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Government Budgeting Structure and Regional Fiscal Independence

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ABSTRACT

Fiscal independence is one of the government's goals to develop regions to become independent, various types of assistance are provided by the central government, including in the form of fund transfers such as balancing funds, special allocation funds and general allocation funds. This research aims to analyze the influence of regional government budget structures on fiscal independence. This research focuses on districts/cities in East Kalimantan. The results of this research show that Regional Original Income has a significant positive influence on fiscal independence in districts/cities of East Kalimantan Province.

Keywords
Fiscal Independence; Budget Structure; Region; Regional Original Income.

1. INTRODUCTION

Regional Autonomy and fiscal decentralization expect Regional Governments (Pemda) to have greater independence in regional finances. However, along with the implementation of the regional autonomy policy which has been implemented since 2001 and the fiscal decentralization policy since 2004, regional independence has not been realized to date. This can be seen from the low degree of fiscal decentralization of district/city governments in Indonesia.

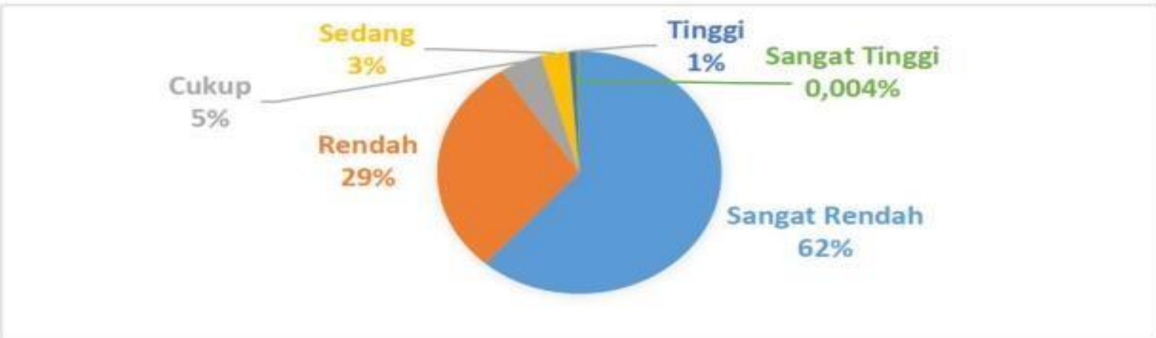

Figure 1.
Status of Fiscal Decentralization in Regency/City Governments in 2018

Figure 1 shows that some level II regional governments have very low fiscal decentralization status. This means that 62 percent of district/city governments in Indonesia have very high fiscal dependence on the central government. Based on the BPK RI Report (2020), it shows that the majority of the fiscal independence index in Regencies/Cities in Indonesia is still in the not yet independent category.

Recently, many studies have discussed fiscal independence in Indonesia (Musviyanti et al., 2022; Novindriastuti and Purnomowati, 2020; Suarjana et al., 2019; Karamoy and Poputra, 2014; Supriyadi et al., 2013). However, the majority of previous research still discusses fiscal independence at the provincial level (Musviyanti et al., 2022; Novindriastuti and Purnomowati, 2020; Suarjana et al., 2019; Karamoy and Poputra, 2014), while only Bungo Regency discusses fiscal independence at the level. (Supriyadi et al., 2013). However, there has been no research discussing independence in the East Kalimantan region, even though based on Law (UU) Number 3/2022 concerning the National Capital states that the National Capital is located in the East Kalimantan region, while the current conditions are in the Regencies/Cities in Many in East Kalimantan still do not have fiscal independence. Regional Governments must immediately address this issue because it can have an impact on regional financial carrying capacity as a buffer for IKN which will operationally begin in 2024. Thus, this research will fill the gap in previous research which discusses fiscal independence in Regencies/Cities in East Kalimantan with characteristics as an IKN Buffer Area.

Several factors were found by previous research to have an influence on fiscal independence. Musviyanti et al. (2022) found that Regional Original Income and General Allocation Funds have a significant positive influence on fiscal independence. Similar to research, Suarjana et al. (2019) found that the increase in PAD in Bali was through the tourism sector, so that PAD was able to fund its own government activities.

2. LITERATURE REVIEW

2.1. Fiscal Independence

Fiscal independence is the main indicator in measuring the ability of regional governments to finance regional government activities themselves, without depending on external assistance, including from the Central Government. One method for calculating regional fiscal independence is by using the Fiscal Autonomy Index (FAI) or the level of fiscal independence index (IKF) developed by Hunter (1977).

