

Financial Independence of Regencies and Cities in East Kalimantan Province Indonesia

Indah Martati*, Besse Asniwaty, Suminto Suminto

Administration Department
Politeknik Negeri Samarinda
Samarinda, Indonesia
*iin_polsam@yahoo.com

Abstract—The purpose of the study was to analyse the level of financial independence and dependency as well as patterns of relations in regencies and cities in East Kalimantan as recipients of transfer funds from the Central Government in 2011-2016 period. The sample was set in 5 regions, from the largest transfer fund recipient to the smallest. This research was a descriptive qualitative research that was by analysing the level of financial independence and regional financial capacity and the pattern of its relationship with the central government. The study result found that the five sample regions had very low average independence ratio because of less than 25% except for Balikpapan City 40.61%. The average of Kukar District was 6.5%, Samarinda was 22.43%, PPU was 10.77% and Bontang was 13.08%. The level of dependence with the Central Government is very high at more than 75%. The majority of regions have a pattern of relations with the Central Government in the form of an instructive relationship pattern except for Balikpapan City which was consultative. The results showed that the essence of regional autonomy has not been as successful as expected.

Keywords—*financial independence, transfer fund, relationship patterns, financial dependence*

I. INTRODUCTION

Regional autonomy in Indonesia has been regulated since 1999 with the intention to distribute and hand over some of the centralized power to decentralization. The purpose of these changes is to run the government fairly by submitting some of the functions that were previously handled by the central government to regional governments except law, foreign affairs, religion, defences and higher education. This is intended to reduce the level of dependence of local governments on the Central Government. Decentralization is expected to accelerate regional economic growth by competing positively. Regional autonomy in Indonesia is also a public demand for power-sharing, income distribution, and regional financial management independence. Furthermore, Ratang [1] said that fiscal decentralization provides greater autonomy to local governments in managing regional finance oriented to the interests of society. Regional autonomy is also an instrument to prevent national disintegration because by doing so the management of government finances can be more effective and efficient so that public welfare and services can increase [2]. Regional Autonomy without being accompanied by the

authority of financial management and looseness in exploring the sources of regional income will not succeed maximally. By giving authority and encouragement to the regions to explore local potential in generating income and coupled with proportional supervision will encourage regions to increase Regional Original Revenue (PAD). The basic principle of regional autonomy is the granting of authority to regions to manage their regions so that they are able to be independent.

Regencies and cities in the territory of Kalimantan Province obtained status as autonomous regions since the enactment of Law No. 22 of 1999 concerning Regional Government. This status has implications for the transfer of financial management authority, which was previously centrally transferred to regions in the form of balance funds or transfer funds from the centre to the regions. Thus, the regions have the freedom to manage these funds to improve the welfare of their regional communities. With the passage of regional autonomy which has been almost seventeen years, the essence of autonomy has not yet been seen. Especially after the decline in oil and coal prices which had implications for the drastic fall in the fund balance, which affected the Regional Budget and Expenditure in the regencies and cities in the region which in turn reduced the people's income. This is because the districts and cities in East Kalimantan still rely on their income from mining. This kind of mind-set cannot be maintained for a long time, because mining is a resource that cannot be renewed. Therefore, the local government must look for other sources of income that can sustain its Budget and Regional Revenue with its locally-generated Revenue (PAD) which is based on the potential of the region and its people. With the hope that the region can be more independent in financing its activities in providing public services and improving its welfare. In reality, the community has already been spoiled by the existence of large amounts of transfer funds as producers of natural resources. Local governments and communities have not been able to optimize the management of transfer funds to encourage the growth of regional income sources derived from PAD. This is evidenced when the world market price for oil and coal has affected the Budget and Regional Revenue deficit in the districts and cities in East Kalimantan. This is not only happening in the regencies and cities in East Kalimantan but also in East Java Province the level of independence in the area was also still low [3], as well as for regencies and cities in central Java the level of independence was also low as revealed by Fafurida and Pratiwi

[4]. The higher the level of regional financial independence, illustrating that the local government has been able to improve financial capacity that comes from the local area and reduce dependence on central government funding transfer.

