Knowledge E
Engaging minds

Conference Paper

Encouraging a Regional Autonomy in Indonesia: An Analysis of Factors Affecting the Own Source Revenue of Central Java Province

Etty Susilowati and Diana Endah Rahmadewi

International Business and Management Studies, Faculty of Economics and Business, Budi luhur University

Corresponding Author:
Etty Susilowati
ettysslwt@gmail.com

Abstract

A provincial financial independence is one of indicators to implement regional autonomy. The existence of regional autonomy provides flexibility for local governments to manage resources and accountable to the community in a transparent, effective and efficient manner. The sources of financial independence are derived from the Own Source Revenue (PAD). In order to reduce the fund dependency, local governments should seek potential alternatives to increase its own source revenues. Therefore, the purpose of this study is to analyze the effect of capital expenditure, special allocation fund, inflation and financing expenditure on own source revenue in Central Java Province. Until recently, its the general allocation fund increases annually even though its own source revenue increases. The type of data applied was a secondary data from 2010 until 2014. An observation method was employed to collect data from the budget realization report published by the Ministry of Home Affairs, Ministry of Finance, and the Central Statistics Agency of Central Java. Data processing was carried out by employing multiple regression analysis. The findings indicated that significant factors affecting own source revenue of Central Java were capital expenditures (α 1%; coeff. = 0.690), inflation (α 5%; coeff. = 0,095), special allocation fund (α 10%; coeff. = -0.093), and financing expenditure (α 1%; coeff. = 0.424). Further managerial implications were discussed.

Keywords: Decentralization, Regional Autonomy, Local Revenue, General Allocation Fund, Own Source Revenue

🔓 **OPEN ACCESS**

1. Introduction

Regional autonomy is an effort of regional empowerment to manage its own resources in accordance with importance, priority and potency of the area itself [1]. The existence of regional autonomy provides flexibility for local governments to manage resources and accountable to the community in a transparent, effective and efficient manner. Regional independence is one of the main elements in the implementation of regional autonomy, where it is supported by the financial capacity of a region. The financial support can be obtained from the own source revenue. Therefore, it is important to identify the source of own source revenue by analyzing the factors that can increase the regional revenue and manage the local financial funds. The increasing of own source revenue in an area is expected to reduce a regional dependency on the government funds.

Central Java is a province in Indonesia whose financial resources are still dependent on the central government and receive General Allocation Funds which increase in number every year. The allocation of General Allocation Funds from the central government to the province of Central Java in 2010 amounted to Rp. 18,648,202,083,073, then in 2011 the fund amounted to Rp.16,316,000,883,000, in 2012 the fund was increased by Rp. 25,062,798,431,000, in 2013 the fund amounted to Rp. 24,220,018,505,000 and in 2014 the fund amounted to Rp. 29,179,012,675,000. The increase in general allocation fund was also accompanied by the increase in provincial own source revenue from 2010 to 2014 [2]. This fact indicated that Central Java has not been able to realize the independence of regional financing sources, despite the increase in its own source revenue. In order to reduce the dependency of funds from the central government, local governments should seek to increase their own source revenues, and analyze potential sources from which to increase local revenues by increasing capital expenditures, inflation, the use of special allocation funds and financing expenditures for infrastructure support and investments in local investment as well as reducing the acceptance of direct and indirect costs that are less productive.

Several studies have been analyzed in terms of factors affecting local revenues in some regions of Indonesia [3], [4], [5], [6], [7], [8]. This research contributes to creating long-term strategies and creating policies to advance the local government of Central Java Province through the increase of own source revenue and as a reference for making a good budget in budgeting capital expenditure, and using the realization

of regional expenditure for activities which contribute to public services, and long-term investments. For the literature, this study contributes to empirical evidence of the determinants of local income in one province in Indonesia.

2. Objectives of the Study

This study aims to analyze the effect of capital expenditure, special allocation fund, inflation and financing expenditure on own source revenue in Central Java Province.

3. Methods

3.1. Source and type of data

The sample employed in this study consisted of 20 districts/municipalities of Central Java and 1 Central Java Province sourced from the Central Java provincial financial report consisting of 20 districts/cities and 1 province of Central Java obtained from Kemendagri from 2010-2014, the website of www.djpk.kemenkeu.go.id and Central Bureau of Statistics of Central Java. Methods of data collection employed observation method of budget realization report published by related institutions.

3.2. Data analysis

A multiple regression was carried out to test the effect of all independent variables (capital Expenditure, population, financing expenditure and special allocation fund) on own source revenue of Central Java Province. The data were processed with the using of SPSS software version 11.5 for Windows. Based on the data analysis method, the regression equation was written mathematically as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

In which, Y = Own source revenue

α = Constant

X_1 = Capital expenditure

X_2 = Inflation

X_3 = Special allocation fund

X_4 = Financing expenditure

e = error

4. Results

The test results of the fulfillment of classical assumptions indicate that the data is normal, free of multicolinearity, autocorrelation, and the data are homogeneous. The result of multiple regression test is denoted in the following table:

TABLE 1: Output statistics.

