



Local revenue and fiscal independence: a strategic role in the development of South Sumatra Province

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ABSTRACT

This study aims to analyze the strategic role of regional original revenue in achieving fiscal independence in the South Sumatra Province. This study utilizes a qualitative descriptive approach by analyzing secondary data collected from the Central Statistics Agency of the South Sumatra Provincial Government and other reliable sources. The data includes information on the condition of regional original revenue, dependency on the central government, and efforts made to enhance fiscal independence. The research findings indicate that the regional original revenue of South Sumatra Province still significantly relies on support from the central government, such as general allocation fund and special allocation fund. There is an urgent need to enhance regional original revenue in order to achieve fiscal independence. Local taxes and levies are the main sources of regional original revenue, and optimal management of local taxes can contribute to increasing regional original revenue. Recommended efforts include improving the management of local taxes, raising awareness and imposing strict sanctions in tax collection, and increasing revenue from other potential sectors. In conclusion, the increase in regional original revenue plays a strategic role in achieving fiscal independence. Optimizing the management of local taxes and diversifying sources of revenue are crucial steps to reduce dependency on the central government and strengthen local finances.

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1. INTRODUCTION

In the context of international trade and socio-cultural life, the COVID-19 pandemic has had a devastating impact. The global financial system is highly dependent on several factors, in particularly tourism, commodity trade, production, and transportation sectors that face negative consequences as a result of the spread of the disease (Senol & Zeren, 2020). The spread of this virus is very influential because it affects several countries including Indonesia and has spread globally (Yunus, N. R., & Rezki, 2020). Both globally, and in Indonesia, the COVID-19 pandemic has had a major impact on a number of

economic and social factors. The decline in trade activity, production and the tourism sectors as well as temporary price increases have impacted overall economic growth. The impact of this outbreak also causes a temporary increase in prices, but was not classified as inflation so that economic growth in Indonesia decreased (Akbar et al., 2020). Economic growth is an indicator of success in developing a country's economy, which is reflected in the growth of output per capita, real wage growth, and improved living standards (Astuti et al., 2019). Local administrations have independent powers over how decisions are made locally in autonomous zones. Local governments now have the authority to set their own laws and manage their own enterprises thanks to regional autonomy. In fulfill the needs of the region, local governments get Local Original Revenue (Arifiyanti & Didik Ardiyanto, 2022).

Increased economic growth in a region has an impact on increasing the per capita income of the population, so that the level of consumption and productivity of the population is increasing. In addition, the higher the income earned by the community, the higher the ability of the community to pay the levies set by the local government. This will increase the source of regional revenue and of course will make the receipt of Regional Original Revenue higher (Gunawan & Suebah, 2022). Regional revenue is a source of regional original revenue which is the main capital for districts in financing government activities and regional development. This provides broad freedom and independence to the province to be able to carry out its duties independently and effectively. In the context of financial independence and decentralization, regional revenue sources currently rely heavily on support from the central government, such as the general allocation fund and special allocation fund. According to the ministry of internal affairs, local revenue sources often only reach 12% to 15% of overall revenue, while the remaining 70% still requires support from the central government. General allocation fund will be allocated proportionally to regions that have strong financial standards. Meanwhile, regions that meet low financial requirements will get a large general allocation fund (Rosadian et al., 2023). The realization of South Sumatra's APBD and APBN in the first quarter of 2022 has reached 14.23% of the target or IDR 7.84 trillion, down from the target in the same period in 2021 of 18.24% or IDR 9.89 trillion. IDR 9.04 trillion, or 11.03% of the ceiling, is lower than the same period in 2021, which was realized at IDR 12.52 trillion, or 14.44% of the ceiling. The realization of Transfers to Regions and Village Funds decreased from 22.00% of the ceiling or IDR 6.56 trillion in the first quarter of the previous year to 20.23% of the overall ceiling or IDR 5.45 trillion in the first quarter of 2022. Digitalizing and encouraging accountability of local government transactions, Bank Indonesia is working with the government and 17 provinces / cities (Bank Indonesia, 2022). Batam City, Riau Islands Province, steps to increase tax revenue, BPPRD Batam City made a program centered on efforts to optimize the quality of human resources, socialization and strict sanctions (Pratama, 2021). The payment innovation in maximizing regional original revenue is vehicle tax (Irawan, 2020). The examines the impact of regional original revenue on the provision of public services in South Sumatra Province (Imelda, 2022).

