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ANALYSIS OF REGIONAL FISCAL RELIANCE

NORTH TORAJA AND TANA TORAJA DISTRICTS

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Abstract:-

This study aims to examine and analyze regional fiscal dependency North Toraja Regency and TanaTorajaDistrict, the type of data used in this study is quantitative data that is numeric data. This study uses secondary data on annual time series. The data used were obtained from several sources such as: (1) Regency / City Statistics Board in 2009-2018 figures; (2) Gross Regional Domestic Product (GRDP) for 2009-2018. The analysis in this study uses the Ordinary Least Square (OLS) method. This analysis is used to determine the effect of government spending, PMTB and productive age on regional fiscal dependence both directly and through economic growth in North Toraja and TanaToraja Regencies, (1) Local own-source revenue (PAD) both in North Toraja and TanaToraja Regencies low. The majority of regional income is still contributed by the central or provincial balance fund. The average regional fiscal dependency ratio of North Toraja and TanaToraja districts is 76.47 percent and 76.11 percent respectively. This shows that the regional autonomy policy has not been well implemented in both regions; (2) Based on OLS estimation results, PMTB directly has a positive and significant influence on regional economic growth; (3) Meanwhile, indirect government spending through economic growth has a negative and significant impact on regional fiscal dependence. Productive regional expenditure drives economic growth, so that an increase in economic growth will increase regional income. An increase in regional income will reduce regional dependence on balancing funds.
Keywords: economic growth, fiscal dependence, government spending, gross fixed capital formation, population.

Introduction:-

One of the principles of regional development is decentralization. According to the General Provisions of Law Number 32 of 2004 concerning Regional Government, decentralization is the transfer of authority of the government by the central government to the autonomous regions to regulate and administer government affairs within the Unitary State of the Republic of Indonesia. The embodiment of the principle of decentralization is the implementation of regional autonomy. The principle of regional autonomy uses the broadest principle of autonomy in the sense that the region is given the authority to administer and regulate all government matters outside those of the central government.

Autonomy for each region is not always the same as other regions, while what is meant by responsible autonomy is autonomy which in its implementation must be completely in line with the

purpose and purpose of granting autonomy, which is basically to empower regions including improving people's welfare which is the main part from national objectives (see Law No. 23 of 2014 concerning Regional Government). To carry out real and responsible regional autonomy, it is necessary to have the authority and ability to explore its own financial resources supported by the financial balance between the central and regional governments, as well as between provinces and districts / cities which are prerequisites in the local government system (Bratakusumah and Solihin, 2001).

The phenomenon that arises in the implementation of regional autonomy from the relationship between local government systems and development is the high dependence of regional governments on the central government. Regional development, especially physical, is indeed quite rapid, but the level of fiscal dependence between regions towards the center as a result of development is also greater. Dependency can be seen from the relatively low Regional Original Revenue (PAD) and the dominant transfer from the center.

In the context of fiscal decentralization, Indonesia is using a pattern of fiscal intergovernmental relations with the Federal Finance model, where official boundaries, assignment of functions, authority, and financing are regulated through a law. This model is very suitable, considering that Indonesia has a lot of diversity in demographic and ethnic aspects. The law that regulates regional autonomy and fiscal decentralization is expected in the future to be able to accommodate every need at both the central and regional government levels and realize fiscal independence as expected from the implementation of fiscal decentralization.

Balance funds still dominate the total regional income of North Toraja and TanaToraja Regencies compared to PAD and other legal income. This indicates the high fiscal dependence of the North Toraja and TanaToraja Districts on the central government. One measure of the region's ability to implement autonomy is to look at the amount of PAD that can be achieved by the region. PAD is relatively small, it is difficult for the region to carry out the process of governance and development independently, without the support of the central and provincial governments.

