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The Effect of Local Goverment Revenue and Transfer Funds on Fiscal Capacity Ratio in Lampung Province from 2017-2022

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Abstract

This study aims to determine the effect of Regional Original Income and Transfer Fund to Fiscal Capacity Ratio in Lampung Province in 2017-2022. This study used secondary data obtained from the ministry of finance. The analysis tool used is multiple regression analysis of panel data using E-views 9. The results of the regression analysis of panel data with the selected model, the Random Effect Model (REM), showed that the free variable, namely Regional Original Income, had a positive and significant effect on the Fiscal Capacity Ratio and Transfer Fund negative and insignificant to the Fiscal Capacity Ratio. It is hoped that this research can help the government to further optimize the potential of PAD to create regional independence.

Keywords: Fiscal Capacity Ratio, Local Goverment Revenue, Transfer Funds, Panel Data

INTRODUCTION

One of the efforts that Indonesia is currently implementing in development is implementing regional autonomy, or a transition process from a deconcentrated system to a decentralized system called regional government with autonomy (Suryana, 2000). The implementation of regional autonomy has provided opportunities for regions to explore local potential and improve their financial performance in order to realize regional independence (Khusaini, 2006). Regional independence is the ability of a region to manage financial resources for the region, in order to be able to develop the region. Thus, the independence of a region can be seen from the fiscal capacity of that region. that the main characteristic that shows an autonomous region is capable of autonomy lies in the regional financial capacity. This means that autonomous regions must have the authority and ability to explore their own financial resources, manage and use their own finances sufficiently to finance the administration of their regional government. Dependence on central assistance must be as minimal as possible, so that Original Income The authority given to regional governments to organize and manage their own government independently will speed up the process of autonomy to achieve prosperity and prosperity. Regions must be the largest source of finance, supported by central income transfer policies and regions (Ambya et al, 2022). The regional autonomy policy makes each region race to encourage regional economic growth by using existing resources, especially natural resources. So that districts that are rich in natural resources will grow faster (Ratih, 2022).

Regional governments can understand the condition and situation of local communities in the financial sector through Fiscal Capacity, which shows the independence of a region. Based on 193/PMK.07/2022, fiscal capacity is a description of each region's financial capacity as reflected through general revenues from the Regional Revenue and Expenditure Budget (excluding special allocation funds, emergency funds, old loan funds, and other revenues whose use is limited to financing certain expenditures) to finance government tasks after deducting expenditure. The level of description of regional independence is grouped based on the fiscal capacity ratio (RKF) which consists of a very high level of fiscal capacity. high, medium and low. According to researchers (Herdiyana, 2019). Lampung Province which consists of 13 regencies and 2 cities, based on Minister of Finance Regulation No. 193/PMK.07/2022 concerning Regional Fiscal Capacity Maps, in 2022 there will only be 2 districts that are classified as high fiscal capacity ratios, namely Mesuji Regency and Pesisir Barat Regency. There are even those that are classified as very low, namely North Lampung, Pringsewu and Kota districts. Metro. Meanwhile on The scope of Lampung Province in 2022 is still relatively low, namely with a ratio of 1,580, even experiencing a decrease from 2021 with the medium category.

The low fiscal capacity ratio shows that most districts/cities in Lampung province have lower revenue budgets than regional expenditures. In an effort to increase regional financial capacity in order to fund district and city regional expenditure, it is necessary to increase regional original income (PAD) by managing the resources owned by the region, so that it is able to implement regional autonomy (Ukhti, 2020). Factors that most influence the Regional Fiscal Capacity Map (KFD) for provinces is PAD and DBH while for districts/cities it is PAD, DAU and DBH. In general, regions that have a high proportion of PAD/DBH to income have a high KFD Index, while regions with a low KFD Index generally have low PAD. For provincial governments that have a low KFD Index, the majority (>50%) of the districts/cities in their region have a low KFD Index, while for provinces that have a high KFD Index, it does not necessarily mean that most of the districts/cities in their region have a high KFD Index.

