



# Analysis of Regional Financial Independence for the Implementation of Regional Autonomy in Palu City in 2015-2019

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## ABSTRACT

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This study aims to determine and analyze the level of regional financial independence in the context of implementing regional autonomy in Palu City in 2015-2019. Analysis of the data used in this study is the Regional Financial Independence Ratio. The results showed that the level of regional financial capability of Palu City which was calculated using the ratio of regional financial independence was declared unable to support the implementation of regional autonomy as indicated by the results of the data analysis of the Regional Financial Independence Ratio which was relatively low at 25.09 percent so that in the implementation of the government, Palu City was still require assistance from central and provincial government transfer funds.

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## 1. Introduction

Economic development (economic development) means a way of change that is carried out in a systematic and sustainable manner, which is the government's effort in order to prosper people's lives, open up job opportunities, have an equitable level of community income, and increase the rate of economic growth[1][2].

In the regional context, economic development is important to encourage significant changes for the better in efforts to manage existing resources and to establish cooperation between local governments and the private sector and the community to create jobs and encourage the development of economic activity[3].

Regional autonomy is a stage that leads to national economic development, which is expected to accelerate growth and encourage the potential of each region in order to create a balance between regions so that no regions are left behind. Economic development is a process that must be carried out by local governments, especially in the era of regional autonomy as it is today where all policies regarding regional economic development and regional financial management are fully controlled by the regional government.

The regional autonomy system existed even before the independence of the State of Indonesia. Indonesia has implemented an autonomous system during the implementation of its government. The implementation of regional autonomy in the State of Indonesia has been carried out for more than 10 years, which has 3 by three main targets, namely political targets, administrative targets, and economic targets. The government has two policies regarding regional autonomy, namely Law Number 23 of 2014 concerning Regional Government and to regulate finances in the regions the government issued Law Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments.

According to Law Number 23 of 2014 Article 1 Paragraph 6 concerning Regional Government, "Regional autonomy is the right of authority, the obligation of an autonomous region to manage its own government affairs and the interests of the local community in the system of the Unitary State of the Republic of Indonesia". Based on Law No. 33 of 2004 article 1 paragraph 3 concerning "financial balance between the central government and regional governments is a financial distribution system that is fair, proportional, democratic, transparent and efficient in the framework of funding the implementation of Decentralization by taking into



account the potential, conditions and needs of the region, and the amount of funding for the implementation of deconcentration and co-administration”.

Since the enactment of the law, local governments have become the main implementers in implementing strategies and economic development[4][5]. The implementation of the role of government can certainly be carried out optimally if its implementation is accompanied by the encouragement of sufficient sources of income for the region for its implementation[6][7].

The government gives the right to regions to obtain financial resources to fund the implementation of regional autonomy by collecting and streamlining taxes and levies, the right to obtain separated regional wealth management results, balancing funds and other legitimate regional revenues[8]. As for a characteristic that proves a region is said to be able to implement regional autonomy, namely through the level of regional financial capacity in financing the implementation of regional government, with a low level of regional dependence on funds from the center with high Regional Original Income (PAD)[9][10]. PAD is one source of regional revenue used by regions to finance the implementation of autonomy.

Since the existence of the regional autonomy system, the authority of the regional government is getting bigger so that the responsibilities they have are also getting bigger[11]. However, it is a burden to demand the readiness of local governments for the implementation of their governance. Therefore, the government must prepare several aspects to support the implementation of regional autonomy, namely, among others, financial resources, regional facilities and infrastructure and human resources. As for an aspect that is a support to know in real the ability of the region to control and manage its own territory, namely the financial aspect,

The size of the PAD received is a reference to see the level of financial capacity of a region, i.e. the greater the region in receiving and collecting Original Regional Revenue, it proves that the level of regional dependence on central government assistance is getting lower, so that the greater the availability of regional finance[12]. Regional Original Revenue of Palu City is a source of capital for the implementation of government which is one of the standards to be able to determine the ability of Palu City to generate various incomes through regional revenue sources[13].

As for the issue of funding for regional economic development, it is stated or formulated in the Regional Revenue and Expenditure Budget (APBD)[14]. APBD is the main component of regional development that is used as a tool to determine the amount of income and expenditure[15][16][17].

The 2015-2019 Palu City Budget has fluctuated. In 2015 the total APBD of Palu City was Rp.1.372 trillion, 2016 experienced an increase of Rp. 1,444 trillion, then in 2017 it decreased by Rp.1,298 trillion, for 2018 amounting to Rp. 1,338 trillion, while in 2019 there was a quite high increase of Rp. 2,151 trillion.(Regional Financial and Asset Management Revenue Service of Palu City/DPPKAD).