In overcoming problems and face obstacles related to financing development and services to the community, analysis can be done through financial independence. This is in accordance with the objectives of regional autonomy, namely maximizing regional independence, and minimizing regional dependence on the central government. This can be done through increasing the regional original revenue potential of a region. By contrasting regional original revenue with central government revenue, the financial independence of a country can be determined (Agustina et al., 2022). This research aims to conduct a more in-depth study of the urgency of Regional Original Revenue optimization in South Sumatra Province as a step towards achieving fiscal independence. In an effort to achieve fiscal independence in the region, this study will also look at Special Allocation Fund that may be done by the South Sumatra Provincial Government

to maximize Regional Original Revenue. This study will provide a comprehensive overview of the importance of increasing regional original revenue in South Sumatra Province and analyze the strategic role of regional original revenue in achieving fiscal independence in the South Sumatra Province. The difference between this research and previous research is that this research focuses more on Regional Original Revenue and Fiscal Independence. This research is different from previous research in that it focuses more on Local Revenue and Fiscal Independence. Where previous research only discusses local revenue but in this study discusses local taxes, local revenue and transfer revenues such as balancing funds, regional incentive funds and provincial government transfers.

2. RESEARCH METHOD

This study uses a qualitative descriptive method that explains and describes the current state or situation of the research object by looking at the circumstances surrounding it. The descriptive method is used to provide a detailed description of the object of research (Sugiyono, 2016). This study utilizes a qualitative descriptive approach by analyzing secondary data collected from the Central Statistics Agency of the South Sumatra Provincial Government and other reliable sources. The data includes information on the condition of regional original revenue, dependency on the central government, and efforts made to enhance fiscal independence. The implementation of regional autonomy, especially regional original revenue and efforts to realize fiscal independence in South Sumatra Province are the two main topics of this study. South Sumatra is the object of this study because it is a province with rapid economic development. This study applies secondary data analysis, by analyzing information collected by other parties. Data processed by the Central Bureau of Statistics of the South Sumatra Provincial Government is used as secondary data. Media coverage, related journal publications, and other reliable sources are also utilized as supporting data in this study. The data obtained is processed into information and then into a journal.

2.1 Local Tax

Local taxes and levies are important for regional original revenue and maintaining economic stability. These taxes fund local government and development. Adequate budget allocation is required for optimal development. The implementation of local taxes is sometimes not optimal, harming the community and local government because it has an impact on local revenue (Suryaningsih, 2023). Local taxes are taxes decided by the local government, through the stipulation of local regulations. Local governments have the authority to collect these taxes, where the proceeds obtained are used to fund local government operations and development.

Local expenditures carried out by local governments include capital expenditures. Capital expenditure is expenditure intended for the construction of fixed assets. The purpose of the fixed asset development is to provide adequate facilities, infrastructure, and infrastructure, including in providing proper public services to optimize productivity in the economic sector. With adequate facilities, regions can attract capital investment and people can carry out their activities comfortably, thereby increasing productivity. Factors such as regional original revenue, local tax contribution, tax revenue sharing, and local economic growth can influence local expenditure (Manafe et al., 2023).

In achieve maximum local autonomy, local governments need to maximize their reliance on local own-source revenue regional original revenue. Regional Original Revenue is revenue derived from local taxes, local levies, management of separate local assets, and legitimate regional original revenue. The aim is to give the regions the authority to obtain the funding sources needed in the implementation of regional autonomy in accordance with the principle of decentralization (Worumi, 2018). It is

important for local governments to optimize local tax management so that the contribution to regional original revenue increases (Sachintania et al., 2021)

