THE EFFECT OF GENERAL ALLOCATION FUNDS, ECONOMIC GROWTH, AND AREA ON THE LEVEL OF FINANCIAL INDEPENDENCE OF THE PROVINCIAL GOVERNMENT REGIONS IN INDONESIA

Praisyl Gratia Sulangi1*, Choirul Anwar2, I Gusti Ketut Agung Ulupui3
123Universitas Negeri Jakarta
*Corresponding Author (Praisylgratiasulangi@gmail.com)

ABSTRACT

This study aims to analyze and examine the effect of the General Allocation Fund, economic growth, and area of the region on regional financial independence. The population on this study was all provinces in Indonesia. The sample was selected using a purposive sampling method so that a sample of 31 provinces was selected which resulted in 62 observations with a 2-year research period, 2018-2019. Data were analyzed using multiple linear regression analysis. The results of this study indicate that the General Allocation Fund has a positive effect on regional financial independence, while economic growth has no effect on regional financial independence and area size has a negative effect on regional financial independence. The independent variables of the General Allocation Fund, economic growth, and the area of the region can explain the dependent variable, namely regional financial independence through a determination coefficient of 12.2%.

Keywords: General Allocation Fund, Economic Growth, Area, Regional Financial Independence

How to Cite:
INTRODUCTION

Economic development in Indonesia continues to experience growth, not only on the island of Java, but throughout Indonesia due to the implementation of the government with a Regional Autonomy policy whose regulatory basis has existed since the 1945 Constitution of the Republic of Indonesia Article 18 concerning Regional Government and was confirmed when the amendments were made at 2000.

Regional Autonomy is the right, authority and obligation of autonomous regions to regulate and manage their own Government Affairs and the interests of local communities in the system of the Unitary State of the Republic of Indonesia (Law number 23 of 2014 article 1 paragraph 6 concerning Regional Government). This means that each regional government is given full authority and responsibility by the central government to carry out its government activities such as tax collection, expenditure implementation, transfer receipts from the central government, and the selection of regional government apparatus which of course is in accordance with statutory provisions applicable.

The implementation of regional autonomy itself aims to realize regional independence so that regions are free to regulate their own government without any interference from the central government. Therefore, with the right to regional autonomy, local governments are expected to be able to become independent and reduce dependence on assistance from the central government, as well as to be able to explore and optimally utilize all regional potentials and opportunities, both in the form of Natural Resources, Human Resources, financial resources, and other resources.

Regional Financial Independence is intended to determine the level of independence of local governments in terms of funding or funding all government activities, as well as being responsible for their own finances is the purpose of the enactment of Law number 32 of 2004 concerning Regional Government. According to Halim (2012), regional financial independence (fiscal autonomy) shows the local government's ability to finance government activities, development, and services to people who have paid taxes and user fees as a source of revenue needed by the region.

However, in the implementation of regional autonomy, it is not only balanced with regional financial independence. Regional governments still expect a transfer of funds from the central government because the condition of resources and finances from each region is uneven and there are some regions that are not ready to manage and regulate their own government affairs so they still depend on the central government.

Based on data from the Monitoring Committee for the Implementation of Regional Autonomy in 2014 quoted from the page of medanbisnisdaily.com, it was revealed that there are around hundreds of regions that only rely on transfer funds and are unable to explore the potential of their regions to increase the level of regional independence. Meanwhile, the Minister of Finance of the Republic of Indonesia, Sri Mulyani Indrawati (2018), quoted from the page of Kemenkeu.go.id, stated that regional dependence on Transfers to Regions and Village Funds (TKDD) is still very high. On the national average, the dependence of the Regional Revenue and Expenditure Budget (APBD) on the TKKD is 80.1%. Meanwhile, the contribution of Regional Original Income (PAD) is only around 12.87%.

Table I.1

<table>
<thead>
<tr>
<th>Independence Category</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low (0-25 %)</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Low (&gt;25-50 %)</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>Middle (&gt;50-75 %)</td>
<td>7</td>
<td>8</td>
</tr>
<tr>
<td>High (&gt;75%)</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>34</td>
<td>34</td>
</tr>
</tbody>
</table>

Source: Indonesian Statistical Center, 2021
According to the Provincial Government Financial Statistics presented by the Central Statistics Agency of Indonesia in 2016-2017, the majority of provinces in Indonesia have a low level of autonomy, with 19 provinces in 2016 and 16 provinces in 2017 falling into this category. Moreover, Indonesia held general elections in 2019, which resulted in a change of leadership in the central government and several local governments. This change in government leadership can have an impact on the level of regional financial independence due to the new government's distinct leadership methods and styles. Therefore, it is necessary to evaluate a new government's performance in terms of regional financial autonomy. Several factors, including the General Allocation Fund, impact regional financial independence, according to previous research (DAU).