To be capable of being independent, it is necessary to recognize the source of regional revenue, first from locally-generated revenue. Increasing regional independence is closely related to the ability of regions to manage locally-generated revenue. The higher the ability of the region to produce PAD, the greater the ability of the region to use the PAD according to the aspirations, needs, and priorities of regional development. PAD is the source of regional revenue that is obtained and used in accordance with the potential of the area that is owned. PAD aims to give authority to local governments to fund the implementation of regional autonomy in accordance with the regional potential as a manifestation of decentralization. Second, the Balancing Fund is a fund sourced from revenues from the State Budget (APBN) allocated to regions to fund regional needs in the context of implementing decentralization aimed at reducing the fiscal gap between the government and regional governments and among regional governments. Balancing Funds are Regional funding sourced from APBN consisting of Revenue Sharing Funds (DBH), General Allocation Funds (DAU), and Special Allocation Funds (DAK). The Balancing Fund is expected to increase regional fiscal capacity and reduce fiscal disparities. The Balancing Fund is substituted for PAD. Acceptance of the Balancing Fund varies depending on the acceptance of the regional PAD. Third, other legal income consists of grant income and Emergency Fund income. Grant income is non-binding assistance. Grants to regions originating from abroad are carried out through the government. Emergency funds are allocated by the government where funds come from the state budget for urgent needs caused by national disasters or extraordinary events that cannot be overcome by the regions using APBD sources [5]. In the era of regional autonomy, total income is expected to be used to finance regional needs. An autonomous region is a legal community unit that has certain regional boundaries authorized to regulate and take care of the interests of the local community according to their own initiative based on the aspirations of the people in the ties of the Republic of Indonesia Unitary State. Regional autonomy means the right, authority and obligation of the autonomous region to regulate and manage their own affairs and the interests of the local community in accordance with the laws and regulations. According to the Law the objectives of regional autonomy are 1) to improve the welfare of people in the regions of authority, 2) improve public services in their regions, and 3) improve regional competitiveness is also the goal of regional autonomy [6].

II. RESEARCH METHODS

The research data used are secondary data in the form of APBD Allocation and Realization for the period 2011-2016 from the five regencies and cities as the sample of this study namely Kukar Regency (Kukar), Balikpapan City (BPN), Samarinda City (SMD), Panajam Paser Utara Regency (PPU), and Bontang City (BTNG). Determination of the sample is based on the consideration of the recipient area for the transfer

of funds in large quantities from the Central / Provincial Government and the recipient area of the transfer funds in small amounts from the Central Government.

The Data were analysed descriptively qualitatively to explain the level of regional financial independence and ability and the pattern of relations with the central government. To determine the level of regional financial independence, the data were analysed using the formula of financial independence (FI) according to Halim [7].

$$FI = \frac{\text{Locally - Generated Revenue} \times 100\%}{\text{Central Government Transfer} + \text{Province} + \text{Regional Loan}}$$

Fig. 1. Financial independent formula.

With indicators of Financial Capability, Independence and Relationship Pattern as listed in Table 1.

TABLE I. INDICATORS OF FINANCIAL INDEPENDENCE AND RELATIONSHIP PATTERN [8]

Financial Capability	Level of Regional Financial Independence	Relationship Pattern
Very low	0 -25%	Instructive
Low	>25% - 50%	Consultative
Medium	>50% - 75%	Participatory
High	>75% - 100%	Delegate

Explanation:

- The pattern of instructive relationships means that the role of the Central Government is more dominant than the independence of a region.
- The pattern of consultative relations means that the intervention of the Central Government has begun to diminish because the Region has been deemed capable of carrying out autonomy.
- The pattern of participatory relations shows that the role of the central government is diminishing because the regions concerned are close to being able to implement regional autonomy.
- The pattern of delegate relations means that the government intervention has not existed because the regions have been truly independent in implementing regional autonomy.

