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Regional Financial Model Mapping Independence to Fiscal in East Java

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Abstract

With the advent of Law No .22 years 1999 set an authority and responsibility from central government to local government and UUNo.25 1999 governing financial between the center and regions, especially in the District city in East Java n local resources and reduce the dependence of the center.

This study aims to determine the independence of the Regency/City in East Java analysis used is qualitative analysis, the analysis that is explained in the description or in the form of sentences. This study aims to determine the independence of the Regency / City in East Java analysis used is qualitative analysis, the analysis that is explained in the description or in the form of sentences and quantitative analysis, namely analysis using formulas and definite analysis. Quantitative analysis includes the analysis of the degree of fiscal decentralization determine the level of independence of regional and by sector economic potential in the District East Java so that it can determine the level of financial independence and economic potential of the region. Result are expected to be used a pattern of the relationship between the central government and the government in the district /city in East Java as well as the formula right policy for future economic development.

From this research, it is known that the city of Surabaya has a degree of fiscal autonomy for PAD at 48% of revenue while the region Gresik on the degree of fiscal autonomy degree "Enough" and Sidoarjo district in degrees. There are 32 regions in the East Java degree of fiscal independence of each very less independent, meaning of Balance Funds as well as from centers of the province.

Keywords: Fiscal decentralization, independence area

INTRODUCTION

Reforms that began several years ago in Indonesia has penetrated into all aspects of life. One is the governance, namely the relationship between the central government and local governments. Changes to the governance driven by a variety of public demands for the more democratic government, thus demanding a change in the central government in order to give authority to local governments to manage their own regions, including the division of revenues between the central government and the regions.

According to Kurniawan (2006), the adoption of Act No. 22 of 1999 on Regional Government and Law No. 25 of 1999 on Financial Balance between Central and Regional is a major step eagerly awaited by the region. The birth of this legislation is expected to be a cornerstone of the acceleration and the distribution of economic growth in the regions, which have perceived the existence of disparities in development between the center and

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regions. The law further enhanced by the issuance of Law No. 32 of 2004 on Regional Government and Law No. 33 of 2004 on Financial Balance between the Central Government and Local Government.

According to Khusaini (2006), in accordance with Law No. 32 and 33 of 2004, the financial balance between the center and regions in implementing fiscal decentralization implies that the area was given the authority to utilize its own financial resources supported by the financial balance between the center and regions. Delivery of this authority must be accompanied by the delivery and transfer of financing. The most important source of financing is the source of financing, known as revenue (PAD), in which one of its main components is the revenue from the tax component area.According to Waluyo (2005), the tax is basically the provision of the wealth of the people, and or business entity to finance development activities undertaken by the state. Therefore, taxes are one source of state revenue collected under the legislation. Kurniawan (2006) mentions that the local tax is a tax that is managed by local governments, both provincial and district/city that is used to support the acceptance of local revenues and the proceeds are included in the budget. The central government has been supporting the reception for local governments through the sharing of central taxes to support development in the region, among others, through the Land and Building Tax, Tax on Acquisition of Land and Building Tax in the State Personal Income and Income Tax Article 21.

Mahmudi (2010) states that the tax legislation concerning the area has experienced several changes. Legislation in the field of local taxes, among others, Dirt Law No.11 of 1957 concerning the General Regulation of the Local Tax Law No. 18 of 1997 on Local Taxes and Levies. Then in 2009, the central government issued Law No. 28 the Year 2009 on Regional Taxes and Levies replace Law No. 34 of 2000.

Local tax is a potential revenue source in the province of East Java. On Actual Data East Java Provincial Revenue earned from DPPAD East Java province, seen total amount of local taxes by the end of 2010 to 2014 which in 2010 amounted to Rp31.661.000.000,00 in 2011 amounted Rp.38.121.000.000,00 in 2012 of Rp.36.351.000.000,00 the year 2013 by Rp.31.201.000.000,00 and 2014 amounted Rp.21.001.000.000,00 of total revenue shows local taxes potential to contribute funds for the original income. This raises the question of whether the tax collection area is effective and efficient (Bappeda of East Java, 2013).

In respect of the above data, shows that fluctuations in tax revenues and even a decline in regional revenue that local governments affect the independence of East Java Province. Therefore it is necessary to know the further deepening of the decline data.

