

# The Influence of the Original Revenue Balance Fund and Regional Income Areas at the Level of Provinces and Regency/City in Indonesia

Syapsan

Faculty of Economics, Universitas Riau, Indonesia

**Abstract** The effective implementation of regional autonomy implemented in January 2001 has made fundamental changes in the implementation and financing of regional development in each regency / city. The changes are especially visible in areas that have the natural resources, an area where their income increase is highly large compared to before the time of autonomy. The results showed that the largest source of receipts revenue (PAD), both at the provincial and district / city comes from local taxes. PAD provinces throughout Indonesia on average each year grew by 17.64% while the PAD districts / cities throughout Indonesia on average each year grew by 19.25%. The influence of Regional Income to the regional revenue at provincial level throughout Indonesia amounted to 1,979. While in regencies / cities throughout Indonesia the influence of regional revenue to the regional income / town of 7.744 and (2). The balance funds provincial governments throughout Indonesia on average each year grew by 13.50%, higher than the growth of the balance funds at the district / city that grows on average every year amounted to 9.85%. The balance funds influential provincial government amounting to 3.923 to the regional income, whereas the effect of balance funds at the district / city to the regional income amounted to 1.582. Later in the theoretical context that decentralization should be able to open a democratic space for participation, in the sense that may occur handover of authority to the lowest unit of government that is accessible to all parties, so that people can feel the political rights and freedoms. The authority and participation in the regional autonomy of course requires a good functioning of the rule (good governance), so that the functioning of autonomy correspond with the rules. In summary it can be said, good governance can be created if the two powers mutually supporting open government, responsive, willing to listen, willing to engage (inclusive) with responsible citizens, active and have awareness.

**Keywords** Fiscal Decentralization, Local Revenue and Balance fund

## 1. Introduction

Law No.22 of 1999 on Regional Government and Law No. 25 of 1999 on Financial Balance between Central and Local Government is the basis of decentralization of political, administrative and fiscal in order to realize Autonomy. Law No. 22 cored division of authority and functions (power sharing) between the central and local governments. While Law No. 25 regulates the distribution of financial resources (financial sharing) between the center-region as a consequence of the division of authority (Simanjuntak, 2001; Suharyo, 2000). Both of these laws emphasize that the development of regional autonomy was held with regard to the principles of democracy, participation, equity, justice, and considering the potential and diversity of regional resources. Moreover this law has also given clear direction to be achieved and provide flexibility for regions beyond what

is in the past.

The effective implementation of regional autonomy implemented in January 2001 has made fundamental changes in the implementation and financing of regional development in each regency / city. The changes are especially visible in areas that have the natural resources, an area where their income increase is highly large compared to before the time of autonomy. This condition can be occur because regional autonomy has given highly broad authority to regulate every area of regional development and fiscal authority. So that each region has the flexibility to develop the potential local revenues on one side, and the flexibility to develop programs and development priorities on the other.

On the implementation of fiscal decentralization should be regulated in a fair and consistent financial relations, public services, exploitation of natural resources and other resources between the central government and the regional governments, and among the regional governments. Government essentially three main functions, ie functions of distribution, stabilization, and allocation. The Central

\* Corresponding author:

Published online at <http://journal.sapub.org/ijfa>

Copyright © 2017 Scientific & Academic Publishing. All Rights Reserved

Government will be more effective and precise when carrying out the function of distribution and stabilization functions, while the regional government knows better the needs and situation of the local community will be more effective and precise in performing the allocation function. (Law No. 33 of 2004).

Regional autonomy has brought fresh air to the area, because in addition to getting a greater authority also allocated a larger budget. Source shopping areas come from local revenue derived from fund transfers, local revenue and others are legitimate. However, based on Frediyanto's research results (2010) showed that after the regional autonomy, increasing acceptance of PAD does not automatically increase the contribution of revenue in the budget even number of regions that have low fiscal capacity increased (from 88.57% to 91.43%).