2.2. Government Budget Structure

According to the Ministry of Finance (2017), the government budget structure or APBD is a regional government financial plan for one year determined by regional regulations. APBD can be used as a means of communication between regional governments and their communities regarding allocation priorities made by regional governments after coordinating with the legislature, DPRD. then, Musviyanti et al. (2022) states that the government budget structure is divided into several components, including local original income, general allocation funds, profit sharing funds, and regional tax ratios.

2.3. The Relationship between Government Budget Structure and Fiscal Independence

Musviyanti, et al. (2022) conducted a study on fiscal policy with the title: Structure of Local Government Budgets and Local Fiscal Autonomy: Evidence From Indonesia. In this study, important aspects of the regional government budget structure in Indonesia are examined. This research suggests that the role of the government budget structure plays an important role in fiscal independence in Indonesia. Furthermore, research by Novindirastuti and Purnomowati (2020) found that prosperity has a positive relationship with fiscal independence. Economic improvement can increase independence in an area.

3. METHOD

The method in this research uses a quantitative approach. A quantitative approach is an approach used in research where the data analysis is in the form of numbers/numerics (Suryani & Hendryadi, 2015). The data collection method used in this research is secondary data collection obtained from related agencies (Central Statistics Agency) and literature studies from previous research, books and reports. The variables used in this research are as listed in table 1. Meanwhile, the research area taken includes 10 districts/cities in East Kalimantan Province. The 10 (ten) regencies/cities in question are Berau Regency, West Kutai Regency, Kutai Kartanegara Regency, East Kutai Regency, Mahakam Hulu Regency, Paser Regency, Penajam Paser Regency, Balikpapan City, Bontang City, and Samarinda City.

Table 1.
Operational definition of variables

Variable	Definition
Fiscal Independence Index	$FII = 1 - \frac{TRGP + TRSP + B + REVsh}{REVOR + TRGP + TRSP + B + REVsh}$ REVOR - Original Regional Income consists of Regional Taxes, Regional Levies, Proceeds from the Separation of Regional Wealth, and other legitimate Regional Original Income. TRGP – General Purpose Transfers, Special Autonomy Funds, Special Funds, Village Funds, and Inter-Regional Income Transfers. TRSP – Special Allocation Funds (Physical and Non- Physical) B – Sub Regency/City Loans REVsh – Profit Sharing Fund, which consists of: Land and Building Tax Profit Sharing Fund. Profit Sharing Funds for PPh Article 25 and PPh Article 29 for Domestic Individual Taxpayers and PPh Article 21. Excise Profit Sharing Funds originating from excise on tobacco products in accordance with statutory provisions. Profit Sharing Funds from natural resources
Regional original income	Regional Original Income to Total Income (%)
General Allocation Fund	The realization of regional general allocation funds is compared with the realization of total regional income (%)
Profit Sharing Fund	The realization of regional revenue sharing funds is compared with the realization of total regional income (%)
Regional Tax Ratio	Realizing regional tax revenues compared to gross regional domestic product (%)
Income per capita	Per capita income is measured by the money earned per person at the district/city level.
Domestic Investment	Natural logarithm of Realized PMDN per Regency/City (Millions of Rupiah).
Foreign direct investment	Natural logarithm of Realized Foreign Investment by District (Millions of Rupiah).
Gross Regional Domestic Product	Natural logarithm of GRDP

4. RESULT AND DISCUSSION

4.1. Descriptive Statistic

This study shows descriptive statistics in this study of Fiscal Independence Index (FII), General Allocation Fund (GAF), Special Allocation Fund (DAK), Regional Original Income (ROI), Regional Tax (TAX), Income per capita (CAP), Domestic Investment (DI), Foreign Direct Investment (FDI), and Gross Domestic Product (GDP). The descriptive statistics consist of Observations (Obs), the average value (Mean), standard deviation (Std.dev), the minimum value (Min) and the maximum value (Max) of the different variables are presented in the table below.