According to research conducted by Putri (2015) and Mayasarah (2018), DAU has a positive and substantial impact on regional financial autonomy. However, these findings contradict the findings of Kurnia and Gustita (2016) and Nurafni, Muslimin, and Abdul (2018), which indicate that the DAU has a negative impact on regional financial independence. In the context of decentralization, the purpose of the DAU is to equalize the financial capacity of regions.

A DAU that is well managed and utilized effectively and efficiently by local governments can produce maximum or efficient output, allowing the community's needs to be met, the productivity of community economic activities to increase, and regional income to grow and develop, resulting in greater independence for the region. However, DAU can also increase local governments' reliance on transfer funds from the central government and reduce their level of autonomy.

The economic growth of a region is another factor that affects its fiscal autonomy. Renny, Desfitrina, and Rooswhan (2013) and Ramona, Paulus, and Debby (2018) have conducted research demonstrating that economic growth has a positive effect on regional financial autonomy. In contrast, Krest (2018) found in a 2006-2017 study conducted in Tomohon City, North Sulawesi, that economic growth had no bearing on regional financial autonomy. Economic expansion is the increase in the production of goods and services.

The government is able to provide more types of economic goods to the community as a result of increased economic growth. In addition, it demonstrates that there is an increase in community productivity, resulting in the region becoming increasingly self-sufficient. In addition, the researcher contends that the size of a region can have an impact on a region's financial autonomy. No prior research has been conducted on the effect of region size on regional financial autonomy. In this study, therefore, the topic is novel in terms of research conducted by scholars.

Researchers hypothesize that the size of a region can influence the level of regional financial independence because the larger the region, the greater the number of available facilities and infrastructure. This can support and boost economic activity in the area. In addition, if a region has a large land area, the local government should be able to utilize these assets as productive assets that can generate income for the region in order to increase regional financial independence. Effective and efficient resource management can result in a rise in economic activity and an increase in regional income.

A number of studies have been conducted on the factors that influence the degree of regional financial independence, but the results of these studies vary significantly. Therefore, researchers are interested in determining what factors influence regional financial independence in the Provincial Government of Indonesia, as regional financial independence is crucial for a region's contribution to the economic development of the region and the nation as a whole. The welfare of the existing community is also enhanced by regional financial autonomy.

**THEORY REVIEW**

**Regional Autonomy**

Regional autonomy is the right, authority, and responsibility of an autonomous region to regulate and manage its own government affairs and the local community's interests in accordance with statutes. In the system of the Unitary State of the Republic of Indonesia, an autonomous region is a legal community unit with territorial boundaries that is authorized to regulate and manage
government affairs and the local community's interests based on their own initiatives and the aspirations of the people.

Regional financial capacity is the primary characteristic of an autonomous region (Halim, 2012), which means that the region must have the authority and capacity to explore financial sources, manage and use its own finances to finance the administration of its government. Regional Original Revenue (PAD) must become the largest portion of the financial source, which is supported by a policy of balancing central and regional finances, so that the role of regional governments grows.

**Regional Finance**

Law of the Republic of Indonesia Number 32 of 2004 concerning Regional Government in the general explanation of Article 156 Paragraph 1 states that regional finances are all regional rights and obligations that can be valued in money and everything in the form of money and goods that can be used as regional property related to the implementation of rights and obligations. Regional finances are organized, compliant with laws and regulations, efficient, economical, effective, transparent, and accountable, taking into account the values of justice, propriety, and community benefit. Regional financial management is accomplished through an integrated system that is implemented in the APBD, which is mandated annually by regional regulations.

**Regional Financial Independence**

Regional Finance is defined in Government Regulation of the Republic of Indonesia number 12 of 2019 chapter I article 1 paragraphs 1 and 2 as all rights and obligations of the Region in the context of administering Regional Government that can be valued in money and all forms of wealth that can be used as the property of the Region in relation to rights and obligations of the Region. The Indonesian Central Bureau of Statistics categorizes the level of regional financial independence into four (four) categories: very low, low, medium, and high, with the corresponding percentages presented in Table II.1.

<table>
<thead>
<tr>
<th>Independence Category</th>
<th>Presentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very Low</td>
<td>0-25%</td>
</tr>
<tr>
<td>Low</td>
<td>&gt;25-50%</td>
</tr>
<tr>
<td>Middle</td>
<td>&gt;50-75%</td>
</tr>
<tr>
<td>High</td>
<td>&gt;75%</td>
</tr>
</tbody>
</table>

Source: Indonesian Central Statistics Agency, 2021

**General Allocation Fund**

According to the BPS catalog 7203002, the General Allocation Fund (DAU) is a transfer of funds from the central government to regional governments designed to close the fiscal gap and equalize fiscal capacity between regions in order to promote local government independence in carrying out its functions and responsibilities to serve the community.