The decline in world oil prices also affect the declining acceptance of oil and gas producing regions in Indonesia. In the draft 2015 state budget set the ICP assumption of US \$ 70 per barrel. This condition will affect the ability of the region in implementing fiscal authority. Meanwhile, other local revenue source, eg Local Revenue also influenced by local economic growth.

According Syahelmi (2008) that the change in the GDP will respond to significant changes to the PAD. Slowing the growth of the national economy is also followed by a slowdown in economic growth in some areas, especially oil and gas producing regions. For example Riau province, its economic growth in the first quarter of 2015 contracted by 0.18%. For the autonomous regions mainly producing oil and gas, the role of local revenue into has a very important meaning as a source of revenue from oil and gas revenue-sharing has decreased. However, when the role of local revenue can not also be expected, such an area would face financial problems carrying out local authority.

During this dependency autonomous regions against the central government is still quite high. The largest proportion of the reception area is still sourced from grants (fund transfer), for example in 2012 amounted to 65.69% of regional income at the provincial and district / city in Indonesia comes from balancing funds in the form of revenue-sharing tax / non-tax sharing, General Allocation Fund and Special Allocation Fund. Taryono's research results (2013), in Kampar regency showed that the greatest contribution to regional revenue derived from the balance fund with the continued to decline trend. In an effort to improve the welfare of society, local governments faced with the needs of the growing shopping areas while local revenue sources are limited. If the government is not able to optimize revenues outside the balance fund, it can increase the fiscal gap is getting larger.

Under these conditions the writer interested to study about the effect of revenue (PAD) and Balance fund to the regional revenue at provincial level and district / city in Indonesia. Therefore, the problem in this study, namely: How does revenue (PAD) and Balance fund at the provincial level and at the level of district / city in Indonesia to the regional

revenue?

## 2. Research Methods

The method used in this research is descriptive and quantitative analysis. Descriptive analysis is used to explain the behavior of each of the variables are displayed in tables and graphs. Quantitative analysis is used to determine the influence of local revenues and balance funds for regional revenue at the provincial and district / city in Indonesia. In this case use statistical inference techniques with a simple regression model.

Formulations for influence regional revenue to the regional revenue at provincial and district / city in Indonesia are:

$$PD = a + b_1PAD_i$$

Where:

PD = Local Revenue

PAD = Local Revenue at the level of provinces and districts / cities in Indonesia

Formulations for influence Balance Fund to the regional revenue at provincial and district / city in Indonesia are:

$$PD = a + b_1DP_i$$

Where:

PD = Local Revenue

DP = Balance Fund at the provincial and district / city in Indonesia

Location of the study on the Influence of Regional Income and Fund Balance to Regional Revenue At the Provincial level and District / Municipality in Indonesia covering the whole territory of the Republic of Indonesia consists of 33 provinces. The location of this research can be seen from the following fig. 1.

## 3. Research Result

Regional Autonomy in Indonesia that are effectively running in 2001 has brought changes in governance and economy in Indonesia. Granting wider powers to local authorities accompanied by their source of funding. Regional revenue from provincial governments throughout Indonesia continued to show an increasing trend. The actual revenue of the province during the period 2005-2014 the average annual growth of 17.64%. In 2005 the regional revenue from provincial governments throughout Indonesia Rp. 56 908 million and increased to Rp. 245 517 million in 2014.

Increased regional revenue not only occur at the provincial government level, but also occurs at the level of district / city in Indonesia. However, growth in regional revenue at the level of districts / cities throughout Indonesia is lower than the realization of regional revenue at provincial level throughout Indonesia. Trend revenue districts / cities throughout Indonesia continues to increase, which in 2006 amounted to Rp. 208 507 million increased to Rp. 485 457 million in 2013. During the period 2006-2013 the average

annual regional revenue from district / city governments throughout Indonesia grew by 12.83%.