Literature Review:-

Economic Development

One of the basic macroeconomic assessment indicators used to measure the economic performance of a region. In terms of economy, it is also used to calculate development targets in the following year. Kuznets (1955) supports economic growth as a future increase to provide economic goods to its inhabitants, the ability to develop in accordance with technological advances and support the safety and ideology needed. Economic overview About economic growth can be reflected by the growth of Gross Domestic Product (GDP). Mankiw (2003) states that GDP can be seen in two ways, namely the total income received by everyone in finance and the total expenditure on goods and services in the economy.

Fiscal Dependency

According to Nugraha (2019) the persistence of competition between local governments is also one of the causes of regional financial dependence. This competition arises from tax competition between regions as sources of PAD. Unilateral local tax cuts by one region to attract investors will be followed by other regions so as not to lose their respective investors. This tax tariff war is causing PAD to be smaller than it should be. This is actually normal and forces governments to make changes in order to face more complex global challenges. For this reason, the central government in this case needs to establish a reasonable tax rate standard policy so that the reduction in tax rates does not fall below the prescribed limits, also invites local governments to join together to reform reforms.

North Toraja and TanaToraja districts have a very high dependence on transfer funds from both the central and provincial governments. The financial dependency ratio of North Toraja Regency which is still very high shows that the financial capacity of the region has not supported the implementation of regional autonomy in North Toraja Regency. The high level of financial dependence is perceived as an

increase in responsibility imposed by the central government on regional governments. Therefore, the adjustment of regional government spending will be higher than the increase in transfer funds themselves. So that for every other important development need, the regional government relies on APBD funding on transfers from the center. This causes the central government will experience financial distress (heavy financial pressure) because of difficulties in bearing the financial burden of the region.

Government Expenditures

Regional government expenditures include all expenditures from regional cash accounts that reduce the equity of the fund, are regional obligations within one fiscal year and will not be repaid by the region. Based on the Minister of Home Affairs Regulation No. 21 of 2011 concerning spending is grouped into direct expenditure and indirect expenditure. The role of government spending is able to be one of the factors supporting aggregate output increase to increase the productivity of a country or region.

TanaToraja's regional expenditure growth is minus due to the contraction in direct spending. However, the decline in regional expenditure growth did not cause a decline in economic growth in TanaToraja Regency in 2018 where the economy grew by 7.89 percent, instead it increased compared to the previous year. There was no decline in economic growth due to the stable growth of other economic indicators despite a decline in the regional expenditure side. Similar to North Toraja Regency, the growth of regional expenditure also tends to fluctuate. Regional expenditure in 2018 grew by 9.7 percent, an increase compared to the previous year which grew minus 11.1 percent. The increase is in line with the increased growth in the personnel expenditure component. However, the increase in personnel expenditure growth has a small influence in driving the economic growth of North Toraja Regency which in 2018 was only 8.07 percent, down compared to the previous year which grew by 8.22 percent.

Gross Fixed Capital Formation

The success of development in an area in addition to being determined by the amount of government expenditure is also influenced by the amount of expenditure for gross fixed capital formation (PMTB). Broadly speaking, PMTB is defined as the expenditure of production units to add fixed assets minus the reduction of used fixed assets (BPS, 2018). The addition of capital goods includes the procurement, manufacture, purchase of new capital goods from within the country and new and used capital goods from abroad (including major repairs, transfers or barter of capital goods). Reduction of capital goods includes the sale of capital goods (including capital goods that are transferred or bartered to other parties).

The amount of PMTB in North Toraja Regency is influenced by investment credit. The decline in PMTB in 2018 was influenced by a decrease in investment credit of minus 2.68 percent. Based on business sectors, the decline in investment credit was mainly caused by decreases in the wholesale and retail trade and manufacturing industry (BI, 2018).

Total Population

Todaro and Smith (2003) say that population growth and labor force growth is one of the positive factors that can spur economic growth. From the supply side, the greater number of available manpower can increase the productive workforce. While on the demand side, increasing population means increasing the size of the domestic market, which in turn increases economic growth.