III. FINDING AND DISCUSSION

Regional independence is one of the important aspects of the implementation of the regional authority in financing the implementation of government and development activities through increasing regional [8]. Based on secondary data obtained from the Ministry of Finance's Director General of Regional Financial Balance related to revenue realization data for the 2011-2016 period in the 5 regencies and cities designated as samples as shown in Table 2.

TABLE II. REALIZATION OF REGIONAL REVENUE AND EXPENDITURE BUDGET OF REGENCIES AND CITIES IN EAST KALIMANTAN PROVINCE 2011-2016 (000.000 RUPIAH)

Year	Kukar Regency	BPN City	SMD City	PPU Regency	Bontang City
2011	5,625,909,48	1.804.462,63	2.068.470,07	1.197.891,25	1.247.338,56
2012	6,119,246,75	2.206.403,60	2.713.207,59	1.502.746,67	1.484.501,94
2013	5,950,667,48	2.422.211,29	2.567.632,61	1.328.818,64	1.409.777,38
2014	6,458,980,09	2.498.540,50	2.845.036,42	1.336.874,59	1.455.043,42
2015	5.079.535,21	2.229.965,80	2.859.356,29	1.276.706,29	1.352.095,37
2016	4.130.498,98	1.993.392,91	2.437.626,65	1.338.434,76	1.203.633,63

The total income of the five regions in the 2011-2016 period fluctuated from year to year, but in 2014-2016 it tended to decline in almost all districts and cities. The income profile reflects the APBD owned by five regencies and cities. Table 2 showed the APBD for 2011-2016, namely the APBD of Kukar Regency with an average annual value of 5.56 trillion rupiahs, while other regions, namely Balikpapan, average APBD per year only amounted to 2.19 trillion rupiahs, Samarinda averaged 2.58 trillion rupiah, Panajam Paser Utara averaged 1.33 trillion rupiah, and Bontang averaged 1.35 trillion rupiah. Kukar Regency Regional Budget was 2.55 times of Balikpapan City, 2.17 times of Samarinda City, 4.19 times of PPU Regency, and 4.08 times of Bontang City.

The APBD ratio of Kukar Regency to other regencies /cities can be seen in Figure 2. The total income of the five regions in the 2011-2016 period fluctuated from year to year, but in 2014-2016 it tends to decrease in almost all districts and cities. The income profile reflects the APBD owned by five regencies and cities. Table 2 showed the APBD for 2011-2016, namely the APBD of Kukar Regency with an average annual value of 5.56 trillion rupiahs, while other regions, namely Balikpapan, average APBD per year, only amounted to 2.19 trillion rupiahs, Samarinda averaged 2.58 trillion rupiah, Paser Panajam Utara averaged 1.33 trillion rupiah, and Bontang averaged 1.35 trillion rupiah. Kukar Regency Regional Budget is 2.55 times the Balikpapan City APBD, 2.17 times the Samarinda City APBD, 4.19 times the PPU Regency APBD, and 4.08 times the Bontang City APBD. The APBD ratio of Kukar Regency to other districts/cities can be seen in Figure 2.

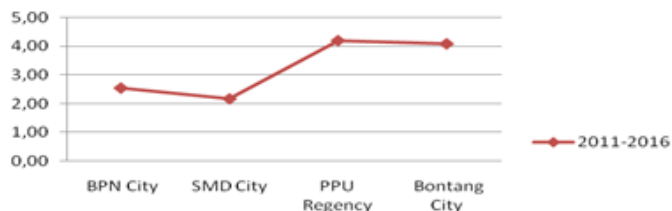


Fig. 2. Income ratio Kukar Regency to the other Regencies and Cities 2011 - 2011 Period.