### 1. The effect of revenue (PAD) At the provincial level and district / city in Indonesia to the Regional Revenue

Local Revenue (PAD) aims to give authority to local governments to fund the implementation of regional autonomy according to the potential of the region as the embodiment of Decentralization. The largest source of receipts revenue (PAD) at the provincial level is derived from local taxes. In 2005 the provincial government local taxes throughout Indonesia Rp. 24 208 million and increased to Rp. 103 490 million in 2014 or during the period the average annual growth of 17.52%. The role of local

retribution as a source of revenue for revenue (PAD) is still lower than other sources of income as the result of company-owned wealth management area and separated areas and other legitimate PAD.

In an effort to increase revenue, a region may set the Perda on revenue which cause high economic costs, and establish a Perda on revenue which hinder the mobility of people and movement of goods and services between regions, and import / export activities. The realization of revenue (PAD) district / city governments throughout Indonesia in 2006 amounted to Rp. 13 961 million and increased to Rp. 47 871 million in 2013 or during the period 2006 to 2013 the average annual growth of 19.25%.

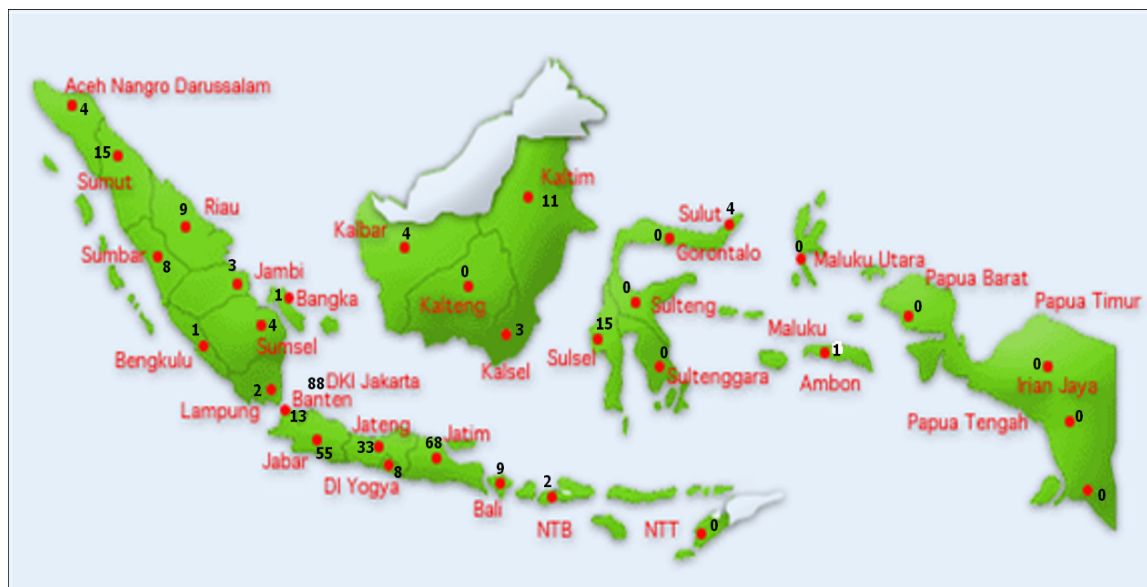


Figure 1. Map Location Research

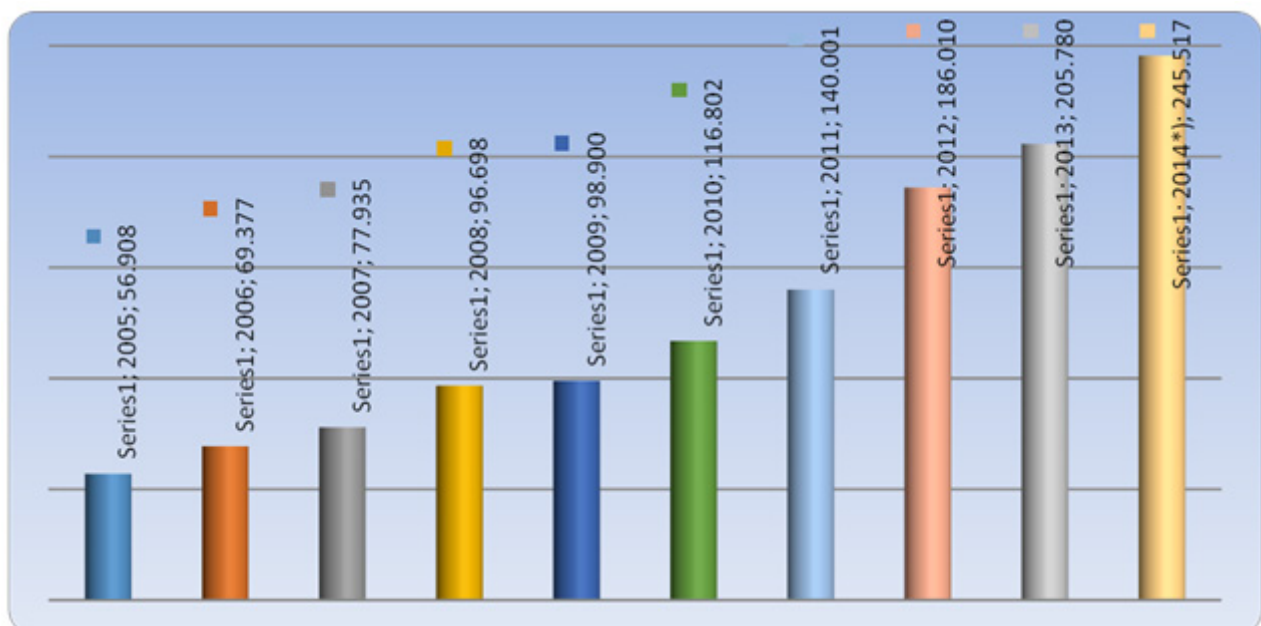
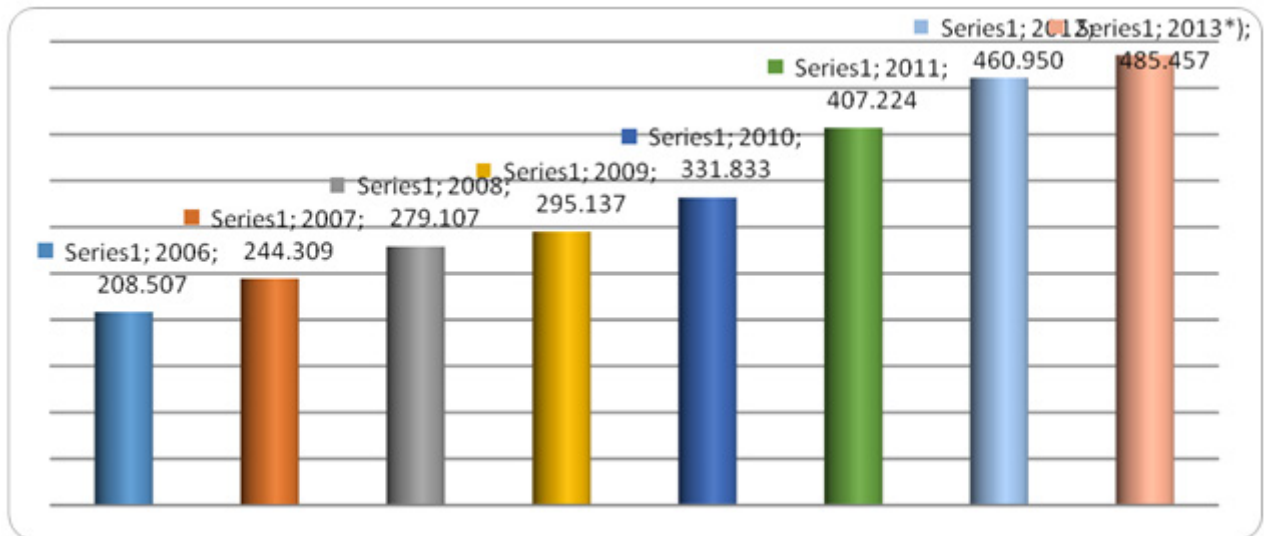