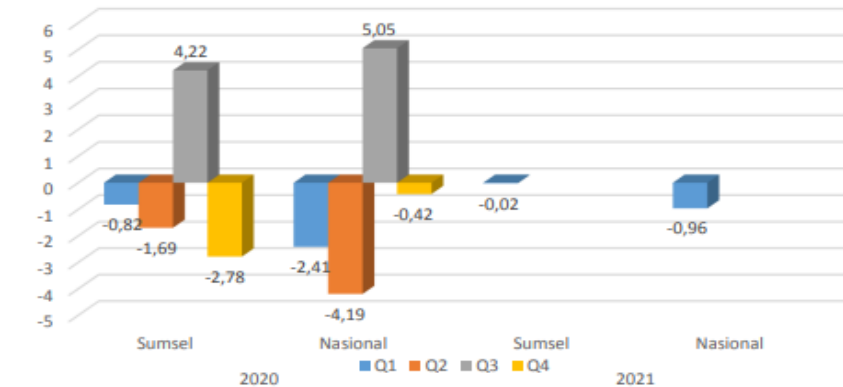
2.2 Fiscal Independence

Fiscal independence is an important criterion applied in assessing the capacity of local governments to fund their own government activities without allocating funds from outside parties, especially from the central government. A region's dependence on the federal government decreases as its level of financial independence increases. If the regional original revenue ratio is higher, then the region can be classified as having a higher level of independence. One indicator of the level of financial independence is the increase in regional original revenue which has an impact on regional development. Local governments are responsible for funding development in their regions, and depend on regional original revenue as a source of funding (Maryanti et al., 2023). The capability of local governments to finance development activities or programs in their regions and provide services to the community and carry out regional development can be seen through the regional financial independence ratio. Local government financial capability is an important indicator in financing development activities in the region in the era of regional autonomy. The less dependent the local government is on the federal government, the more effectively the local government can use the local budget to carry out development (Ahyaruddin & Amrillah, 2018). A region can be categorized as an independent region, if it has the ability to fund government activities independently, not assisted by the central government. However, there are a number of things that determine the responsibilities and authority of the central government in accordance with the provisions of the regional autonomy law (Maryanti et al., 2023)

3 RESULTS AND DISCUSSIONS

3.1 Condition of Regional Original Revenue of South Sumatera Province

Regional Original Revenue consists of local taxes, local levies and the results of separated local assets. Local taxes and levies are closely related to the level of community income. An increase in community income is directly proportional to the increase in Regional Original Revenue obtained by the local government. Economic growth indicates the level of community welfare. The higher the level of community income, the higher the level of welfare (Malayati, 2018). Regional Original Revenue can be used as an indicator to assess the level of fiscal independence of a region from the central government. Through the implementation of Law Number 32 of 2004, there are a number of important factors that need to be developed by local governments, such as financial capability that can be measured by assessing the fiscal capability of a region through the ratio of local revenue to total revenue (Marlissa & Blesia, 2018). The total net economic value derived from all economic activity in a particular region, such as a province or district/city, over a certain period of time, usually one calendar year, and this is known as gross regional domestic product (GRDP) (Pertwi, 2023).



Graph 1 GRDP growth of South Sumatera Province

Based on Graph 1, South Sumatra Province's economy shrank by 0.02 percent in the first quarter of 2021 compared to the fourth quarter of 2020, according to gross regional domestic product by Line of Business data. Public administration, defense, and compulsory social security are among the industries that have agreed to contract, along with water supply (9.78%), transportation and warehousing (5.39%), and compulsory social security (11.04%). Meanwhile, the real estate, corporate services, and agriculture, forestry, and fisheries sectors experienced the lowest increases, at 1.97 percent and 9.49 percent, respectively. According to gross regional domestic product data by expenditure, in the first quarter of 2021 the economic growth of South Sumatra Province decreased by 0.02 percent compared to the fourth quarter of 2020. The decline in GRDP from the production side was the cause. Several expenditure groups from the consumption side experienced a considerable decline, including the Government Consumption Expenditure Component, which fell by 46.38 percent. All sub-components of government expenditure experienced this decline, including personnel expenditure (28.54%), depreciation (62.47%), goods expenditure (76.45%), and social assistance (92.09%). Also declining by 6.10 percent was the Gross Fixed Capital Formation component. Although overall economic growth has increased, economic growth in South Sumatra Province in the first quarter of 2021 is still higher than overall economic growth. This shows that South Sumatra Province has a relatively better economic performance compared to the average economic growth in other regions in that time period.