However, seen from its growth, the productive age population tends to continue to decline. In 2018 growth was only 0.8 percent, down compared to 2011 which reached 1.2 percent. This is in line with the increasing growth of migration in North Toraja Regency. During the 2011-2018 period, the highest growth in the productive age population was in 2012 with 1.3 percent, while the lowest growth in 2018 was 0.8 percent.

productive age population growth in TanaToraja Regency also tends to continue to decline. In 2018 the growth was only 0.8 percent, down from the previous year which grew by 0.9 percent. The decline was due to an increase in migration growth. During the 2012-2018 period, the largest productive age population growth in 2013 was 2.3 percent and the lowest in 2018 which was only 0.8 percent. If

seen from the development of the productive age population in North Toraja and TanaToraja Regencies, their growth tends to decrease every year. The decline could have an impact on the economic growth rates of the two districts.

Research Methods:-

This study aims to provide an overview of the regional fiscal dependence that occurs in North Toraja and TanaToraja districts. This study uses secondary data on annual time series. The data used were obtained from several sources such as: (1) Regency / City Statistics Board in 2009-2018 figures; (2) Gross Regional Domestic Product (GRDP) for 2009-2018, this research was carried out through a scientific approach using theoretical structure testing to construct one or more hypotheses that required quantitative and statistical testing. Measurement method using realization data. In this study the dependent variable is regional fiscal dependence. While the independent variables include regional government expenditure, gross fixed capital formation and productive population. Specifically, the variables used in this study are Economic Growth (Y1), Fiscal Dependency (Y2), Government Expenditure (X1), Gross Fixed Capital Formation (X2), Total Population (X3).

Results:-

Description of Research Results

Description of Research Results

OLS Regression Results

In this section, the authors will describe the results of estimates and analyzes based on these results. The estimation method used is the OLS method. This analysis is used to determine the effect of government spending, PMTB and productive age on regional fiscal dependency both directly and through economic growth in North Toraja and TanaToraja Regencies.

Appendix 1 OLS Estimated Results

1. Model I

Dependent Variable: Y1
Method: Panel Least Squares
Date: 07/02/20 Time: 06:53
Sample (adjusted): 2010 2018
Periods included: 9
Cross-sections included: 2
Total panel (balanced) observations: 18

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-111.6669	88.02409	-1.268595	0.2268
LOG(X1(-1))	0.267724	0.868807	0.308151	0.7628
LOG(X2)	3.673727	1.151338	3.190834	0.0071
LOG(X3)	5.159562	7.786033	0.662669	0.5191

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.719816	Mean dependent var	7.712778
Adjusted R-squared	0.633605	S.D. dependent var	0.972842
S.E. of regression	0.588867	Sum squared resid	4.507933
F-statistic	8.349501	Durbin-Watson stat	1.252360
Prob(F-statistic)	0.001454		

Based on the Table, the R-squared value for the estimation model (Model I) is 0.719, which means that 71.9 percent of the regional fiscal dependency variable can be explained by variables of government

expenditure, PMTB, and productive age. Then the remaining 28.1 percent is explained by other variables outside the model. The F-statistic value shows that the variables of government expenditure, PMTB and productive age together influence fiscal dependence (F-statistics = 8.34> F-table = 4.76). This shows that the estimation equation model is good to be used in predicting or predicting economic growth. Partially, the magnitude of the influence of government expenditure variables, PMTB and productive age on economic growth can be seen from the regression coefficient and p-value of each variable. Based on Table 1 the coefficient value of government expenditure is 0.26, PMTB (3.67) and productive age (5.15) with p-values of 0.762, 0.007 and 0.519, respectively. The p-value for PMTB is smaller than α = 5%, meaning that directly, PMTB has a significant influence on economic growth. While the p-value for government expenditure and productive age is greater than α = 5%, meaning that the variable of government expenditure and productive age has no significant effect on economic growth (Model I).

On the other hand based on Model II, the value of the government expenditure coefficient of -0.05, PMTB (-0.04), productive age (-0.17), economic growth with each p-value of 0.0032, 0.1245, 0.4539, 0.0001. The p-value for government expenditure and economic growth is smaller than α = 5%, meaning that through economic growth, government spending has a significant influence on regional fiscal dependence. While the p-value for PMTB and productive age is greater than α = 5%, meaning that the PMTB variable and productive age do not have a significant influence on fiscal dependency through economic growth.