Based on the background and the fact that there is in East Java it can be formulated issues raised in this study as follows:

1. Does the financial potential mapping areas in each district/city affect the financial independence of East Java?
2. Is the level of independence of fiscal in districts/cities affect the independence of the East Java Provincial finance?
3. Is the economic policy recommendations in the district/city government finance affect the independence of East Java?

The purpose of this study was to determine the extent of the scope of research directed at the following objectives:

1. Identify potential Mapping Finance areas in each district/city in East Java.
2. Analyzing Factors that Level Fiscal Independence in regencies/cities in East Java.
3. Formulate Recommendations Model of Economic Policy in the district/city in East Java.

THEORETICAL BASIS

Local Self-Reliance Index

This index can be used to analyze the independence of a region to explore the sources of financial receipts from its own country. The ratio is used to measure the index. In this analysis, there are two kinds:

1. The ratio of revenue (PAD) to Total Regional Revenue (TPD)
2. a Ratio of Tax Revenue and Non-Tax (BHPBP)

From this index can be seen how large an area can meet Income area consists of five posts is part of the remaining budget, Section PAD, Section Weighing Fund, Local Government Loans Section, and other legitimate acceptance. (Reksohadiprodjo, 2001: 155):

i PIR Index = PIR/TIR x 100%

ii Index Balances of Finance BF/TIR x 100%

Understanding Decentralization

Decentralization means government by the Government delegation of authority to autonomous regions within the framework of the Unitary Republic of Indonesia. According to Law No. 5 of 1999, decentralization is a transfer of administrative services from the central government or of a local authority higher to the lower local government to become a regional services.

Decentralization means giving a portion of the central government to local authorities to carry out and complete the matters which are the responsibility and concerns the interests of the region concerned (autonomy). Matters concerning the interests and responsibilities of an area, for example:

a. Public affairs and government
b. Facilities settlement services, and
c. Social and cultural affairs, religion and society (Elmi, 2002).

Fiscal decentralization can be interpreted as a delegation of authority in the field of budget revenue or finance the previously centralized, both in the administration and utilization at or by the central government. With the onset of the delegation of authority in part of the sources of state revenue to the local government, in the hope that these areas will be able to carry out routine tasks, public services, and increasing productive investments (capital investment) in the region.

Fiscal decentralization is mainly intended to transfer or delegate the sources of income and expenditure factors to the area by reducing government bureaucracy. By bringing government closer to the people, fiscal decentralization is expected to drive efficiency in the public sector, as well as public accountability, and transport in the provision of public services as well as transparent decision-making and democratic (De Mello, 2000). Implementation of fiscal decentralization would go well with reference to the following matters:

a. The existence of a capable central government in monitoring and law enforcement.
b. There's a balance between accountability and authority in the conduct of taxes and levies.

Fiscal decentralization should be followed by the ability of local governments to levy taxes (taxing power) The purpose is to develop a greater decentralization of planning and implementation of public services by combining local needs and conditions as well as to achieve the objectivity of social development, the economy at national and regional levels, improved planning, implementation and social and economic development budget is expected to be used more effectively and efficiently. To meet local needs.

Fiscal Decentralization Indicators

In discussing the fiscal decentralization indicator, there are three variables that are fiscal decentralization in Indonesia, the three variables are as follows:

a) Decentralization Expenditure

Variable defined as the ratio of total expenditure. Each district/city (budget) there is total government

spending (APBN) (Woller and Phillips, 1998; Zhang and Zou, 1998). This shows the relative size of government spending between local government and central government. Results of studies conducted by Zhang and Zou (1998), indicates that this variable has a negative effect on economic growth. These results failed to implement that fiscal decentralization encourages economic growth in China, this may reflect that the government has limited resources to invest in the infrastructure sector. While the study conducted by Woller and Phillips (1998) also showed the negative effects of fiscal decentralization on economic growth in the developed countries. And they failed to explain the effect of fiscal decentralization on economic growth in developing countries.

b) Development expenditure decentralization

This variable is defined as the ratio of the total development expenditure of each county or city (APBD) to total national development expenditures (APBN) (Zhang and Zou, 1998). This variable indicates the relative magnitude of government spending on development between central and local governments. In addition, this variable also expresses the magnitude of development expenditure allocation between central and local governments. From this ratio can also be known whether local governments are in a good position to carry out public sector investment or not. If there is a positive relationship between these variables to economic growth, then the local government in a good position to invest in the public sector.

c) Decentralization Reception

This variable is defined as the ratio between the total acceptance of each county/city (budget) does not include subsidies to total government revenues (Woller and Phillips, 1998). This variable expresses the relative magnitude between of local government revenue.