Figure 2. Regional Revenue Realization Provincial Government of Indonesia in 2005-2014 (Million)



**Figure 3.** Realization of Local Revenue District / City All Indonesia in 2006-2013 (Million)

**Table 1.** Actual Revenue Provincial Government Throughout Indonesia by Receipt in 2005-2014 (Thousand Rupiah)

Year	Local Tax	Local Retribution	Result of Regional Press. and abstracted Local Resources	Other legitimate PAD	Regional Income
2005	24.208.786.980	1.344.475.078	775.550.046	1.556.910.525	27.885.722.629
2006	25.719.347.146	1.601.546.853	852.500.283	2.382.740.771	30.556.135.053
2007	29.464.063.064	1.852.446.348	1.101.338.485	2.690.100.914	35.107.948.811
2008	38.042.637.125	1.894.314.643	1.300.646.754	3.249.135.040	44.486.733.562
2009	37.668.301.884	1.571.581.697	1.608.096.150	4.558.439.134	45.406.418.865
2010	47.300.841.241	1.454.694.720	1.933.195.176	6.037.858.593	56.726.589.730
2011	62.759.000.075	1.408.726.470	2.524.288.765	6.928.295.048	73.620.310.358
2012	72.996.679.774	2.645.679.139	2.642.209.423	8.257.344.615	86.541.912.951
2013	86.979.670.640	1.267.843.490	2.837.923.962	10.510.962.345	101.596.400.437
2014*)	103.490.380.800	2.714.976.953	3.119.212.354	11.051.706.383	120.376.276.490

Source: Ministry of Finance, 2015

**Table 2.** Realization of Local Revenue District/City Government Throughout Indonesia by Receipt in 2006-2013 (Thousand Rupiah)

Year	Local Tax	Local Retribution	Result of Regional Press. and abstracted Local Resources	Other legitimate PAD	Regional Income
2006	4.628.027.870	4.594.277.558	717.028.949	4.022.615.467	13.961.949.844
2007	5.380.379.942	5.388.033.569	1.121.808.607	4.554.624.957	16.444.847.075
2008	6.686.430.135	6.151.199.970	1.754.244.946	5.651.703.523	20.243.578.574
2009	7.458.537.044	6.206.761.426	1.802.190.505	6.652.311.376	22.119.800.351
2010	8.711.056.255	6.260.523.509	2.045.499.592	7.538.294.782	24.555.374.138
2011	15.983.344.717	6.582.330.785	2.458.440.926	9.890.038.732	34.914.155.160
2012	22.050.755.049	7.090.331.555	2.620.637.549	13.779.247.331	45.540.971.484
2013	23.724.908.539	8.205.751.198	2.858.643.923	13.081.696.656	47.871.000.316

Source: Ministry of Finance, 2015

Local Taxes on the districts / cities in Indonesia still holds supreme role as a source of revenue (PAD). Meanwhile, income from region company and separated wealth management still plays the lowest role against the original income. In 2006 the role of local taxes to revenue of 33.15% and increased to 49.56% in 2013. The role of the results of companies belonging to local and regional wealth

management separated in 2006 amounted to 5.14% and increased to 5, 97% in 2013.

Both at the provincial and district / city relationship between local revenues with local revenues have a very strong correlation. The correlation coefficient between the local revenue to local revenue provincial governments throughout Indonesia amounting to 0.996 and the district /

city governments throughout Indonesia amounting to 0.991.