2. Model II

Dependent Variable: LOG(Y2)
Method: Panel EGLS (Period weights)
Date: 07/02/20 Time: 06:55
Sample (adjusted): 2010 2018
Periods included: 9
Cross-sections included: 2
Total panel (balanced) observations: 18
Linear estimation after one-step weighting matrix

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	8.492453	2.156888	3.937363	0.0017
LOG(X1(-1))	-0.059251	0.016454	-3.601003	0.0032
LOG(X2)	-0.049166	0.029935	-1.642407	0.1245
LOG(X3)	-0.171769	0.222484	-0.772053	0.4539
Y1	0.022994	0.004039	5.693222	0.0001

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.978248	Mean dependent var	18.38354
Adjusted R-squared	0.971555	S.D. dependent var	26.81824
S.E. of regression	0.045775	Sum squared resid	0.027240
F-statistic	146.1610	Durbin-Watson stat	1.830200
Prob(F-statistic)	0.000000		

PMTB coefficient value of 3.67, in Model I shows that directly, a 1 percent increase in PMTB will increase 3.67 percent of regional fiscal dependency, assuming other variables are considered constant. These results are in line with theoretical expectations which show that an increase in PMTB will encourage economic growth.

Classical Assumption Testing

1. Autocorrelation Testing

Tests conducted to detect serial correlations using the Durbin-Watson statistical test. As a standard rule, if the value of d is found to be 2 in the application, it can be assumed that there is no autocorrelation in the model, both positive and negative. The decision making for the test is as follows.

Table 2 Decision Making Table of the Durbin-Watson Autocorrelation Test

HipotesisNol	Keputusan	Jika
There is no positive autocorrelation	Reject	$0 < d < d_L$
There is no positive autocorrelation	There is no decision	$d_L \leq d \leq d_U$
Tidakadaautokorelasinegatif	Reject	$4 - d_L < d < 4$
There is no negative autocorrelation	There is no decision	$4 - d_U \leq d \leq 4 - d_L$
There is no autocorrelation, both positive and negative	No Reject	$d_U < d < 4 - d_U$

Source: Gujarati, 2009

Based on OLS estimation results, the d values for models I and II are 1.25 and 1.83, respectively. From the Durbin-Watson Table, it is known that for 10 observations and three independent variables, the value of d_L = 0.52 and d_U = 2.01 at the significant level of 0.05. Based on observations, the d value of each model is between 0.52 and 1.99 (obtained from (4-d_U)). Based on this, decision making, Ho is not rejected, which means that both models I and II do not have autocorrelation problems, both positive and negative.

2. Heteroscedastic testing

This test is a general method, not sensitive to normality assumptions and easy to do. Based on the test results using the White Heteroskedasticity Test, the F-statistic probability values of each model I and II were 0.09 and 0.20, this value is greater than the significance level or α = 0.05 (see Table 5.6). This means that the null hypothesis that there is no heteroscedasticity in the residual equation model is not rejected or it can be said that Models I and II do not have a heteroscedasticity problem.

Table 3 Heteroskedasticity Test: White

Model I			
F-statistic	4.355733	Prob. F	0.0916
Obs*R-squared	7.319558	Prob. Chi-Square	0.1199
Model II			
F-statistic	2.453666	Prob. F	0.2026
Obs*R-squared	7.541235	Prob. Chi-Square	0.1834

Source: Author, processed (EVIEWS 9)

Discussion:

Effects of Government Expenditures, PMTB and Productive Age on Fiscal Dependence

This finding is in line with the expectations of Harrod-Domar's theory which states that to grow an economy, capital formation is needed as additional capital stock. The formation of capital is seen as expenditure which increases the ability of an economy to produce goods as well as expenditure which will increase the effective demand of the whole community. Investment has a positive relationship with economic growth, if investment rises, economic growth rises, thereby increasing regional income.