Regional Original Revenue, Transfer Revenue, and Other Legal Revenue are the three main parts of local revenue. Before the first quarter of 2021, 17.23% of the target of IDR 39.92 trillion had been realized in regional revenue. The entire realization of APBD revenue in the first quarter of 2021 was IDR 6.87 trillion. In 2020, there was a considerable decline, and in 2021 it rose again. The impact of the COVID-19 pandemic is the cause of the decline in revenue realization in the first quarter of 2020 for all regional revenue components. The Transfer Revenue component whose realization grew by IDR 0.82 trillion from the first quarter of 2020 to IDR 5.70 trillion became the majority in the recovery of revenue in the first quarter of 2021. When compared to the same period in 2020, regional original revenue increased significantly in the first quarter of 2021. In the first quarter of 2021, regional original revenue was realized at IDR 1.17 trillion, or 13.94% of the ceiling of IDR 8.41 trillion. For the first quarter of 2021, regional original revenue was IDR 1.17 trillion, or 13.94% of the target. Local taxes and other regional original revenue (Local Retribution and Results Of Management Of Separate Regional Assets) are the two main sources of regional original revenue.

a. Local Taxes

As reported in the previous quarter, local tax collection increased by 6.43% in the first quarter of 2021. The realization of local taxes fell dramatically in the first quarter of 2020, down by 10% from the realization of the first quarter of 2019 by 14%. South Sumatra Province which contributed IDR 638.21 billion or 71.02% of the total local tax revenue in all South Sumatra provinces, was the largest contributor to the local tax revenue slogan. The Provincial Government has the ability to collect vehicle tax which provides the funding. Lahat Regency has the lowest level of achievement proportion, with the realization of local taxes still far from the desired IDR 31.36 billion.

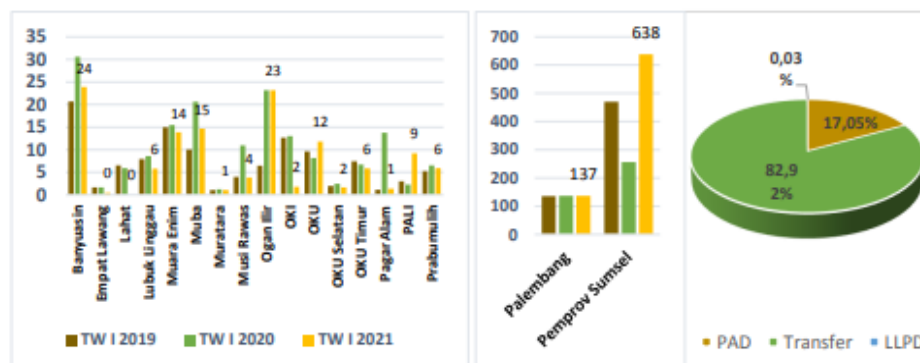


Figure 1 Composition and Realization of Local Taxes in the First Quarter of 2019-2021

Based on Figure 1, Regional Original Revenue accounted for 17.05% of local revenue, followed by Transfer Revenue (82.92%) and Other regional original revenue (0.03%). Thus, it can be said that local governments have a very high level of reliability of transfer payments, which indicates a low level of local financial independence. However, the regional original revenue contribution increased by 1.05% compared to the first quarter of 2020.

b. Other Regional Original Revenue

Local Retribution, Results of Management of Separate Regional Assets, and Other regional original revenue are all parts of other regional original revenue that are part of regional original revenue. The realization of other regional original revenue in the first quarter of 2021 was IDR 273.9 billion or 9.30% of the target of IDR 2.94 trillion. The performance of other regional original revenue realization continues to decline from year to year. Other regional original revenue realization peaked at 18.59% in the first quarter of 2019, fell to 13.87% in the same period the following year, and finally reached 9.30% in the first quarter of 2021. The realization of results of management of separate regional assets experienced the same thing, as it declined for three cycles between the first quarter of 2019 and the first quarter of 2021.