LITERATUR REVIEW

Regional autonomy

The term autonomy etymologically comes from the Latin language or words, namely "autos" which means "alone" and "nomos" which means "rule". So that Autonomy is defined as "self-invitation", to regulate or govern oneself. According to law number 32 of 2004 concerning regional government is the right, authority and obligation of autonomous regions to regulate andmanage government affairs and the interests of local communities themselves in accordance with statutory regulations.

Local Goverment Revenue

In republic of Indonesia Law NO. 28 of 2009 concerning taxes regional and regional levies, regional original income, namely financial sources the area excavated from the area concerned which consists of regional tax proceeds, regional levies, regional wealth management separated and other legitimate regional original income. The greater it is the composition of local original income, the greater the ability regional governments to assume greater responsibility. However the smaller the composition of original regional income to regional revenues then dependence on the center becomes greater.

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Transfer Income

Based on Government Regulation Number 12 of 2019 concerning Regional Financial Management, transfer income is funds that allocated in the APBN or provincial APBD to regions to be used in accordance with regional authority to fund needs regions in the context of implementing decentralization.

Fiscal capacity theory

Fiscal policy isadjustment policies in the field of government expenditure and revenues to improve the economic situation. According to Ibrahim (2013) policy Fiscal is government policy related to performance management economy through government revenue and expenditure mechanisms. Muta'ali,(2015) argue that regional fiscal capacity shows levelsFiscal autonomy, namely the ability of regional governments to finance themselves (independence) of regional government activities, development and servicesto society.

METHOD

This research is a type of descriptive and quantitative research. The data used is secondary data, namely research data sources obtained through existing sources such as library data, archives and other documents from government agencies and published by the Central Statistics Agency (BPS) and the Ministry of Finance of Lampung Province. This research uses a dependent variable in the form of the Fiscal Capacity Ratio and independent variables in the form of Regional Original Income and Transfer Income.

The scope of this research covers 13 districts and 2 cities in Lampung Province for the period 2017-2022. This research uses panel data, namely data that is a combination of time series data and cross section data. The cross section data is data from 13 districts and 2 cities in Lampung Province, and the time series data is data from the 2017-2022 period. Then the Random Effect Model (REM) was selected. With the model below.

$$\mathbf{RKFD} = \beta 0 + \beta 1\mathbf{PAD}it + \beta 2\mathbf{DT}it + \varepsilon i$$

Where:

$RKFD_{it}$	:	Regional Fiscal Capacity Ratio (ratio)
PAD_{it}	:	Local Goverment Revenue (Rp)
DT_{it}	:	Transfer Income (Rp)
β_0	:	Constanta
εi	:	Error term

RESULT AND DISCUSSION

Result Of Classical Assumption Test

Table 1. Multicollinearity Test

	PAD	DT
PAD	1	0.395207
DT	0.395207	1

Based on the output results obtained in the form of a correlation coefficient value between independent variables <0.85, then Ho is accepted, the decision is that the model does not contain multicollinearity.

Table 2. Heteroscedasticity Test White Method

F-statistic	1.077626	**Prob. F (5,84)**	**0.3787**
Obs*R-squared	**5.425014**	Prob. Chi-Square(5)	0.3662
Scaled explained SS	12.83409	Prob. Chi-Square(5)	0.0250

Based on the eviews output results above, the probability value of Obs*R-squared is 5.425014 and the probability value of Prob. F(5,84) is 0.3787. From the two independent variables, the probability is greater than the alpha significance level (0.05), so it can be concluded that there is no heteroscedasticity problem in the model.

Panel Data Estimation Result

Table 3. Panel Data Equation Estimation Result

Variable	Coefficient	Std.error	t-statistic	prob
C	0.5146	0.1262	4.0761	0.0001
PAD	0.0019	0.0003	5.8827	0.0000
DT	0.0001	0.0001	0.9692	0.3351

Based on the estimation result of the REM model, the regression equation's outcomes are as follows.

$RKFD_{it} = 0.5146 + 0.0019PAD_{it} + 0.0001DT_{it}$

T-Statistic Test

Table 4. T-Statistic Result

Variable	t-statistic	t-table(α=5%)	Prob	statement
PAD	5.8827	1.663	0.0000	Significant
DT	0.9692	1.663	0.3351	Not significant

The results of the t-statistical test for the Local Government Revenue variable, the probability value of 0.0000 is smaller than the alpha of 0.05. This can be interpreted that Ha is accepted and H0 is rejected. Thus, it can be concluded that Regional Original Income has a positive and significant effect on the Fiscal Capacity Ratio in Lampung Province.