The main regional income generally comes from the transfer funds from the central/provincial government and not

from the original regional income (PAD). Kukar Regency, which had the largest APBD compared to other districts and cities in East Kalimantan, was inversely proportional to the small amount of PAD produced. This means that the availability of a large budget is a challenge for each region to manage its finances effectively in order to stimulate economic growth. The ability of regions to produce the PAD as an indicator of whether or not financial management is effective. This is in accordance with the spirit of regional autonomy, so gradually the regions must release their dependence from the Central Government. One of its efforts is to explore the potential of the local economy to gradually increase PAD towards financial independence. It was found the fact that regions with large APBD did not guarantee to have the ability to use their money to explore the potential of the local economy in order to generate local revenue. Judging from the original regional revenue generated by each region, Kukar Regency was ranked third after Samarinda City and Balikpapan City. Profile of PAD percentage of total income from each region as shown in Table 3.

TABLE III. PERCENTAGE OF LOCAL REVENUE OF REGENCIES AND CITIES TO TOTAL INCOME IN EACH REGENCY AND CITIES 2011-2016

Year	Kukar Regency	BPN City	SMD City	PPI Regency	Bontang City
2011	3%	13%	9%	2%	7%
2012	4%	16%	10%	2%	7%
2013	6%	19%	13%	4%	9%
2014	5%	30%	15%	4%	11%
2015	6%	26%	15%	5%	11%
2016	6%	28%	16%	17%	14%
Average	5%	22%	13%	6%	10%

Table 3 shows that during the period of 2011-2016, the regions with the highest PAD were Balikpapan with an average percentage of PAD of 22% of the Total Income. The second most was Samarinda with an average PAD of 13% of the Total Income. The third sequence was Bontang City with an average percentage of 10%, followed by PPU Regency with an average percentage of 6%. While the smallest percentage of PAD was Kukar, it was 5%. This percentage shows that there is no guarantee that regions with large total revenues are able to generate economic growth that can increase high local revenue. Small PAD indicates low regional financial capacity and has an impact on low levels of independence and high dependence on the central government. Overall from the five regions, the average percentage of PAD to Total Revenue is relatively low at 11%. This means that the source of regional income derived from the internal capability of the region is only 11% and the remaining 89% comes from other sources.

A description of the percentage of regional revenue sources derived from the Central Government's transfer funds to the 5 regions as reflected in Table 4. Starting in 2011-2016 Kukar obtained the largest transfer funds compared to other regions.

TABLE IV. PERCENTAGE OF FUNDS TRANSFER TO TOTAL INCOME IN EACH REGENCY AND CITY

Year	Kukar Regency	BPN City	SMD City	PPI Regency	Bontang City
2011	85%	64%	63%	81%	78%
2012	85%	61%	58%	77%	77%
2013	81%	53%	57%	80%	71%
2014	81%	53%	54%	80%	71%
2015	78%	51%	54%	72%	74%
2016	83%	51%	66%	70%	76%
Average	82%	56%	59%	77%	74%

The main source of income for the majority of regencies and cities in East Kalimantan has so far relied on transfer funds from the Central Government. There have not been any regional efforts to release dependence on revenue-sharing funds obtained from non-renewable natural resources. This is evident from the regional financial management that is still focused on routine government activities and personnel expenditure. So that a lot of local economic potential has not been empowered to improve the economic growth of the community which has an impact on the increase in PAD. This shows that there is a political budget that has not taken sides with the welfare of society in general. Paying attention to the profile of total income, PAD, transfer funds in each district and city, it can be analysed by the level of regional financial independence as shown in Table 5. The level of independence owned by each region in each year has different quality values. This is related to the ability of regions to manage their regional finances.