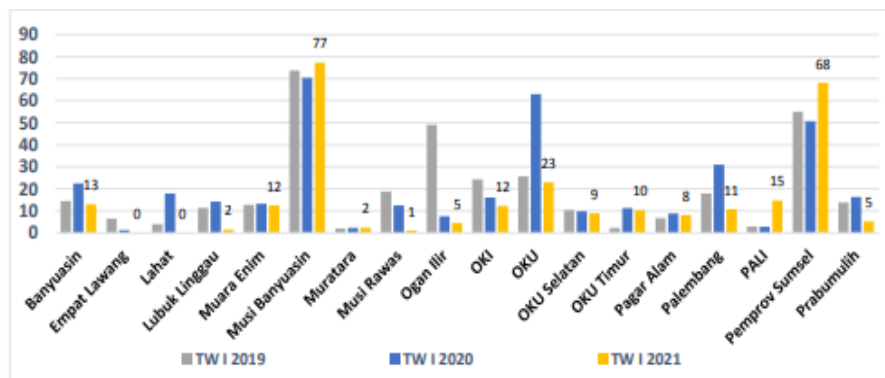


Figure 2 Other regional original revenue in the first quarter of 2019-2021

Based on Figure 2, the graph shows that the prevalence of other regional original revenue in Musi Banyuasin Regency has increased in the first quarter of 2021. The realization of the incoming Regional Wealth Separation Proceeds of IDR 17.34 billion or 99.10% of the target of IDR 17.5 billion, is the cause of this increase. In addition, Musi Banyuasin regency achieved the realization of other regional original revenue of IDR 57.67 billion or 25.83% of the target of IDR 223.26 billion in the first quarter of 2021. Thus, Musi Banyuasin Regency has the highest realization value of other regional original revenue among 17 other LGs, with a total value of 30.86%. The regional original revenue situation in South Sumatra Province will be explained after considering the increase in gross regional domestic product and the sectors that contribute most to gross regional domestic product. In accordance with regulations, regional original revenue refers to Article 1 Point 20 of Law Number 1 of 2022 concerning Financial Relations between the Central Government and local governments, specifically the revenue received from the regions from local taxes, local levies, regional assets separated from management, and original income from other legal fields. The degree of regional fiscal independence increases along with the value of a region's regional original revenue.

c. Transfer Income

Until the first quarter of 2021, the realization of transfer revenue reached IDR 5.70 trillion or 19.13% of the target of IDR 29.8 trillion. This income comes from various sources, including: (a) Balance Fund: The realization of the balancing fund amounted to IDR 5.54 trillion. To maintain the balance between the center and the regions, the central financial government gives money to the regions through the balance fund. (b) Regional Incentive Funds and Adjustment Funds: The realization of regional incentive funds and adjustment funds reached IDR 80.85 billion. Regional Incentive Funds are funds given to regions as a form of incentive for achieving certain performance. Meanwhile, the adjustment fund is used to adjust regional financial needs. (c) Provincial Government Transfers: The realization of Provincial Government Transfers reached IDR 76.9 billion. These transfers are funds provided by the provincial government to regions in order to support activities and development at the district/city level.

Thus, the transfer revenue that has been realized in the first quarter of 2021 reached IDR 5.70 trillion and was sourced from the balance fund, regional incentive funds and adjustment fund, as well as the South Sumatra Provincial Government Transfer.

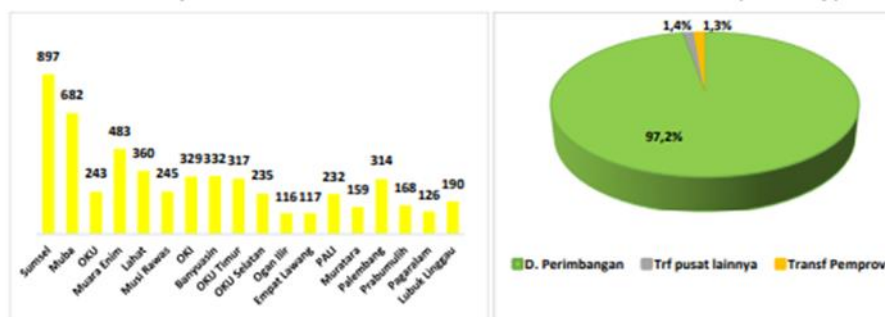


Figure 3 Composition and receipt of transfer in the first quarter of 2021

Based on Figure 3, the composition structure shows that the center of income transfers is very important to generate 97.2 percent of the overall transfer income. In the first quarter of 2021, the general allocation fund, revenue sharing fund, and special allocation fund accounted for 50.90 percent, 33.51 percent, and 15.59 percent of total central transfer revenue respectively. The higher percentage of general allocation fund compared to revenue sharing fund can be attributed to the policy of increasing decentralization and the recovery of the still fragile oil and gas industry. A sizable share is also given to special allocation fund in accordance with the performance-based transfer policy, which adjusts money according to the effectiveness of its implementation. The largest revenue transfer capacity is held by South Sumatra province, with a capacity of IDR 897 billion. In second place is Muba Regency with IDR 682 billion, followed by Muara Enim Regency with IDR 483 billion, and Lahat Regency with IDR 360 billion. The high dependence on coal and petroleum for energy production led to the high amount of transfers in Muba Regency.