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,996 <sup>a</sup>	,993	,992	5,77879E9
2	,991 <sup>b</sup>	,982	,979	1,48867E10

a. Predictors: (Constant), PAD Provinsi

b. Predictors: (Constant), PAD Kabupaten/Kota

**Coefficients<sup>a</sup>**

odel	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 PAD Provinsi	(Constant)	6,224E9	4,171E9	1,492	,174
		1,979	,060	32,848	,000
2 (Constant) PAD Kabupaten/ Kota	(Constant)	1,206E11	1,327E10	9,087	,000
		7,744	,432	17,925	,000

a. Dependent Variable: Pendapatan Daerah

The relationship between revenue (PAD) with regional income has a positive relationship. The magnitude of the

effect of local revenues to the regional income can be seen from the coefficient b. At the provincial level the coefficient of 1.979 means if PAD provinces throughout Indonesia increased by Rp. 1, then the revenues of provinces throughout Indonesia will increase by Rp. 1,979. At the district / city level coefficient of 7.744 means if PAD districts / cities throughout Indonesia increased by Rp. 1, the revenue districts / cities throughout Indonesia will increase by Rp. 7.744.

## 2. The effect of Balance Fund at the provincial and district / city in Indonesia to the Regional Revenue

Financial balance between the Government and Local Government is a division of the financial system which is fair, proportionate, democratic, transparent, and efficient in order to funding the implementation of decentralization. Source balance funds derived from shared taxes, of non-tax / natural resources, general allocation fund and special allocation funds. At the provincial level, the largest source of balance funds come from the general fund and the lowest allocation comes from the special allocation fund. Realization of general allocation funds for provincial governments throughout Indonesia in 2014 amounted to Rp.34.101 million, while for the special allocation of Rp. 1,860 million.

**Table 3.** Actual Balance Fund Provincial Government throughout Indonesia by Receipt in 2005-2014 (Thousand Rupiah)

Year	Tax Revenue	Non-Tax Revenue Sharing / Natural Resources	General Allocation Fund	Special Allocation Fund	Balance Fund
2005	8.869.816.934	6.658.425.251	9.223.416.989	26.053.060	24.777.712.234
2006	10.280.860.925	8.782.163.818	14.571.373.774	20.000.000	33.654.398.517
2007	12.721.504.646	6.538.440.791	16.478.797.524	775.000.000	36.513.742.961
2008	14.824.628.954	9.510.681.776	17.951.467.919	706.019.736	42.992.798.385
2009	15.410.020.005	7.177.595.470	18.650.182.966	1.360.466.000	42.598.264.441
2010	17.556.536.325	9.896.470.197	19.247.315.618	819.605.499	47.519.927.639
2011	16.447.715.087	12.508.737.244	22.553.282.483	1.270.155.725	52.779.890.539
2012	21.314.535.277	11.969.460.145	27.381.818.820	1.332.525.148	61.998.339.390
2013	17.781.418.940	14.299.514.233	30.977.874.897	1.775.385.277	64.834.193.347
2014*)	26.358.756.908	15.154.363.360	34.101.379.297	1.860.272.490	77.474.772.055

Source: Ministry of Finance, 2015

**Table 4.** Realization of Balance Funds District/City Government throughout Indonesia by Receipt in 2006-2013 (Thousand Rupiah)

Year	Tax Revenue	Non-Tax Revenue Sharing / Natural Resources	General Allocation Fund	Special Allocation Fund	Tax Revenue and Provincial Financial Assistance	Balance Fund
2006	22.441.237.520	18.708.105.824	128.898.195.266	11.772.601.764	10.031.344.594	191.851.484.968
2007	21.907.687.087	19.899.083.515	148.956.335.359	16.975.767.144	-	207.738.873.105
2008	23.972.583.388	27.662.766.327	161.072.609.751	20.405.666.138	-	233.113.625.604
2009	24.332.063.774	23.758.943.751	168.176.008.832	23.564.548.759	-	239.831.565.116
2010	28.319.960.841	33.389.606.526	174.861.250.643	20.321.152.057	-	256.891.970.067
2011	25.234.153.953	39.728.838.658	203.761.865.492	23.727.587.265	-	292.452.445.368
2012	27.685.314.452	45.293.700.858	246.804.115.998	24.625.292.545	-	344.408.423.853
2013	24.914.475.374	35.838.147.545	279.889.875.913	29.672.697.670	-	370.315.196.502