Interval scale Degree of Fiscal Decentralization. AD / TPD (%) Regional Financial Capability (UGM, 1991):

- 0.00 to 10.00 Very Less
- 10.01 to 20.00 Less
- 20.01 to 30.00 Medium
- 30.01 to 40.00 Enough
- 40.01 to 50.00 Good
- 50.00 Very Good

To determine whether an autonomous region was able to organize and manage their own household, (Syamsi, 1986: 199) confirms several sizes:

1. The ability of the structural organization

   The organizational structure of Local Government should be able to accommodate all the activities and tasks become a burden and a responsibility Total units along with that stuff fairly reflect the needs, the division of duties, powers, and responsibilities are fairly clear.

2. The ability of local government officials

   Local government officials should be able to carry out their duties in the care of the household have and regions .skill, moral discipline and honesty mutually support the achievement of objectives in the region craved.

3. The ability to encourage community participation

   Local government should be able to encourage people willing to participate in development

activities.

4. The ability of local financial

   Local Government Should be able to finance all government activities and community development, as the implementation of the regulation and maintenance of his own household-whatever, sources of funds, whether the PAD or any part of central government subsidies.

Local Revenue Sources

Finance area has a very important position and needs to be recognized by the government. Alternative ways to get adequate finance has been considered by the government. It can be seen from the official explanation of the law No.22 of 1999 as b. So that the regions can manage their own household, then the area needs to be given resources adequate funding. But given .than not all sources of financing can to the region, then the region is required to be the financial resources of its own based on the legislation in force.

The financial resources of the area can be obtained through a variety of ways:

1. Local government can raise funds from local taxes which have been approved by the central government.
2. The Government region can take part in tax revenues collected by the central region, such a percentage of the central taxes.
3. Local governments can apply for loans from third parties, market, bank or central government
4. Local governments may receive a subsidy from the central government (Kaho, 1988: 125)

In accordance with article 79 of Law No. 22 of 1999 and chapters 3, 4, 5 and article 6 of Law No. 25 of 1999, local revenue sources consist of the following:

1. Local Revenue

   Revenues which indicates the ability of the area to collect the sources of funds to finance the activities of both routine and development.

2. Balance Fund

   Consisting of:

   a. Part of the reception area of land and building tax (PBB), Bea acquisition of land and buildings (BPHIB)
   b. The general allocation fund (DAU)
   c. Special Allocation Fund

3. Regional Loans
4. Other Local Revenue the Legal

Tax Revenue and Non-Tax (BHPBP)

Part revenue obtained from the reception area for the results of tax and non-tax sharing.

1. Tax Sharing
   a. Land and Building Tax (PBB)
   b. Bea acquisition of Land and Building (BPHTB)
2. Non-Tax (Natural Resources)

Local Donations

Donations/ aid from the central government to local governments in the form of the General Allocation Fund (DAU) and Special Allocation Fund (DAK).

General Allocation Fund

Another important point of the financial arrangements in accordance with Act No. 25/1999 is a provision in the form of an intergovernmental transfer from the center to the district and the city called by the General Allocation Fund (DAU) and Special Allocation Fund (DAK). DAU is a block grant given to all counties and cities for the purpose of filling the gap between capacity and fiscal needs and distributed by formulas based on certain principles which generally indicates that the poor and backward areas should receive more than richer regions. In other words, an important goal is the DAU allocation within the framework of equalization ability to provide public services among local governments in Indonesia. Law No.25/1999 Article 7 outlines that the federal government is obliged to distribute at least 25% of Revenue land is in the form of DAU.

DAU calculation policy Fiscal Year (FY) 2003 uses a formula with the concept of the Fiscal gap (fiscal gap) set out in Regulation 84/2001 as an amendment to the Regulation 104/2000 on Balance Fund (DAU is used in the calculation of FY 2002). In addition to the fiscal gap formula, calculation of DAU also determined by using a stabilizing factor (FP) in the form Minimum Allocation (AM).