According to an article from the Directorate General of Regional Fiscal Balance of the Ministry of Finance of the Republic of Indonesia, the DAU uses the fiscal gap approach formula, which is the difference between fiscal needs (fiscal needs) minus regional fiscal capacity (regional fiscal capacity) and the Basic Allocation (AD) in the form of the amount of regional civil servants' salaries. Here is the formula for calculating DAU:

\[
\text{DAU} = \text{Basic Allocation (AD)} + \text{Fiscal Gap (CF)}
\]

Information:
AD : Regional Civic Servant Salary
CF : Fiscal Needs – Fiscal Capacity

\[
\text{DAU} = \text{Regional Civic Servant Salary} + \text{Fiscal Needs – Fiscal Capacity}
\]
Economic Growth

One of the indicators used to measure the progress or development of economic development over a specific time period is economic growth. The increase in the quantity of goods and services produced in a community is closely associated with economic expansion. In other words, economic growth is the increase in the production of goods and services as a result of community economic activity.

The economic growth rate is calculated from changes in Gross Regional Domestic Product (GDP) at constant prices from year to year. It can be concluded that economic growth is one of the indicators of an increase in economic development activities in a region over a period of time and is responsible for an increase in real national income. Several factors influence the occurrence of economic growth, including capital accumulation, population growth followed by an increase in per capita income, technological advances, increased productivity, high structural changes, urbanization, increased exports, and the flow of goods, services, and capital between nations.

An Area

Law of the Republic of Indonesia No. 32 of 2004 regarding Regional Government chapter I article 1 paragraph 6 states that an autonomous region, hereinafter referred to as a region, is a legal community unit with territorial boundaries that is authorized to regulate and manage government affairs and the interests of the local community based on their own initiatives and community aspirations within the system of the Unitary State of the Republic of Indonesia. Furthermore, it is stated in article 2 paragraph 1 that the Unitary State of the Republic of Indonesia is divided into provincial regions and the provincial area is divided into regencies and cities, each of which has a regional government. One of the variables measuring the need for regional funding to carry out general basic service functions is the Area Area Index. On the website uploaded by the House of Representatives, the formula for calculating the area index is provided:

\[
\text{Regional Area Index} = \frac{\text{An Area}}{\text{National Average Area}}
\]

\[
\text{LW} = \ln \text{An Area}
\]

It can be concluded that the area is the size of an area that has been clearly demarcated so that each region is authorized to regulate and manage its own affairs. The area of an area can increase or decrease depending on the government policies taken, for example, if there is reclamation, the area will increase. Indonesia itself has 34 (thirty four) provinces which are further divided into 514 (five hundred and fourteen) regencies and cities.

RESEARCH METHODS

In this study, the Provincial Government Budget Realization Report and the Gross Regional Domestic Growth Rate for all Indonesian provinces in 2018-2019 are examined. The selection of Provincial Governments in Indonesia is conducted due to the fact that each region's level of independence varies, so that in the future, benchmarks and references can be established for regions with low levels of independence in order to increase the level of regional financial independence. In 2019, there was also a general election for the replacement of the president and vice president, as well as a number of regional leaders, resulting in a change in leadership in a number of regional governments.

The purpose of this study is to determine which regional governments can increase their financial independence despite the change in leadership. The variables studied are constrained by the scope of the research. In this study, the scope of research focuses on economic growth, the General Allocation Fund, and the extent of each Indonesian province's regional financial independence. The population encompasses the entirety of the object of research data within a predetermined scope and time frame and satisfies certain requirements related to the research problem. The population utilized in this study is the Provincial Government of Indonesia for the 2018-2019 fiscal year.
This study employs quantitative methods with multiple linear regression analysis techniques and secondary data as its data source. The Budget Realization Report and Balance Sheet obtained from the websites of the Directorate General of Fiscal Balance of the Ministry of Finance of the Republic of Indonesia and the Central Statistics Agency provide the data for each variable (BPS). Using EViews version 10.0, researchers processed and analyzed the data in order to examine the relationship between the dependent variable, Regional Financial Independence, and the independent variables, Economic Growth, General Allocation Funds, and Areas.

**RESULTS AND DISCUSSION**

Several tests were carried out in this study, namely Descriptive Statistics, Classical Assumption Test consisting of Normality Test, Multicollinearity Test, Autocorrelation Test, and Heteroscedasticity Test, Regression Model Testing, and Hypothesis Testing consisting of F Test, t Test, and R² Test. The following are the results of the discussion in this study:

<table>
<thead>
<tr>
<th>Table 2 Research Data Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Regional Financial Independence</strong></td>
</tr>
<tr>
<td><strong>Average</strong></td>
</tr>
<tr>
<td><strong>Maximum</strong></td>
</tr>
<tr>
<td><strong>Minimum</strong></td>
</tr>
<tr>
<td><strong>Standar Deviasi</strong></td>
</tr>
<tr>
<td><strong>Observation</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Table 3 Normality Test Results <em>Jarque-Bera</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Jarque-Bera</em></td>
</tr>
<tr>
<td><em>Probability</em></td>
</tr>
</tbody>
</table>

Based on the normality test in table 3, it shows a probability value of 0.898561 which is greater than 0.05, indicating that the variables to be studied in this study have a normal distribution and the proposed hypothesis is accepted.