Source: Ministry of Finance, 2015

Financial Balance between the Government and the Regional Government is a subsystem of the State Finance as a consequence of the division of tasks between the Government and Local Government. Balance Fund, a fund sourced from APBN allocated to regions to fund the needs of the region in the implementation of decentralization. Balance fund at the district / city governments throughout Indonesia during the period 2006-2013 the average annual growth of 9.85%. In 2006 the balance funds of the whole district / cities in Indonesia Rp. 191 851 million and increased to Rp. 370 315 million in 2013. Contributions terbesar in 2013 against the balance funds sourced from the general allocation fund of Rp. 279 890 million and the lowest funded by tax revenues of Rp. 24 914 million. Balance Fund aims to reduce the fiscal gap between government and the regional government and among regional governments.

Based on the correlation coefficient figures show that the relationship between regional balance funds with revenues at both the provincial and district / city is very strong. At the provincial level of 0.987 is lower than the county / city of 0.991.

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,987 <sup>a</sup>	,975	,972	1,06580E10
2	,991 <sup>b</sup>	,982	,979	1,48563E10

a. Predictors: (Constant), Balance Fund (Dana Perimbangan) Provinsi

b. Predictors: (Constant), Balance Fund (Dana Perimbangan) Kabupaten/ Kota

The magnitude of the effect of balancing fund at the provincial level throughout Indonesia for regional revenue amounted to 3.923. It means each an increase of Rp. 1 in the Indonesian provinces of balance funds to generate income provinces throughout Indonesia Rp. 3.923. Effect of balance funds for regional revenue in regencies / cities throughout Indonesia of 1.582 which means any increase in balance funds occurred in districts / cities throughout Indonesia Rp. 1, it will increase the income districts / cities throughout Indonesia Rp. 1.582.

**Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1	(Constant)	-6,092E10	1,130E10		
	Dana Perimbangan Provinsi	3,923	,222	,987	,001
2	(Constant)	-8,338E10	2,410E10		
	Dana Perimbangan kab/Kota	1,582	,088	,991	,000

a. Dependent Variable: Pendapatan Daerah

## 4. Conclusions

This research resulted in a conclusion with regard to the achievement sought which are also linked with the courage to take risks and partnerships as well as self-concept in detail as follows: (1). The largest source of receipts revenue (PAD), both at the provincial and district / city comes from local taxes. PAD provinces throughout Indonesia on average each year grew by 17.64% while the PAD districts / cities throughout Indonesia on average each year grew by 19.25%. Influence of Regional Income to the regional revenue at provincial level throughout Indonesia amounting to 1,979. While in regencies / cities throughout Indonesia the influence of Regional Income to the regional income / town of 7.744 and (2). The balancing fund provincial governments throughout Indonesia on average each year grew by 13.50%, higher than the growth of the balance funds at the district / city that grows on average every year amounted to 9.85%. Fund balance influential provincial government amounting to 3.923 to the regional income, whereas the effect of balance funds at the district / city to the regional income amounted to 1.582.

In addition this study provide advice, namely: fiscal dependence provincial government and district / city are still high relative to the central government that reflected the balance funds should be lowered. Fiscal independence of provincial and district / city sought to be improved by driving increased revenue through expansion and intensification, without causing high cost economy.