Special Allocation Fund

DAK is earmarked for specific areas chosen for a special purpose. Therefore, allocation

METHODS

Operational Definition and Measurement of Variables

In analyzing the parameters to be studied either know the potential of the region as well as to determine the region's autonomy Variable Operational definition is as follows:

a. Local Revenue (PAD) is a local government revenue derived from sources of local revenue are levied by local regulations in accordance with the law, which includes local taxes, levies, results corporate have area and the results of the management of capital of the region, as well as other -Other PAD units research from the center of the DAK and DAK.

b. The share of Tax and Non-Tax (BHPBP) is part of the local revenue derived from the proceeds of tax revenues and non-tax sharing units of percent.

c. Subsidy/Aid (SB) are donations/aid from the central government to local governments in the form of general allocation funds as a whole were broadly sourced from local revenue plus total financing revenue units of percent.

d. Inequality is the area that shows the index numbers between regions farther from increasingly unequal zero and near zero more evenly.

Types and Sources of Data

The data used in this research is secondary data, drawn from a particular year. The data obtained from the Statistical Center Board (BPS) of East Java and Regional Development Planning Board (BAPPEDA) of East Java.

Mechanical Analysis

In analyzing the data with parameters, this research using local self-reliance index. This index can be used to analyze the independence of a region to explore the sources of financial receipts from its own country. In this analysis, there are three parameters:

1. Revenue Ratio (PAD)
2. Total Regional Revenue (TPD)
3. Balanced Funds Ratio

RESULT AND DISCUSSION

A degree of Fiscal Decentralization Analyze

In the analysis of regional income will be displayed region reception area and cities in East Java. For more can be seen in the following table 1:

Table 1. Region reception area and cities in East Java

No.	Region/ Municipal	Total Income Region	Pure Income Region	Balance Funding	Pure Income Index	Balance Fund Index
1	Surabaya Region	7.304.836.873	3.520.137.339	1.536.796.757	48,18	19,69
2	Kediri Region	1.432.324.497	166.436.404	770.952.510	11,62	53.82
3	Sidoarjo Municipal	3.702.781.216	1.090.575.14	1.449.353.252	29,45	39,14
4	Gresik Municipal	2.565.135.034	842.196.737	1.131.468.608	32.83	44,10
5	Malang Municipal	3.303..969.223	333.189.098	1.895.537.664	10,08	57,37
6	Malang Region	1.821.417.126	353.424.747	931.505.593	19,385	51,14
7	Banyuwangi Municipal	2.572.207.223	249.030994	1.469.636.765	9,68	57,11
8	Jember Municipal	3.129.650.675	508.051.017	1.863.099.834	16,21	59,53
9	Bojonegoro Municipal	3.195.069.711	262.951.712	2.144.452.866	8,20	67,1
10	Tuban Municipal	1.939.022.483	260.939.261	1.096.825.264	13,40	56,52
11	Mojokerto Municipal	2.230.693.946	400.009.300	1.084.684.979	17,93	48,60
12	Tulungagung Municipal	2.213.019.823	213.010.206	1.286.442.394	9,62	58,11
13	Pasuruan Municipal	2.480.405.639	372.454.140	1.286.442.394	15,0	51,85
14	Kediri Municipal	2.458.683.034	272.923.275	1.319.841.229	11,06	53,66
15	Probolinggo Municipal	2.121.341.946	184.19.6571	1.141.721.604	8,67	53,79