TABLE V. LEVEL OF FINANCIAL INDEPENDENCE PERIOD 2011-2016

Year	Kukar Regency	BPN City	SMD City	PPI Regency	Bontang City
2011	3,68%	20,59%	14,51%	3,46%	9,03%
2012	5,26%	26,29%	17,30%	3,76%	8,51%
2013	7,85%	36,73%	23,08%	5,88%	12,51%
2014	6,45%	56,95%	28,31%	6,64%	15,59%
2015	8,00%	50,55%	27,21%	8,51%	14,18%
2016	7,79%	52,54%	24,19%	36,36%	18,69%
Average	6,50%	40,61%	22,43%	10,77%	13,08%
Financial Ability	Very Low	Low	Very Low	Very Low	Very Low
Relationship Pattern	Instructive	Consultative	Instructive	Instructive	Instructive

Overall the regencies and cities with the highest average level of independence were Balikpapan City 40.61% followed by Samarinda City (22.43%), Bontang City (13.08%), Panajam Paser Utara Regency (10.77%), and the lowest was Kukar Regency (6.50%). The average value of the independence ratio of 40.61% which was owned by Balikpapan City, it was in the category of low financial ability and seen the pattern of relations with the central government was consultative. This means that the intervention of the central government has begun to diminish because the Region has been deemed

capable of carrying out autonomy. Whereas for the four other regions because the independence ratio was still below 25%, then the financial ability was very low. So that the pattern of relations with the central government was an instructive relationship pattern. This means that the role of the Central Government is more dominant than the independence of a region. So most districts and cities in East Kalimantan have more than 75% of high financial dependence with the central government. Areas with a low level of independence affect low economic growth. In other words, a high level of dependence has a negative effect on economic growth. This is consistent with the results of previous studies [9].

Research shows that autonomy that has been running up to now has not been as expected as the goal of autonomy itself. The development of regional autonomy for 17 years since it was implemented was still very low. Because almost all regions have a high dependency on transfer funds from the Central Government. This is allegedly due to three factors, namely:

- The absence of a standard time for regional financial independence determined by the Central Government.
- Lack of tight supervision by the Central/Provincial Government on the priority of the use of regional transfer funds.
- The existence of budgetary political interests that are not in favour of improving the welfare of the community.

Based on the results of previous research Suci & Asmara stated that fiscal decentralization aims to increase regional financial independence and reduce fiscal dependence on the central government [9]. But in its implementation, there are still many regions that depend on central funding for regional development. There is no clarity in the standard time for the regions to gradually become independent. This is reflected in the rules on regional autonomy which are set forth therein not yet to contain the measurement of achievement and the standard of time to achieve it as outlined in the form of measurable indicators with a certain time limit. There should be a five-year achievement target by using certain criteria for financial independence. For example, the first five years since the implementation of regional autonomy in 2001 with the target of achieving independence is 0-25%. The second five years of achievement of independence targets are > 25% -50%. The third five-year achievement target of independence is > 50% -75%, and the fourth five-year achievement target of independence is > 75% -100%. Thus supervision is easier to see from the achievements of each region. An indicator of achievement of clear and measurable financial independence. The more independent an area shows a balanced proportion between PAD and balancing funds and regional loans.

In the mechanism of preparing the APBD at the regencies and city level, facilitation is carried out by the Provincial Government as an extension of the central government. Facilitation is a form of supervision but has not touched on the details of the proposed financial management from districts and cities. This shows the existence of budgetary political interests that are not in favour of improving the welfare of the

community. This is reflected in the more allocated budget allocation for personnel expenditure with a tendency to increase from year to year in the five districts and cities. The proportion of employee expenditure on average each year ranges from 30.61% - 40.02% of the total budget. The percentage of personnel expenditure allocation is almost the same as the average capital expenditure which ranges from 29.94% -37.90%.

Budget allocations that were less oriented to efforts to encourage economic growth of the people indicate that there is no optimal regional financial management. This has an impact on the region's low ability to be independent.

