tax revenue share of Riau Islands Province since 2004-2020 has fluctuated. Only in 2012 experienced a significant increase.

Furthermore, the Non-Tax Revenue Sharing Fund of Riau Islands Province consists of DBH SDA Petroleum; DBH SDA

Petroleum 0.5%; DBH SDA Natural Gas; DBH SDA Natural Gas 0.5%; DBH SDA Pertum Dues Fixed; DBH SDA Royaliti Fixed Contribution Pertum; DBH SDA Tobacco Products Excise; and DBH SDA Fishery Products [18]. For more details on the receipt of transfer funds for non-tax revenue sharing/SDA kepri province in 2004-2020 can be seen figure 3 below.



Source :BPS, Financial Statistics of The Provincial Government of Kepri, Processed 2021.

Fig. 3. Non-tax revenue sharing transfer fund /sda Riau Islands Province 2004 – 2020.

Based on the table above, the authors did not obtain non-tax DBH/SDA data in 2012. Furthermore, the General Allocation Fund is a budget sourced from the State Budget that aims to equalize the ability of inter-regional wear and tear in the framework of decentralization [17]. With the calculation formula as follows:

$$DAU = AD + CF$$

Information:

DAU: General Allocation Fund

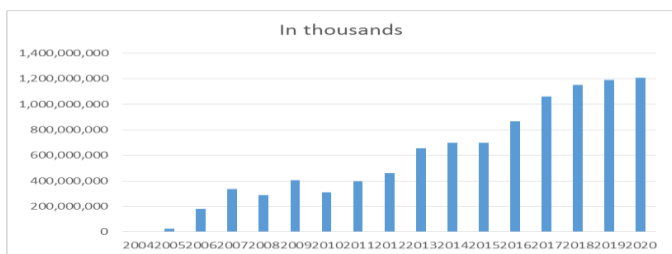
AD : Basic Allocation, by calculating ASN salary expenditure

CF : KbF – KpF

Kbf : Fiscal Capacity

Kpf : Fiscal Needs

From the formula above obtained from the general allocation fund of Riau Islands Province in 2004-2020 as follows.

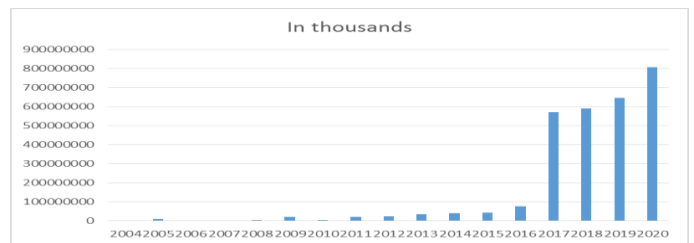


BPS, Financial Statistics of The Provincial Government of Kepri, Processed 2021.

Fig. 4. Transfer fund from general allocation fund (DAU) of Riau Islands Province 2004 – 2020.

From the figure 4 above it is known that the general allocation funds obtained by Riau Islands Province increase every year. Although it must be delivered not yet maximum because according to the saving indicators used have not characterized the archipelago area.

Special Allocation Fund is a fund intended to help fund special activities that are Government Affairs that become local authorities [17], following details of the receipt of special allocation funds for Riau Islands Province in 2004-2020.



BPS, Financial Statistics of The Provincial Government of Kepri, Processed 2021.

Fig. 5. Transfer fund from special allocation fund (DAK) of Riau Islands Province 2004 – 2020.

From the figure 5 above, it is known that the special allocation funds received by the provincial government of Riau Islands have increased significantly from 2017 to 2020.

With the granting of transfer funds to the region should be a stimulus for the region to increase other sources of income. The amount of budget owned by the local government will certainly be directly proportional to the development financing that can be done in the region. Conceptually, according to Faisal Akbar Nasution, the local government can manage the government well if supported by good financial conditions as well [19]. Rosita Wulandari's research [20], the financial performance of 14 provinces in Indonesia shows that the financial performance of the provincial government is very good because it is influenced by one of them by the balance fund.

Whatever the circumstances, the people should be the subject in regional financial management, in other words planning and budgeting done solely to improve the welfare of the people [21]. Therefore, the government of Riau Islands Province should continue to strive to increase regional revenues by exploring and looking for potential native revenues of the new region not only relying on the receipt of transfer funds because the regional budget continues to increase every year. Because in essence the government that can maximize the local native income will be able to freely allocate local expenditures [22].

Finally, it needs to be conveyed that this research has limitations in a simple model by only looking at the trend of receiving transfer funds obtained by the Provincial Government of Riau Islands from 2004-2020 which is then analyzed. Of course, with existing data can be analyzed on other variables.

#### IV. CONCLUSION

The conclusion obtained in this study is that the dependence of the Riau Islands Provincial Government on transfer funds is still very large. Therefore, the Provincial Government of Riau Islands continues to strive to explore the original potential of the region in order to increase the Regional Native Income which can then be used to finance the development and improvement of community welfare.

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