Tabel 2.
Descriptive Statistic

Variables	Obs.	Mean	Std. Dev	Min.	Max.
IKF	80	.0999775	.0745652	.0047	.3267
GAF	78	17.34445	8.120277	1.517772	42.73312
DAK	76	4.42101	3.249144	.0558948	12.77105
ROI	79	8.843449	6.616886	.4515651	30.97592
TAX	78	-3.707149	1.292881	-6.584119	-1.248568
PSF	78	4.713351	5.555045	.1382144	28.69154
CAP	80	4.954001	.6025766	3.839022	5.913476
DI	74	13.58266	1.810547	7.313221	16.44375

Variables	Obs.	Mean	Std. Dev	Min.	Max.
FDI	76	10.58589	2.006874	1.856298	14.20431
GDP	80	21.59534	.6014072	18.42072	22.96398

According to the research findings in table 2, only DAK and TAX have a greater value with 0.5844. If the correlation between two variables is 0.9 or above, the model has a multicollinearity problem (Amalia et al., 2021; Lesmana dan Yudaruddin, 2023). As a result of the results, the dependent variable in table 2 does not exceed the minimum threshold level, indicating that multicollinearity is not an issue in this study.

Tabel 3.
Correlation Matrix

	GAF	DAK	ROI	TAX	PSF	CAP	DI	FDI	GDP
GAF	1.0000								
DAK	0.3627	1.0000							
ROI	- 0.0078	0.1301	1.0000						
TAX	- 0.0735	0.5844	0.2603	1.0000					
PSF	- 0.3951	0.3952	0.1238	0.7583	1.0000				
CAP	- 0.2362	-0.0046	-0.0901	0.1908	0.2166	1.0000			
DI	- 0.1528	0.0376	-0.1855	-0.0051	0.0843	0.3053	1.0000		
FDI	- 0.1473	-0.2544	0.2142	-0.0415	0.1108	0.2800	-0.0152	1.0000	
GDP	- 0.5474	- 0.2968	-0.0082	-0.1627	0.1117	0.3131	0.3545	0.3175	1.0000

Table 4.
Fiscal Independence Index and Government Budgeting Structure: Baseline.

Variabel Dependen: Indeks Kemandirian Fiskal		
Explanatory		
Variables	OLS	Fixed Effect
GAF	-0.000417	0.000791
	(-0.85)	0.86
DAK	-0.00039	0.000656
	(-0.39)	0.62
ROI	0.0112***	0.00956***
	33.82	10.61
TAX	0.00032	-0.00279
	0.05	10.61
PSF	-0.00086	0.000763
	(-1.09)	0.89
Control Variabel		
CAP	-0.00176	-0.0424
	(-0.46)	(-1.47)
DI	-0.000643	-0.000596
	(-0.55)	(-1.47)
FDI	-0.000186	0.00105
	(-0.87)	0.87
GDP	0.00632	0.0561*
	1.02	2.66
Cons	-0.102	-1.022*
	(-0.83)	(-2.66)
Observations	71	71
Year Dummy	Yes	Yes

Sources and notes: Author Calculation (2023). t-statistics in parentheses. * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$. The standard error of each coefficient is in parentheses.

We found that the General Allocation Fund (GAF) has a coefficient of (-0.000417) and (0.000791) but is not significant on fiscal independence. Then, special allocation funds (DAK) have an influence with coefficients (-0.00039) and (0.000656) but are not significant on fiscal independence. Then, Regional Original Income (ROI) has a significant influence with coefficients (0.0112) and (0.00956) on fiscal independence. Furthermore, Regional Tax (TAX) has a significant influence with coefficients (0.00032) and (-0.00279) on fiscal independence. The Profit Sharing Fund (PSF) has a significant coefficient of (-0.00086) and (0.000763) on fiscal independence.

Furthermore, we document that Original Regional Income has a significant positive influence on the fiscal independence index in both the OLS and Fixed Effect models. This indicates that in the regional government budget structure, only local original income has an important role in encouraging regional independence. This finding is supported by research by Musviyanti et al. (2022) found that Regional Original Income and General Allocation Fund have a significant positive influence on fiscal independence. Similar to research, Suarjana et

al. (2019) found that ROI in Bali increased through the tourism sector, so that ROI was able to fund its own government activities.

5. CONCLUSION

This research aims to analyze the influence of government budgeting structure on fiscal independence. This research method uses Ordinary Least Square (OLS) and Fixed Effects with a total of 10 districts/cities in East Kalimantan. The research results show that Regional Original Income has the main factor in encouraging fiscal independence in districts/cities in East Kalimantan province. The results of this research have implications that the government can focus on increasing local original income through increasing excellence in each sector in the region.

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