IV. CONCLUSION

The level of regional financial independence and dependency level and Pattern of Relationship with the Central Government from the five regencies and cities of the research sample are as follows:

- Kukar Regency with a very low level of independence, which was an average of 6.5% and a very high dependency rate of 93.5% and has an instructive relationship pattern;
- Balikpapan City with a low level of independence that was an average of 40.61% and a high level of dependency, namely 59.39% and has a pattern of consultative relations with the Central Government;
- Samarinda City with a very low level of independence, namely an average of 22.43% and a very high dependency rate of 77.57% and has an instructive relationship pattern with the Central Government;
- PPU Regency with a very low level of independence namely an average of 10.77% and a very high dependency level of 89.23% and has an instructive relationship pattern with the Central Government;
- Bontang city with a very low level of independence that is an average of 13.8% and very high dependency rate of 86.2% and has an instructive relationship pattern with the Central Government;

The results of this study prove that in general, the financial capability of the regencies and cities in East Kalimantan was still very low, namely under 25% of the level of independence. The pattern of relations with the Central Government is in the form of an instructive relationship pattern except for Balikpapan City which is consultative. In other words, the level of financial dependence with the Central Government was still high as above 75%. The slowing of the area towards autonomy in the financial sector is indicated by several causes, namely

the lack of completeness of the rules and regulations relating to the implementation of regional autonomy, which includes indicators of achievement and time limits, supervision of the use of transfer funds, and political budget that are less pro poor.

ACKNOWLEDGMENT

This article is part of the 2018 Competency Grant (Hukum) research results funded by the Ristekdikti DRPM with contract number: 862g / PL7 / LK / 2018 on behalf of the research team Dr. Indah Martati, SE, MM. (chairman), Dr. Besse Asniwaty, SE, M.Sc., and Drs. Suminto, M.Hum, M.Pd., B.I. The research team is a permanent lecturer at the Department of Business Administration of Samarinda State Polytechnic (POLNES) with the title of research "Effectiveness of Funds Transfer Management from the Central Government to Provincial and Regencies/Cities Governments in East Kalimantan".

Our thanks go to DRPM Ristekdikti and to Polnes who have given us the opportunity to conduct research in 2018 in accordance with the field of competence. This international conference that we participate in is one of the research outputs that we have targeted.

REFERENCES

- [1] S. Ratang, "Analysis of Financial Performance of Local Government Keerom Fiscal Year 2009-2013," *Journal of Social and Development Science*, pp. 31-79, 2016.
- [2] F. Gousario and C.F. Dharmastuti, "Regional Financial Performance and Human Development Index Based On Studies in Twenty Countries/Cities of Level1 Region," *Journal The winner*, vol. 16, no. 2, pp. 162-165, 2015.
- [3] Sebastiana and H. Cahyo, "Analysis of Economic Performance as The Independence indicators of Government in East Java Province," *Review of Integrative Business and Economic Research*, vol. 5, no. 2, pp. 272-285, 2016.
- [4] Fafurida and E.N. Pratiwi, "Financial Independence of Regencies and Cities in Central Java," *Economic Journal of Emerging Market*, vol. 9, pp. 199-209, 2017.
- [5] W.N. Bhaskoro, *Financial and Fund Transfer Analysis From Central and Regional*, Jakarta, 2013.
- [6] Ministry of Indonesia, *Regional Autonomous and Autonomy Region, Undang-Undang No. 32, 2004*.
- [7] A. Halim, *Regional Financial Accounting*, Jakarta: Salemba Empat, 2008.
- [8] L.B.I. Enceng and M.W. Purwaningdyah, "Fiscal Decentralization of Regional Financial Revenue," *Journal Ilmu Administrasi Negara*, pp. 1-7, 2012.
- [9] S.C. Suci and A. Asmara, "The Effect of Regional Financial Advances On the Economic Growth Regency/City of Banten," *Jurnal Ekonomi dan Kebijakan Pembangunan*, pp. 8-22, 2014.