The t-statistic test results for the Fund Transfer variable have a probability value of 0.3351 which is greater than the alpha of 0.05. This can be interpreted that H0 is accepted and Ha is rejected. Thus, it can be concluded that Transfer Funds have no and insignificant effect on the Fiscal Capacity Ratio in Lampung Province

F-Statistic Test

Table 5. F-Statistic Result

DF(k-1;n-k)	F-statistic	f-table(α=5%)	Prob	statement
2;87	25.7657	3.10	0.0000	Significant

Based on the results, the F-statistics test results were 25.7657. This value is greater than the t-table value, namely 3.10 at a significance level of 5% and a confidence level or df (degree of freedom) of 2;87. Thus it can be concluded that the independent variables jointly influence the dependent variable, namely the Fiscal Capacity Ratio in Lampung Province.

The Effect of Local Government Revenue on the Fiscal Capacity Ratio

Based on the results of the analysis, the partial t-statistic test for the Regional Original Income variable is 5.8827. This value is greater than the t-table value, namely 1.663 at a significance level of 5% and a df (degree of freedom) of 87 and a probability value of 0.0000 which is smaller than alpha of 0.05. This can be interpreted as saying that Ha is accepted and Ho is rejected. This means that the greater the amount of Original Regional Income, the greater the Fiscal Capacity ratio in a region so that it can be categorized as the region being able to finance government tasks. Thus, the hypothesis of the influence of Regional Original Income on the Fiscal Capacity Ratio has a positive and significant influence.

The results of this research are in line with research by Hendriwiyanto (2014) which states that the higher a region's PAD, the less the level of regional fiscal dependence on the central government, so that regions have more freedom and flexibility in planning budget allocations in accordance with their economic agenda. Setyawati (2007) in her research concluded that PAD had a significant positive effect on the economic growth of districts/cities in East Java Province in 2001 -2005. This means that Lampung province is no longer dependent on the central government. One of the factors in assessing regional financial independence is PAD with Regional Taxes as the main component. Increasing welfare can be done with government entrepreneurship or regional autonomy which prioritizes services to the community. One of them is reflected in making regional finances independent

The Effect of Transfer Funds on Fiscal Capacity Ratio.

The hypothesis of the influence of Transfer Funds on the Fiscal Capacity Ratio has no effect and is not significant, this shows that Lampung Province is no longer dependent on the central government, with increasing transfer funds it will reduce the level of regional financial capacity and vice versa, with decreasing transfer funds it will increase the level of regional financial capacity which shows that a region is able to pay for its own government affairs through PAD. Income Transfer which aims to equalize financial capacity between regions to fund regional needs. Even so, it would be better if a region could finance government tasks with its own funds, namely from Regional Original Income. Transfer Funds have a main role in implementing regional autonomy with the aim of achieving the main goal of implementing regional autonomy which is to improve public services in advancing the regional economy (Mardiasmo, 2010). Transfer Funds in this case shows that the fewer transfer funds given to regions, the less dependent the regions will be on the center. The more developed a region is, the less transfer funds the region will receive. On the other hand, the lower the level of regional progress, the greater the transfer funds that will be received by the region, which will cause the government's financial performance to decline further.

CONCLUSION

If the amount of PAD obtained increases then this could indicate a decrease or will cover the amount of transfers obtained from the central government. If this can be achieved then the region is said to be independent. This level of independence is demonstrated by PAD's contribution to funding regional expenditures. If Transfer Funds increase, the regional fiscal capacity ratio will decrease. Transfer Funds in this case show that the less transfer funds given to regions, the less dependent the region will be on the center.

The Lampung provincial government needs to further maximize the management of its original regional revenue potential, by optimizing revenue from its existing revenue potential. Initiative and willingness of the Regional Government is very necessary in efforts to increase PAD. Regional Governments can increase PAD by optimally implementing regional tax and levy collection so that central government transfer funds can be minimized, so that with a high level of regional independence, the level of dependence on funds from the center decreases.

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