

Regional financial performance evaluation in the Indonesian fiscal decentralization era

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Abstract

Under the decentralization policy, regions have the rights and obligations in arranging of themselves. Then many studies showed positive and negative impacts of fiscal decentralization in Indonesia. Regarding on this issue, this study was conducted in analyzing financial performance under fiscal decentralization. The analytical method used is the ratio indicator degree of fiscal decentralization, financial regional self-sufficiency indicator ratios and harmony indicator ratios of regional budget. From the degree of fiscal decentralization, in Indonesia from 2008 to 2014 has not yet been able to realize the aspects of the region's autonomy. Judging from the distribution per region, most of the regions in Indonesia are in a class of regions with less degree of fiscal decentralization. Meanwhile, indicators of local financial independence in Indonesia from 2008 to 2014 saw a significant increase. From the indicators of harmony expenses is still very dominant from the routine expenditure almost 70% -80% annually. From this resulted, mandatory for local government to continue their improvement of the region's autonomy, especially in terms of funding through a mechanism that does not burden the private and public sectors.

Keywords: *fiscal decentralization, regional financial performance, degree of fiscal decentralization, independence region, harmonious expenses*

INTRODUCTION

Indonesia has been implementing fiscal decentralization policy since the era of independence. In that period, the government runs the process of fiscal decentralization, particularly from the financial relationship between central and local governments through act No. 1 of 1945 and Act No. 22 of 1948 (Muslianti, 2011). Based on Act No. 1 of 1945, only recognized a few of the autonomous regions which has existed since proclamation, but is still obliged to follow the system established by the state both in terms of setting a local government authority or financial relationship between central and local (Fatimah, 2007). While Act No. 2 of 1948 over the mechanisms governing the financial relationship between central and local governments through *suit post policy* which will allocate a financial contribution to the regions in order to keep its budget balanced (Adisasmita, 2011).

In the New Order era, the government updated policies related to fiscal decentralization, with the approval of Act No. 5 of 1974 on the Principles of Regional Government. Broadly speaking, the Act No. 5 of 1974 are then divided the territory of the Republic of Indonesia become an Autonomous Region and Administrative Region (Subiyantoro, Heru & Singgih Riphath, 2004).

Moreover, to practice fiscal decentralization, then also formed Regional Level I and Level II Region. These regions formed with the terms and conditions of economic capacity, the number of population, area, national defense and security as well as other requirements that allow regions carry out the development, fostering political stability and unity of the nation within the framework of the implementation of regional autonomy, real and responsible (Demartoto, 2007).

Unfortunately, at the end of the New Order era, the spirit of fiscal decentralization and regional autonomy under Act No. 5 of 1974 is actually fading and pose a threat of national disintegration (Simanjuntak, 2015). Therefore the government subsequently issued a policy reform of fiscal decentralization through the enactment of the Act No. 22 of 1999 on Regional Government which has been revised by the Act No. 23 of 2014 and Act No. 25 of 1999 on Financial Balance between Central and Local Government were also revised by the Act No. 33 of 2004 (Gadjong, 2007) .

Reform of fiscal decentralization policy is also coupled with the reform of local financial management, although some observers said that its late if compared to the process which has been run by several other countries, including neighbor countries like Malaysia, Singapore, Philippines and New Zealand which has applied since the early 1970s . However, the area of financial management reform is still needed in order to increase transparency and public accountability in addition to reduce the potential for leakage due to the chaotic administrative system (Mahmudi, 2010).

Implementation of fiscal decentralization and regional autonomy in the reform era also marked by the improvement of the financial relations mechanism within the framework of policy Transfers to Regions, in addition to funding sources such as revenue (PAD), Emergency Fund, Regional Loan, Grant Regional and Concentration Fund and Tasks (Alisjahbana, 2000).

Transfer to Regions mechanism itself consists of the allocation of Fund Balance (Daper), Special Autonomy and Adjustment Fund and the Autonomy Privileges Fund. In the Fund Balance mechanism, the government classified the allocation to Sharing Fund (DBH), General Allocation Fund (DAU) and Special Allocation Fund (DAK) (Supplementary Handbook of The Governance and Regional Development, 2012).

With the policy of fiscal decentralization and regional autonomy that the regions have the authority rights and obligations in arranging and taking care of his own household in spite of the intervention of the central government. This is in accordance with the implementation of the money follows function principle (Zulkarnain, 2014). Based on Act No. 23 of 2014 on Regional Government, all authority has been delegated to the local government unless the authority in the field of fiscal and monetary, defense and security, justice, religion and international relations are still under the authority of the central government.