16	Jombang Municipal	2.103.180.775	256.125.950	1.184.405.880	12,17	56,300
17	Lumajang Municipal	1.897.958.994	170.242	1.118.111.139	8,96	58,93
18	Blitar Municipal	2.065.948.903	176.039.479	1.231.046.036	8,52	59,61
19	Lamongan Municipal	2.222.799.102	266.767.894	1.259.978.025	11,97	56,66
20	Sumenep Municipal	2.015.840.671	166.654.328	1.309.105.178	8,23	64,96
21	Nganjuk Municipal	2.132.109.612	237.473.871	1.175.871959	11,11	55,11
22	Situbondo Municipal	1.549.938.736	125.963.802	1.002.450.765	8,06	64,68
23	Bangkalan Municipal	1.781.003.956	122.079.311	1.137.833.827	6,85	63,84
24	Ponorogo Municipal	1.890.938.986	177.247.642	1.172.450.159	9,36	62,01
25	Magetan Municipal	1.609.326.079	122.839.547	978.442.223	7,58	60,78
26	Ngawi Municipal	1.766.878.003	138.773.976	1.107.605.839	7,81	62,68
27	Bondowoso Municipal	1.611.254.065	122.173.828	1.001.040.533	7,57	62.13
28	Madiun Municipal	1.522.302.830	128.526.430	971.080.928	8,40	63,79
29	Trenggalek Municipal	1.620.457.377	124.094.454.	1.020.820.215	7,65	62,96
30	Sampang Municipal	1.474.017.178	121.298.115	999.734.485	8,20	67,77
31	Madiun Region	989.473.907	111.379.359	593.152.373	11,22	59,95
32	Pamekasan Municipal	1.819.566.127	125.125.991	1.045.630.754	6,87	57,44
33	Probolinggo Region	894.026.083	108.620.977	756.2732.181	12,08	84,56
34	Batu Municipal	917.333.704	80.150.000	554.901.356	8,72	60,41
35	Pacitan Municipal	1.272.572.005	89.469.532	833.044.603	6,99	65,48
36	Mojokerto Region	852.099.820	92.842.136	593.338.493	10,79	69,60
37	Pasuruan Region	2.480.405.639	92.842.136	1.315.925.847	3,70	53,02
38	Blitar Region	784.167.167.165	82.436.369	536.976.838	10,45	68,36

Source: BPS

From the table above districts and cities in East Java which has the biggest PAD are Surabaya city by 48, 18%, and 32,83% for Gresik, Sidoarjo regency amounting to 29.49%. While counties and cities in East Java which has the largest equalization fund Probolinggo City, Mojokerto 84.56% by 69.60%, 67.77% Sampang Bojonegoro by 67.10 by 68.36% Blitar City Sumenep regency and Situbondo Regency by 64%, Bangkalan Regency and Madiun Regency by more than 63% (table 2 and 3).

Table 2. The degree of decentralization in East Java

No.	Region/Municipal	Donation PIR/PAD (%)	Decentralization Degree
1	Surabaya Region	48,18%	Good
2	Gresik Region	32,83%	Enough
3	Sidoarjo Region	29,49%	Moderate
4	Mojokerto Region	17,92%	Less
5	Probolinggo Municipal	12,02%	Less
6	Madiun Municipal	11,22%	Less
7	Nganjuk Municipal	11,11%	Less
8	Mojokerto Municipal	10,79%	Less
9	Blitar Municipal	10,45%	Less
10	Probolinggo Region	9,36%	Very Less
11	Pasuruan Municipal	3,7%	Very Less

Source: BPS

Table 3. PIR/PAD Analysis, Taxes, and Retribution in East Java

Region/Municipal	PIR/PAD	Taxes	Levies
Surabay	3.520.137.339	2.679.378.00 (76,10%)	302.514.834 (8,57 %)
Gresik	842.196.737	410.455.500 (48,69)	228.946.834 (27,07)
Sidoarjo	1090.575.714	656.653.999 (60,18)	97.650.879 (8,89)

Source: BPS

CONCLUSION

From the above data that the contribution of PAD in regencies/cities in East Java, which exceeds 25% of the reception area is the area in 2015. Surabaya PIR plugs 48,18% degree of decentralization Good. Gresik 32.83% degree of decentralization Enough. Sidoarjo regency 29.49% Average Degree of Decentralization.

The local area with PAD have turned out the area adjacent to Surabaya with contributions GDRP sector is the sector of Trade and Industry is due to the elasticity of industry and trade sector support and contribute greatly to regional income. 3 of PAD in the area's largest donation came from Surabaya City Tax Contribution Tax on

revenue of 76.10%, 8.57% Levy Tax Contribution Sidoarjo regency For revenue of 60.18%, 8.89 Levy.% Gresik Taxes against PIR 48.69% and amounted to 27.07% contribution levies. Surabaya area including Good financial management in financial management. Sidoarjo regency end of the financial management of the regions in the word is good enough (32.15%). Average Gresik including the category average (24.67%), in the area of financial management.

East Java regional governments should encourage the agricultural sector and other sectors to be increased in order to increase revenues and districts and improving welfare.

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