The results of this study support that regional fiscal independence and the real condition of the region are reflected in regional original revenue as a result of economic activity and community participation in the regional economy (Zakiah, 2020). Regional original revenue is regional revenue generated by local economic activities. BUMD profits, local levies, local taxes, and other regional original revenue are legitimate sources of regional original revenue. The level of regional independence can be indicated by regional original revenue, namely the ability of the region to finance its own needs using regional original revenue, not assistance from the central government (Mahardika & Fauzan, 2022). The ability of the region to increase local cash through the utilization of local potential is a reflection of an independent region with high regional original revenue. To develop regional potential, expenditures related to infrastructure improvement are required, and this has an impact on increasing the regional expenditure budget. Regional fiscal independence occurs when regional expenditure funds come from regional original revenue. In other words, regional fiscal independence is directly related to regional original revenue, where regional independence gets a positive impact from regional original (Nurhayati et al., 2023). When regional original revenue management is done well, regions become more independent and are not dependent on funds from the central government. Regional original revenue optimization can be done through good and proper implementation of local tax collection and effective supervision of local retribution collection, considering that there are still frequent leaks in local distribution, such as the case of illegal parking collection. In an effort to increase fiscal independence, this is a concern for local governments

3.2 Regional Original Revenue Optimization as an Effort to Realize Regional Fiscal Independence

Although the South Sumatra Provincial Government has implemented various

strategies to maximize regional original revenue, policy makers should also consider alternative initiatives to maximize regional original revenue. These initiatives are based on methods used in other regions and have been modified for South Sumatra's social and economic circumstances. Alternative methods for regional original revenue optimization include the following: (a) Diversification of revenue sources: South Sumatra Provincial Government can look for new sources of income that can increase regional original revenue. For example, by developing the tourism sector, optimizing the potential of natural, cultural and culinary tourism in South Sumatra. The provincial government can also encourage investment in a number of sectors that support the potential for economic growth, such as the creative industry, technology and modern agriculture. (b) Improving the efficiency of tax management: South Sumatra Provincial Government can evaluate the existing tax management system, including tax administration, collection and collection processes. This could include more effective use of information and communication technology, cutting the bureaucracy, and improving the quality of service to taxpayers. (c) Development of cooperation with the private sector: South Sumatra Provincial Government can establish partnerships with the private sector to optimize regional revenue. For example, through public-private partnership cooperation in managing regional assets, utilizing public space for commercial activities, or developing infrastructure projects with a public-private partnership scheme. (d) Increased supervision and enforcement of potential tax evasion: South Sumatra Provincial Government needs to increase monitoring of potential tax evasion and take strict law enforcement action against tax violations. This step will encourage taxpayer compliance and ensure that the revenue that should go to regional original revenue is actually fulfilled. (f) Improve human resource capabilities for local financial management: South Sumatra Provincial Government can spend money on staff training and skills development for this area including planning, budgeting and financial reporting. The efficiency and transparency of local financial management will be helped by this capacity building.

By adopting these alternatives and implementing holistic optimization efforts, it is expected that the South Sumatra Provincial Government can increase regional original revenue sustainably and better meet regional needs.

a. Commitment of The Regional Head in Optimizing Regional Original Revenue

The commitment of the Regional Head in this case the Governor of South Sumatra to seek an increase in regional original revenue is very important in order to achieve regional original revenue optimization. In accordance with the authority of the Regional Head, this commitment becomes the basis for program appeals, studies, and policy plans that will result in policies that apply in the regions. With this dedication, every suggestion that has been well thought out will not be left unattended but put into practice with the help of the Regional Head in order to maximize regional original revenue in the region.