Devolution to local government under policy of fiscal decentralization and regional autonomy was originally intended to cut through bureaucratic chain of services in order to create the region's autonomy on facing the increased of global competition (Sasana, 2009). Unfortunately, some observers give attention to the potential negative impact of the implementation of fiscal decentralization itself, which is often considered to create: 1) the gap between rich and poor regions; 2) threatening the economic stability due to inefficient macroeconomic policies; 3) reduced efficiency due to less reps legislative branches with weak indicators of public hearing mechanism; and 4) expanding the network of corruption from the center to the regions (Remy Prud'homme in Sugiyanto, 2000).

However, Bahl (2000) remind their additional rules to reduce the negative impact of fiscal decentralization in which the major actors, especially local government fiscal decentralization should always be high in spirit of the competition to be the winner (there must be a champion for fiscal decentralization) from the aspect of public service to the community. The local government should think out of the box in understanding people's aspirations and creating changes in economic structures that promote the common welfare.

Other figures, Barzelay (1991) also support this perception by mentioning the primary mission of fiscal decentralization is to create efficiency and effectiveness in the management of regional resources, improve the quality of public services and the welfare of society and created a space for people to participate in the development process. Thus, the purpose of the creation aspects of the region's autonomy will be realized as well as support the accelerated development of the national economy.

Some research related to the implementation of fiscal decentralization and then support the initial hypothesis. For example, research conducted by Apriesa and Miyasto in 2013 which concluded that the positive effect of fiscal decentralization on economic growth in all regions/cities in Central Java while creating demand for labor is increased. The same thing also expressed by Sasana in 2015 that concluded that fiscal decentralization has a positive direction towards the economic growth rate of all provinces in Indonesia.

The other study was conducted by Muryawan and Sukarsa in 2014 stating that fiscal decentralization has a positive influence on the economic growth of the regions/cities in Bali on financial performance. In the same context, Yuana in 2014 concluded that the ratio of local independence and effectiveness of local positive and significant impact on the economic growth of the regions/cities in East Java.

Unfortunately, despite the positive impact of fiscal decentralization in Indonesia is also considered creating impact of the growing dependence of the regions to central government. It can be seen from the increasing amount of allocation to the Regional Transfer annually. If in 2008 the amount allocated to the Regional Transfer achieve the Rp292,4 trillion in the budget 2016 the amount has been increased to Rp770,2 trillion, with the addition of the allocation of the Village Fund since 2015.

To prove this hypothesis, the study then focused on the problem of calculating aspects the performance of financial management in an era of fiscal decentralization, particularly from the decentralization degree ratio, local financial independence ratio and the harmonious expenditure budget ratio (Supratinigrum, 2015). In this study, the research question posed is: a) How is the fiscal decentralization degree ratio in Indonesia from year 2008-2014?; b) How is local independence ratio in Indonesia in the era of fiscal decentralization in 2008-2014?; c) How is the harmonious expenditure budget ratio of all regions in Indonesia in 2008-2014?

Due some constraint regarding on the data supply related to APBD realization, this research only use data from year 2008 until 2014 got from the Directorate General Fiscal Balance, Ministry of Finance. Another limitation of this research is that the variables used are only APBD consist of revenue and expenditure. We do not analyze the quality variables of government spending.

Based on the Minister of Finance statement in the book Handbook Supplementary Administration of Government and Regional Development insists that the framework of regional autonomy and fiscal decentralization has given the dimensions of clear guidelines for local governments to run the administration and services as well as

financial management based on the principles of transparency, participation and accountability. Through the implementation of regional autonomy and fiscal decentralization the inclusive development should prioritize the development of a territorial dimension to the center of growth.

He also reminded that the implementation of regional autonomy and fiscal decentralization has changed the pattern of administration and fiscal management in Indonesia which was originally to be centralized to decentralized. The immediate implication of this policy is the area given discretion to manage expenditure in accordance with the needs and priorities of each region. As a consequence, the need for financing funds increased significantly to finance the implementation of the functions that have been delegated to the regions. For this reason the central government runs the mechanism of regional autonomy and fiscal decentralization based on the money follows function principle.

Regional autonomy and fiscal decentralization on the other side is also expected to improve the quality of public services. The improvement is a major agenda that cannot be bargained back because it is one indicator of the region readiness in the face of globalization which is full of competition and liberalism, import flows, investment, labor and culture (Mahadika, 2014). Besides the improvement of internal governance (knowledge based society) and society are increasingly numerous and has various demands (demanding community) (Mardiasmo, 2004).

Fiscal decentralization by Bird and Vaillancourt in 2000, is an urgent necessity to consider aspects such as: 1) an embodiment of the function and role of the modern state that more emphasis to promote the general welfare (welfare state); 2) the presence of regional autonomy can also be approached from a political perspective in which the country become an organization of power in which there are the corridors of power at both the superstructure and infrastructure tend to abuse authority so decentralization is expected to prevent it; 3) from the perspective of modern government management of the fiscal decentralization is the embodiment of the demands of efficiency and effectiveness of services to the community in order to realize common prosperity.