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-1.547E11	1.934E11		-.800	.426
BM	5.628	.320	.690	17.615	.000
IF	-6.286E10	2.151E10	-.095	-2.923	.004
DAK	-6.927	2.469	-.093	-2.806	.006
PP	12.531	1.091	.424	11.482	.000

From the table 2, it is indicated that capital expenditure, inflation, special allocation fund, and financing expenditure significantly affect own source revenue of Central Java Province (β = 5.628; β = -6.286; β = -6.927; β = 12.531). Furthermore, simultaneous test results on the model (F test) indicate the following results (Table 2).

TABLE 2: F-test output statistics.

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.202E26	4	5.504E25	232.635	.000[a]
Residual	2.366E25	100	2.366E23		
Total	2.438E26	104			

From the table 2 it can be summarized that the F-value of 232.635 is greater than F-table of 2.46 with n = 105 and K = 4 and the significance value is 0.000 or less than 0.05 (alpha α = 5%). Therefore, capital expenditures, inflation, special allocation fund, and financing expenditures simultaneously affect the realization of own source revenue of Central Java Province. Furthermore, based on t test calculation, it was proven that capital expenditure has a t-value of 17,615 which was higher than a t-table of 1,660 (α = 5%), therefore capital expenditures had a significant positive effect on the realization of own source revenue. This indicated that the amount of realization fund of own source revenue could be determined from capital expenditures. The amount of contribution of capital expenditure to realization of own source revenue was 47.61

%. The inflation variable has a t-value of 2.923 which was higher than a t-table of 1,660 (α = 5%), therefore it was summarized that inflation significantly affected the realization of own source revenue in a negative way. The amount of contribution of inflation to realization of own source revenue was 0.9%. The variable of special allocation fund had a t-value of -2.806 which was higher than a t-table of 1,660 (α = 5%), therefore it was summarized that special allocation fund has a negative effect to realization of own source revenue. The amount of contribution of special allocation funds to the realization of own source revenue decreased by -0.67%. The variable of financing expenditure had a t-value of 11,620 which was higher than a t-table of 1,660 (α = 5%), therefore it was summarized that financing expenditure had a significant effect to realization of own source revenue. The amount of contribution of financing expenditure to realization of own source revenue is 0.86%. The adjusted R square of 0.899 indicated that the realization of own source revenue could be explained by the variation of the four independent variables of capital expenditure, inflation, special allocation fund, and financing expenditure.

5. Discussions

5.1. The effect of capital expenditure on the own source revenue

The results of this study stated that capital expenditures have a significant effect on own source revenue. The role of capital expenditures for own source revenue is very significant to create a good investment climate, and to increase the regional revenue. The government can increase the revenue through taxes on infrastructure that has been built for public servants sourced from funds that have been allocated in the form of capital expenditure in Regional Revenue and Expenditure Budget. With the rapid development of the allocation of capital expenditure, the increase of regional financial independence is highly expected. Expenditures should be allocated for productive purposes, ie. to conduct development activities [9], in line with that opinion, [10] stated that government revenue should be allocated more for public service programs. This is consistent with the results of previous research conducted by [11] and [12] stating that capital expenditure has a significant effect on own source revenue.

5.2. The effect of inflation on the own source revenue

According to [13], inflation is the tendency of prices to rise generally and continuously. An increase in the price of one or two items is not called inflation, unless the increase extends to (or causes an increase) in most of the price of other goods. Inflation can occur because people's demand for goods is too strong. This inflation is called demand inflation. Inflation may also occur as production costs rise, this is called cost inflation. The money supply determines the rate of inflation, the more money in circulation, the higher the inflation. Inflation is considered a problem in the economy because of the declining purchasing power of the people. Rising wages still cannot keep pace with rising inflation, therefore people tend to be economical and spending on consumption associated with the addition of taxes and levies is reduced. The significant effect of inflation on own source revenue is in accordance with previous research by [7] and [14].

5.3. The effect of special allocation fund on the own source revenue

The results of this study indicate that the special allocation fund has a significant negative effect on the own source revenue, signifying that the higher the special allocation fund, the lower the realization of the own source revenue. This can be due to the types of special allocation fund, which are used for basic community services such as education, boss funds, health, family planning, housing, basic services which have no direct impact to be able to generate revenue that can be used to meet the needs of facilities and infrastructure of basic community services. The significant effect of special allocation fund on own source revenue is in accordance with previous research by [15].

5.4. The effect of financing expenditure on the own source revenue

The results of this study indicated that financing expenditure has a significant positive effect on the realization of own source revenue, signifying that the higher the financing spend, the higher the realization of the own source revenue. This is consistent with Permendagri no 13/2006 on regional financial management guidelines where article 60 states that financing expenditures are used for the establishment of reserve funds, local government investment, and debt principal payments.