Overview of the development of financial capabilities Palu City can be known through the size of PAD. Based on data obtained from the DPPKAD, Palu City's Regional Original Income for the 2015-2019 period experienced fluctuations with the highest amount of PAD occurring in 2017 and the very low amount of PAD occurring in 2019.

In 2015 the PAD of Palu City was Rp.253 billion, then in 2016 it increased by Rp.279 billion with a growth rate of 10.1 percent, then in 2017 it was Rp.283 billion with a growth of 1.6 percent, in 2018 it decreased by Rp. 267 billion with a growth rate of -5.8 percent, the last in 2019 experienced the lowest value of Rp.235 billion with a growth rate of -11.8 percent (DPPKAD Palu City).

Based on the data above, it can be seen that Palu City's PAD in 2015-2019 experienced fluctuations which tended to decrease due to a sharp decline in PAD from 2017-2019. This decrease was due to several components of PAD which were still not managed optimally by the Regional Government of Palu City, as well as the occurrence of natural disasters in 2018 so that several sources of PAD income for Palu City were lost. Referring to the explanation of the background, the researcher was compelled to make a study on regional finance in Palu City with the title Analysis of Regional Financial Capability in Supporting the Implementation of Palu City's Regional Autonomy in 2015 2019.

## 2. Method

The type of research applied in this research is descriptive research. Descriptive research is related to reviewing facts in detail or distinguishing them from other objects[18]) Descriptive research is a way of examining the status of groups of people, objects, circumstances, systems of thought or current events.



Data Types and Sources, The type of data used in this study is in the form of secondary data. The data used in this study were sourced from the Department of Revenue, Financial Management and Regional Assets (DPPKAD) of Palu City. The data used are in the form of a Summary Report on the Realization of the Palu City Regional Revenue and Expenditure Budget for 2015-2019, and the Elaboration of the 2015-2019 Palu City Regional Budget.

Method of collecting data, The method applied in this research is the documentation method, namely by collecting data from books, journals and browsing websites.

Data Analysis with Regional Financial Independence Ratio, This ratio shows the level of local government's ability to self-fund all government activities for the community in accordance with existing demands. The independence ratio explains how much the region relies on external sources of assistance, sources of assistance from outside are in the form of transfers from the central or provincial government.

This ratio can be calculated by the following formula[19]:

$$\text{Independence Ratio} = \frac{\text{Regional Original Income}}{\text{Revenue Transfers}} \times 100\%$$

**Table 1.**  
 Regional Financial Independence

<b>Financial Ability</b>	<b>Independence %</b>	<b>Relationship Pattern</b>
Very Low	0-25	<i>Instructive</i>
Low	25-50	<i>Consultative</i>
Currently	50-75	<i>Participatory</i>
Tall	75-100	<i>Delegative</i>

Source:[20]

The pattern to determine the level of independence ratio, which amounts to four patterns of relationships, which include:

- 1) The pattern of instructive relationships, namely the role of the central government is still more dominant (big) when compared to the independence of the regional government.
- 2) The pattern of consultative relations is that the regions are considered capable of implementing autonomy because the role played by the central government has been slightly reduced.
- 3) The pattern of participatory relationships, this pattern explains that the role of the central government is decreasing because the area concerned has a level of independence that is close to being able to carry out regional autonomy.
- 4) The pattern of delegative relationships, this pattern illustrates that the autonomous regions are considered to be truly financially independent which is known through the role of the central government which no longer dominates in the implementation of its government[21].

### 3. Results and Discussion

#### 3.1. Results

Regional Financial Independence, The calculation results show that the independence ratio of Palu City from 2015-2019 has fluctuated. If we observe the independence ratio in 2015 and 2019 which is 23.77 and 22.02 percent with the same pattern of relationship, namely instructive (Once Low) which means that the role of the central government is more dominant than the independence of local governments, which can be seen in the very large amount of transfer income but small PAD.

After that, in 2016 it was 25.22 percent, in 2017 it was 27.93 percent and in 2018 it was 26.52 percent having the same pattern, namely the consultative relationship pattern (low) which means that the autonomous region is relatively little able to carry out its regional autonomy, which means the role of the central government is not too dominating. .

Based on the results of these calculations, Palu City for 5 fiscal years produced an average that was still relatively low, namely 25.09 percent with a consultative relationship pattern (low).