<table>
<thead>
<tr>
<th>Table 4 Multicollinearity Test Results <em>Variance Inflation Factors</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Variabel</strong></td>
</tr>
<tr>
<td>General Allocation Fund</td>
</tr>
<tr>
<td>Economic Growth</td>
</tr>
<tr>
<td>An Area</td>
</tr>
</tbody>
</table>

Based on the Multicollinearity Test in table 4, it shows the VIF value of each variable, namely 1.11; 1.06; and 1.12 which means that each variable is not more than 10, indicating that there is no multicollinearity in the research variables.

<table>
<thead>
<tr>
<th>Table 5. Autocorelation Test Results <em>Breusch-Godfrey</em></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Obs-R Square</strong></td>
</tr>
<tr>
<td><strong>Probability</strong></td>
</tr>
</tbody>
</table>
Based on the autocorrelation test in table 5, it shows a probability value of 0.5508 where the value is greater than 0.05 indicating that there is no autocorrelation problem.

<table>
<thead>
<tr>
<th>Tabel 6. Glejser Heteroscedasticity Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>F-statistic</td>
</tr>
<tr>
<td>Obs*R-squared</td>
</tr>
<tr>
<td>Scaled explained SS</td>
</tr>
<tr>
<td>Prob. F(3.58)</td>
</tr>
<tr>
<td>Prob. Chi-Square(3)</td>
</tr>
<tr>
<td>Prob. Chi-Square(3)</td>
</tr>
</tbody>
</table>

Based on the Heteroscedasticity Test in Table 6, it shows a probability value of 0.1539 which is greater than the significance value of 0.05 indicating that there is no heteroscedasticity problem.

<table>
<thead>
<tr>
<th>Table 7. Multiple Linear Regression Analysis Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>---------------</td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td>DAU</td>
</tr>
<tr>
<td>PE</td>
</tr>
<tr>
<td>LW</td>
</tr>
</tbody>
</table>

Through testing the multiple linear regression model, the following equation can be obtained:

$$ MDR = -2.981259 + 0.140837 \ln DAU - 0.117769 \ln PE - 0.040651 \ln LW + e $$

<table>
<thead>
<tr>
<th>Table 8. t Test Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable</td>
</tr>
<tr>
<td>Constant</td>
</tr>
<tr>
<td>DAU</td>
</tr>
<tr>
<td>PE</td>
</tr>
<tr>
<td>LW</td>
</tr>
</tbody>
</table>

Based on the t-test in table 8, it shows that the first hypothesis, namely the effect of the General Allocation Fund on regional financial independence in this study is accepted.

CONCLUSIONS, IMPLICATIONS, LIMITATIONS, AND RECOMMENDATIONS OF THE RESEARCH

Conclusions

This study was conducted to determine the outcomes of a test examining the influence of three independent variables, namely the General Allocation Fund (DAU), economic growth, and region size, on the dependent variable of regional financial independence. In this study, 31 provinces were sampled, yielding 62 observational objects over a two-year research period, namely 2018-2019. This study employs quantitative techniques and secondary data from the Directorate General of Regional Fiscal Balance, Ministry of Finance of the Republic of Indonesia, and the Central Bureau of Statistics.

This study's findings demonstrate that the independent variable, namely DAU, has a significant positive impact on the dependent variable, regional financial independence. While the other
independent variables, namely economic growth and area, have no effect on the dependent variable of regional financial autonomy. In this study, the independent variables have a 12.2% impact on the dependent variable.

**Implications**

From the results of this study, it is hoped that practically it can provide suggestions and input for various parties in terms of increasing regional financial independence. Like the central government to be able to encourage local governments to increase their financial independence through the independent variables studied. Furthermore, for the local government to provide information in order to determine regional policies and strategies related to the independent variables studied in order to achieve better regional financial independence.

**Research Limitations**

1. This study only made brief observations over a 2-year period, namely 2018-2019 and only had 62 research samples.
2. This research is limited to the three independent variables used, namely the General Allocation Fund (DAU), economic growth, and area and only explains the dependent variable of 12.2%.

**Recommendations for Further Research**

1. For further research, it is expected to add a research period and be carried out on all provincial governments in Indonesia without certain criteria.
2. For further research, it is hoped that it can add or replace other independent variables, so that it can see what factors better explain regional financial independence.
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