6. Conclusions

Partially, capital expenditure has a significant positive effect on own source revenue of Central Java Province. Inflation has a significant negative effect on the own source revenue indicating that the higher the inflation, the lower own source revenue will be. The special allocation fund has a significant negative effect on the own source revenue indicated that the higher the special allocation fund, the lower the own source revenue will be. The financing expenditure has a significant positive effect on the own source revenue, indicating that the amount of own source revenue can be determined from the financing expenditure.

Simultaneously, capital expenditures, inflation, special allocation funds, and financing expenditures simultaneously affect the own source revenue of Central Java Province. As much as 89.9 % of own source revenue realization can be explained by the variation of the four independent variables of capital expenditure, inflation, special allocation fund, and financing expenditure. The addition of other independent variables such as total investment in Central Java Province is strongly recommended for further research.

References

[1] Widada, S. (2012). *Analisis Pengaruh terhadap Kinerja Keuangan pada DPPKA Kabupaten Klaten*, Program Studi Akuntansi, UNY, Yogyakarta.

[2] KEMENKEU. (2015). Penerimaan Dana Alokasi Umum Pada Kab/Kota Jawa Tengah dari tahun 2010 – 2014. www.djpk.kemenkeu.go.id.

[3] Mangowal, J. C. (2013). Pendapatan Daerah Pengaruhnya Terhadap Belanja Modal Pada Pemerintah Provinsi Sulawesi Utara. *Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi*, *1*(4).

[4] Sularno, F. M. (2013). Pengaruh pertumbuhan ekonomi, pendapatan asli daerah dan dana alokasi umum terhadap pengalokasian anggaran belanja modal Studi Kasus Pada Kabupaten/Kota di Provinsi Jawa Barat.

[5] Nurdini, R., Wiratno, A., & Farida, Y. N. (2015). Analisis flypaper Effect Pada Dana Alokasi Umum (DAU), Dana Alokasi Khusus (DAK), Dana Bagi Hasil (DBH), Dan Pendapatan Asli Daerah (PAD) Terhadap Belanja Daerah (BD) Kabupaten/Kota Di Jawa Barat. *Jurnal Akuntansi Dan Keuangan Vol 2 No 1*, *2*(1).

[6] Rahman, Y. A., & Chamelia, A. L. (2015). Faktor-faktor yang mempengaruhi pdrb kabupaten/kota jawa tengah tahun 2008-2012. *JEJAK: Jurnal Ekonomi dan Kebijakan*,

8(1).

[7] Mayza, M., Masbar, R., & Nasir, M. (2015). Analisis faktor-faktor yang mempengaruhi pendapatan asli daerah (pad) provinsi aceh. *Jurnal Ilmu Ekonomi: Program Pascasarjana Unsyiah*, *3*(1).

[8] Prana, R. R. (2017). Analisis Faktor-faktor yang Mempengaruhi Pendapatan Asli Daerah (PAD) Kota Tebing Tinggi. *Jurnal Ilman*, *4*(1).

[9] Saragih, J. P., & Khadafi, M. S. (2003). *Desentralisasi Fiskal dan Keuangan Daerah dalam Otonomi*. Ghalia Indonesia.

[10] Stine, W. F. (1994). Is local government revenue response to federal aid symmetrical? Evidence from Pennsylvania county governments in an era of retrenchment. *National Tax Journal*, 799-816.

[11] Nugroho, F., & Rohman, A. (2012). *Pengaruh Belanja Modal Terhadap Pertumbuhan Kinerja Keuangan Daerah Dengan Pendapatan Asli Daerah Sebagai Variabel Intervening (Studi Kasus Di Propinsi Jawa Tengah)* (Doctoral dissertation, Fakultas Ekonomika dan Bisnis).

[12] Darwanis, D., & Saputra, R. (2014). Pengaruh Belanja Modal terhadap Pendapatan Asli Daerah dan Dampaknya Pada Kinerja Keuangan Pemerintah Daerah (Studi Empiris Pada Pemerintah Daerah Kabupaten/Kota Di Provinsi Aceh). *Jurnal Dinamika Akuntansi dan Bisnis*, *1*(2), 183-199.

[13] Boediono. 1985. Ekonomi Moneter, Edisi 3. BPFE: Yogyakarta.

[14] Weley, I. R., Kumenaung, A. G., & Sumual, J. I. (2015). Analisis Pengaruh Inflasi dan Produk Domestik Regional Bruto (PDRB) terhadap Pendapatan Asli Daerah di Kota Manado. *Jurnal Pembangunan dan Keuangan Daerah*, *19*(3).

[15] Nurdini, R., Wiratno, A., & Farida, Y. N. (2015). Analisis flypaper Effect Pada Dana Alokasi Umum (DAU), Dana Alokasi Khusus (DAK), Dana Bagi Hasil (DBH), Dan Pendapatan Asli Daerah (PAD) Terhadap Belanja Daerah (BD) Kabupaten/Kota Di Jawa Barat. *Jurnal Akuntansi Dan Keuangan Vol 2 No 1*, *2*(1).