b. Mapping Potensi Semua Jenis Pajak Daerah di Sumatera Selatan

All potential local taxes that may be used in the region can be the focus of the South Sumatra Provincial Government. In this case, South Sumatra imposes five different forms of provincial taxes. The government may want to assess the economic potential of each tax and think about raising the rates to maximize regional original revenue. For example, an increase in the vehicle fuel tax rate may be warranted. The current rate in South Sumatra is only 5%, despite the GRDP law's maximum rate limit of 10% but when compared to other regions, some regions such as West Sumatra, Bali, and South Sulawesi charge more than 5% gasoline tax. Given the large number of motorized cars in South Sumatra the fourth largest province in Indonesia with 17 million cars an increase in the tax rate is feasible

The South Sumatra Provincial Government is potentially thinking of raising the vehicle tax rate. The maximum limit rate stipulated in the gross regional domestic product Law is 10%, whereas the current vehicle tax rate ranges from 0.5% to 3.75%. In this case, other provinces such as DKI Jakarta and Bali apply higher rates, namely 10% and 7.5% respectively. Through this increase in vehicle tax rates, it is expected to increase South Sumatra Province's regional original revenue. However, keep in mind that the tax rate increase policy must be based on a thorough study related to economic potential and its impact on the community and business sector in South Sumatra. In the process of making this policy, it is necessary to involve various related parties and consider the economic conditions of the community so as not to burden them.

d. Strengthening Tax Collection and Optimization Strategy

Bapenda of South Sumatra Province needs to continue to take steps to improve local tax collection. Tax collection methods can be improved with the latest strategies by overcoming a number of potential challenges. Vehicle tax collection through Village-Owned Enterprises (BUMDes) is one of the alternative policies that can be used by South Sumatra Province. To collect vehicle tax from the community, Lampung Province works with 500 BUMDes spread across 15 districts or cities. The government succeeded in making it easier for people to pay vehicle tax without having to go to the Samsat office. The government set a goal of 1 sub-district 1 BUMDes in charge of collecting vehicle tax. As the tax payment procedure is more accessible, this ease of paying taxes has resulted in increased public interest in doing so. In addition, the partnership offers a source of income for BUMDes that receive vehicle tax payments, allowing them to earn extra cash (Supriyanti, 2020).

e. Tax Incentives

The Provincial Government is interested in offering tax facilities as a means of helping taxpayers deal with the current COVID-19 outbreak. The purpose of providing these incentives is to encourage taxpayers to continue paying their taxes. The South Sumatra Provincial Government can offer tax benefits in the form of vehicle tax incentives, as was done in 2020. This action was taken because tax incentives have proven to be effective in increasing vehicle tax revenue to obtain targets and help people who are economy affected by the increase in COVID-19 cases and the settlement policy activities implemented by the government.

f. Provision of Infrastructure and Human Resources Local Tax

The South Sumatra Provincial Government should establish and update the infrastructure of the regional revenue agency to assist in the implementation of local tax collection responsibilities, in addition to taking action to maximize regional original revenue through special policies. Improving Bapenda office space in each district or city in South Sumatra as well as other supporting facilities is part of the infrastructure setup process.

The human resources of tax officials in South Sumatra Province are also continuously improved as part of the optimization effort in order to meet the community's expectations of services and development policies. Regular education and training programs, comparisons with regional revenue agencies from other provinces to share experiences and lessons learned, and the selection of competent and knowledgeable human resources in their fields, can all be used to achieve this. Local tax collection initiatives in South Sumatra Province can be maximally implemented with the availability of reliable infrastructure and qualified human resources.

4. Conclusions

With various references, South Sumatra Province's efforts to achieve fiscal independence have optimized regional original revenue. The economic potential in South Sumatra is enormous especially in the processing industry, trade and agriculture, and fisheries sectors. While government money from the central balance fund is increasing, regional original revenue in South Sumatra tends to increase every year. The South Sumatra Provincial Government has maximized its regional original revenue. The potential of all local taxes must be fully utilized to maximize regional original revenue. This effort also involves improving strategic tax collection, offering tax incentives, and providing quality infrastructure and human resources in the taxation sector. By making these efforts, it is expected that the regional original revenue of South Sumatra Province can be more optimal in achieving fiscal independence

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