According to Cahyono (2015), with increased investment, other economic sectors will also increase, so PAD will also increase. The linkages of PAD and leasing of assets owned by local governments, the results of research show that with increasing regional investment, various regional economic activities also increased, namely the leasing of government-owned assets. With the system of leasing regional assets, besides being able to increase PAD, investment will also be stimulating. However, that the quality of investment must continue to receive major attention, the benefits and benefits of incoming investment are greatly influenced by the quality of investment, in order to encourage the growth of the real sector, which has a chain effect on high employment.

The coefficient value of government expenditure of -0.05, in Model II shows that indirectly, a 1 percent increase in government expenditure will decrease 0.05 percent of regional fiscal dependency, assuming other variables are considered constant. This result is in line with the theory's expectation that the increase in government spending will reduce regional fiscal dependency both directly and through economic growth.

This finding is in line with several studies such as Zhang and Zou (1998) and Utomo and Sumarsono (2009) which show that the allocation of government spending on productive development activities has a positive and significant impact on economic growth, thus implicating for an increase in PAD. Increased PAD will reduce central and provincial equalization funds thereby reducing the level of regional fiscal dependency.

Based on BPS release data (2018), the government expenditure in TanaToraja and North Toraja districts for productive expenditure is greater than non-productive expenditure. This is reflected in the distribution of capital expenditure and goods and services each by 45.31 percent, while the distribution of employee spending by 39.35 percent. Government expenditure for productive activities will have a good impact to support economic growth. The results of Chu et al. (2018) stated that the change in the composition of government spending from unproductive to productive expenditure had a positive and significant impact on long-term economic growth. They said that government spending should be focused on the Netherlands in the education and health sector to increase the quality of human resources.

On the other hand, productive age has no direct or indirect influence on regional fiscal dependence. Ideally, an increase in productive age can increase production output and income of the population which triggers an increase in regional income, thereby reducing equalization funds from the center or province. Furthermore, if utilized properly, an increase in productive age can reduce the level of dependency, encourage productivity, and be a source of economic growth. According to Todaro and Smith (2003) that the growth of productive age and labor force is one of the factors driving economic growth. From the supply side, the available population of productive age is greater able to increase production output. While on the demand side, a large number of productive ages means increasing public consumption activities, which in turn increases economic growth.

However, this finding is not in accordance with the ideal conditions. The increase in the productive age population actually becomes an economic burden. This is explained by the BPS release data for 2018 which shows that the concentration of the spread of labor is still dominated in business fields that have little added value to the economy. Only 4.46 percent of the workforce working in the manufacturing industry sector is a labor-intensive business field and has a large added value. In addition, based on the level of education, most of the workforce is not or have never been to school with a distribution of 41.65 percent. The workforce with higher education only reaches 15.01 percent, relatively smaller than those who have not or have never attended school. In general, the level of education determines productivity and the amount of individual income so that it has implications for economic growth. The higher the level of education, the more productive and higher income, and vice versa. The low distribution of labor that has higher education causes low productivity and individual income, then has implications for regional income from income tax, and then has an impact on regional fiscal dependency.

Conclusion:-

Based on the results of the analysis and discussion in the previous section, there are several things that can be concluded in this study as follows: (1) Local own-source revenue (PAD) in both North Toraja and TanaToraja Regencies is relatively low. The majority of regional income is still contributed by the central or provincial balance fund. The average regional fiscal dependency ratio of North Toraja and TanaToraja districts is 76.47 percent and 76.11 percent respectively. This shows that the regional autonomy policy has not been well implemented in both regions; (2) Based on OLS estimation results, PMTB directly has a positive and significant influence on regional economic growth. This finding is in line with the expectation of Harrod-Domar's theory which states that to grow an economy, capital formation is needed as an additional stock of capital; (3) Meanwhile, indirect government spending through economic growth has a negative and significant impact on regional fiscal dependence. Productive regional expenditure drives economic growth, so that an increase in economic growth will increase regional income. An increase in regional income will reduce regional dependence on balancing funds.

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