### 3.2. Discussion

#### a. Palu City Regional Financial Capability

The implementation of regional autonomy provides a change that previously the highest authority was owned by the central government, which has shifted the authority to the regional government. Therefore, the City Government has an increasing responsibility so that the Palu City Government is required to have readiness in implementing its government. There are several aspects that must be prepared, one of which is the financial aspect. The financial capacity of a region can be known through how big or small the PAD is received, the greater the PAD collected by the region, the greater the availability of regional finances it has.

It is known that the PAD of Palu City from 2015-2019 experienced a downward trend, with the lowest amount of PAD occurring in 2019 which was 235 billion, which if averaged over 5 fiscal years, it was 264 billion. This indicates that the PAD of Palu City is still relatively small so that the availability of regional finance from PAD is still not sufficient to assist the implementation of regional autonomy.

The Palu City Government made efforts to increase PAD, which had experienced a sharp decline in 2018-2019 to support the implementation of regional autonomy. If PAD increases significantly, it can have a good impact on the regional financial capacity in managing its own government, especially to serve the community and increase development for all fields in each region.

The financial capacity of Palu City in supporting the implementation of regional autonomy in 2015-2019 which is calculated by the Independence ratio, results in a level of financial capability that is still relatively lacking, with an average independence ratio of 25.09 percent. There are several things that cause the level of regional financial capacity of Palu City to be low, such as the low amount of PAD. This PAD is a reflection of regional independence. The low amount of PAD owned by Palu City is because Palu City only relies on sources of income originating from the service sector such as hotels, restaurants, entertainment venues, tourist destinations, etc.

#### b. Regional Financial Independence Ratio

The magnitude of the responsibility of local governments to regulate and manage their own regions, this makes the government must be able to explore its own financial sources so that regional independence can be created. The ratio of regional financial independence is used to explain the extent of regional dependence on external sources of funds such as transfers from the central and provincial governments.

Based on the results of the calculation of the Regional Financial Independence Ratio of Palu City from 2015-2019, it produced an average of 25.09 percent with a consultative relationship pattern that is still included in the low financial capacity, thus describing the City of Palu still in dire need of transfer funds from the central and provincial governments that can be said to still depend on these funds. As for what causes the low level of the regional financial independence ratio of Palu City from 2015-2019 due to the low PAD, the lack of PAD revenue is caused by regional tax objects affected by the disaster. The low PAD is also due to the fact that Palu City has limited natural resources so that it can only optimize service potential as a source of PAD income.

This is what makes the Palu City Government in carrying out activities, both government operations and public services, still rely on transfer revenues. In general, the level of regional independence of Palu City will remain low because its source of income only relies on the service sector. However, the Palu City Government continues to strive to optimize Regional Original Income in order to increase the level of regional independence.

The ability of the Palu City area to generate Regional Original Revenue is not able to finance its spending needs so that there is an imbalance, therefore the local government relies on transfer revenues to meet the needs of large regional expenditures. So it can be seen that the Palu City Government is still unable to support the implementation of regional autonomy as evidenced by the independence ratio, which can be seen from the high transfer income compared to Regional Original Income.

The obstacles faced by the Palu City Government in an effort to increase PAD are:

- 1) There is still a lack of public awareness of their obligation to pay taxes or the lack of public knowledge of the importance of paying taxes, because the determinants of various development programs can be realized, one of which is through taxes, so that taxes can become a factor that plays a core role in the structure of state and regional revenues.
- 2) There is no PPNS (Civil Servant Investigator) or Tax Investigator. The task of the PPNS is to take actions such as confiscation, closing and sealing the place of business of the owner of the business actor who does not pay taxes according to the rules.

The Palu City Government made several efforts to optimize PAD in order to increase the regional financial capacity of Palu City, including:

- 1) Perform data collection again to get the maximum number of taxpayers so that the data can be a reference for the government to collect user fees every month.
- 2) The Palu City Government also installed a business recording device or so-called tapping box on tax objects to improve services for taxpayers by implementing online reporting of business transaction data and monitoring revenues from these tax objects. The target of installing the data recording device is in hotels, restaurants, cafes or other business fields.
- 3) Making activities of a national nature such as cultural festival events, Tour de Central Celebes (TDCC) bicycle race events, Central Sulawesi Betta Regional Contest events (ornamental fish events) to bring in tourists both domestically and internationally.
- 4) The Palu City Government held a tax compliance socialization to make every tax object aware of being obedient in paying taxes.
- 5) Increase the Sales Value of Tax Objects (NJOP).

#### 4. Conclusion

The results of the study which were calculated with the independence ratio from 2015-2019 resulted in the level of financial capacity of the Palu City area which was still lacking so that it could be said that it had not been able to support the implementation of regional autonomy. This is because the PAD owned by Palu City is still very small compared to transfer funds so that the Palu City Government is still very dependent on the central government.

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