## REFERENCES

- [1] Agustina, N., 2010 Desentralisasi Fiskal, *Tax Effort*, Dan Pertumbuhan Ekonomi Daerah: Studi Empirik Kabupaten/ Kota Se-Indonesia 2001-2008. Sekolah Pascasarjana Institut Pertanian Bogor Bogor.
- [2] Ahmad, I., 2011. Regional Fiscal Independence In East Java Province Post Regional Outonomy. *Economic Jurnal Of Emerging Market* Agustus 2011 3 (2) 189-198.
- [3] Bappenas, 2013. Buku Pegangan Perencanaan Pembangunan Daerah 2014: Memantapkan Perekonomian Nasional Bagi Kepentingan Kesejahteraan Rakyat Yang Berkeadilan.
- [4] Basri, S., 2013. Pengaruh Output Daerah, Penerimaan Transfer dan Desentralisasi Fiskal Terhadap Penerimaan Asli Daerah (PAD) Kota Pekanbaru. *Jurnal Sosial Ekonomi Pembangunan Tahun III* No. 8, Maret 2013: 165 -1 78.
- [5] Frediyanto, Y. 2010. Skripsi: Analisis Kemampuan Keuangan Kabupaten/Kota Di Propinsi Jawa Tengah Sebelum dan Sesudah Kebijakan Otonomi Daerah. Fakultas Ekonomi Universitas Diponegoro, Semarang.
- [6] Nurhidayat, R., 2008. Evaluasi Variabel Penentu Kebutuhan Fiskal Dalam Penetapan Dana Alokasi Umum Suatu Daerah. *Dikta Ekonomi Jurnal Ekonomi dan Bisnis Volume 5* Nomor 3, Desember 08 / Dzulqaidah 1429 H ISSN 1411 – 0776226.

- [7] Nurhuda, R., Muluk, M.R.K., Prasetyo, W.Y., 2013. Analisis Ketimpangan Pembangunan (Studi di Provinsi Jawa Timur Tahun 2005-2011). *Jurnal Administrasi Publik (JAP)*, Vol. 1, Nomor 4, Hal. 110-119.
- [8] Panjaitan, M., 2006. Dampak Desentralisasi Fiskal Terhadap Kinerja Perekonomian Daerah Kabupaten Dan Kota Di Provinsi Sumatera Utara: Suatu Pendekatan Ekonometrika. Sekolah Pascasarjana Institut Pertanian Bogor.
- [9] Peraturan Pemerintah Republik Indonesia Nomor 55 Tahun 2005 Tentang Dana Perimbangan. Lembaran Negara Republik Indonesia Tahun 2005 Nomor 137.
- [10] Prasetyia, F., 2011. Rekonstruksi Sistem Fiskal Nasional Dalam Bingkai Konstitusi. *Journal of Indonesian Applied Economics* Vol. 5 No. 2 Oktober 2011, 141-156.
- [11] Roflin, E., 2009. Penggunaan Metode Trimming pada Analisis Jalur dalam Menentukan Model Kausal Dana Alokasi Umum Kabupaten/Kota di Provinsi Sumatera Selatan. *Jurnal Penelitian Sains Edisi Khusus Desember 2009 (A)* 09:12-01.
- [12] Sianturi, M.R.B., 2008. Skripsi :Kinerja Pembangunan Daerah Kabupaten Bogor Sebelum dan Pada Masa Otonomi Daerah. Program Studi Ekonomi Pertanian dan Sumber Daya Fakultas Pertanian Institut Pertanian Bogor.
- [13] Situngkir, A., 2009. Tesis: Pengaruh Pertumbuhan Ekonomi, Pendapatan Asli Daerah, Dana Alokasi Umum dan Dana Alokasi Khusus Terhadap Anggaran Belanja Modal Pada Pemko/Pemkab Sumatera Utara. Sekolah Pascasarjana Universitas Sumatera Utara, Medan.
- [14] Syahelmi, 2008. Tesis: Analisis Elastisitas, Efisiensi, dan Efektifitas PAD Sumatera Utara Dalam Era Otonomi Daerah. Sekolah Pascasarjana Universitas Sumatera Utara, Medan.
- [15] Taryono, 2013. Analisis Struktur Apbd Kabupaten Kampar Tahun 2007-2012 *Jurnal Sosial Ekonomi Pembangunan* Tahun III No. 8, Maret 2013: 123 – 140.
- [16] Usman, S., Mawardi, M.S., Poesoro, A., Suryahadi, A., Sampford, C., 2008. Mekanisme dan Penggunaan Dana Alokasi Khusus (DAK). Lembaga Penelitian SMERU, Jakarta.