The efficiency and effectiveness of public services is by Abimanyu and Megantara in 2009 is also said to be the key to the success in improving economic growth. Explained that the decision-making at the level of local government will be listened to diversify the local options and more useful for the efficiency of allocation. Efficiency is also supporting the increased of productivity which will ultimately result in the rapid economic growth as mentioned by Kuznets in Pressman (2000). This productivity role even exceeded the role of population in creating growth aspects in a country.

In Soleh and Suropto, 2011; 2-4, regional financial performance is the level of achievement from the implementation of an activity/program /policy in achieving the goals, objectives, mission and vision of the organization as stated in the formulation of the strategic planning.

Therefore the performance of the local government can be defined as a picture of the level of achievement of the results of the implementation of an activity/program /policy of the local government in realizing the goals, objectives, mission and vision of the region described in the regional planning documentation (Adha & Ibrahim, 2013).

Meanwhile, performance analysis of financial regional is an attempt to identify the characteristics of finance based on financial statements that are available. As for some of the characteristics of the available financial translated into several performance

measures including independence ratio, effectiveness ratio, efficiency ratio, growth ratio and harmonious activity ratio (Hamzah, 2008 in Yuana, 2014).

Based on the size, the creation indication aspects of the region's autonomy can be explained. In Halim, (2007) stated that the main characteristic of a region capable on implementing autonomy is: a) The existence of local financial capacity, which means the region has the ability and authority to explore the sources of finance, manage and use its own funds to finance the governance and development; b) Dependence on central assistance should be as minimal as possible, therefore total revenue must be the biggest financial source supported by the policies of financial balance between central and local governments.

In his statement, Halim also noted that both of these traits will affect the pattern of the relationship between central and local governments. Conceptually, the pattern of the relationship between central and local governments must comply with regional capabilities in the implementation of government finance. Therefore, the ability to see the region capability in financing the governance, one of the best approach is through the use of regional financial performance.

Unfortunately, the used of regional financial performance indicators are not too widely used in government, though familiar used in the private sector. Some of the constraints faced by the used of performance indicators of regional financial institutions including government (Supratiningrum, 2015): a) Lack of financial statements to local government whose nature and scope is different from the presentation of financial statements by corporate institutions for commercial purposes; b) During the budgeting partly still done by balancing the incremental budget which is the amount of each component of income and expenditure is calculated by raising a certain percentage (usually based on the rate of inflation). The result is often caused difficulties in the calculation of financial ratios budget; c) Successes budget in the area of financial management accountability is more important to the achievement of the target resulting in less attention to changes in the composition and structure of its budget.

RESEARCH METHOD

In general, the research approach used in this study is a quantitative approach by comparing some financial data region and calculated to be the amount of the ratio. This ratio will be used as the basis of analysis in evaluating aspects of the creation of the region's autonomy in the era of regional autonomy and fiscal decentralization. The type of data used is largely a secondary data collected from official agencies data provider that is the Directorate General of Fiscal Balance, Ministry of Finance related to financial data regions within the budget.

The analytical method used in this research is descriptive method embodied in the quantities of the financial performance of ratio indicators. The operational definition of the variables that used:

- a) **The decentralization degree** shows a comparison between total revenue and total reception region. This ratio indicates the degree of contribution of total revenue to the structure of revenue and expenditure budget. To calculate the decentralization degree obtained from the formula:

$$\text{Fiscal Decentralization Degree(DDFII)} = \frac{\text{Total Revenue}}{\text{Total Regional Expenditure}} \times 100\%$$

$$Fiscal\ Decentralization\ Degree(DDFII) = \frac{Total\ Revenue}{Total\ Regional\ Expenditure} \times 100\%$$

- b) **Local independence ratio** demonstrates the ability of local governments to finance its own activities of governance, development and services to people who have paid taxes and levies as a source of revenue from total revenue (PAD). The ratio of local independence is calculated by a formula;

$$Local\ Financial\ Independent\ Ratio = \frac{Local\ Revenue}{Total\ Transfer\ to\ Region} \times 100\%$$

- c) **Harmonious local expenditures** ratio illustrate how local governments prioritize the allocation to the routine operational expenditure and development expenditure. The ratio is calculated based on formula:

$$Harmonious\ Local\ Routine\ Expenditure\ Ratio = \frac{Toal\ Routine\ Expenditure}{Total\ Local\ Expenditure} \times 100\%$$

$$Harmonious\ Operational\ Expenditure\ Ratio = \frac{Toal\ Operational\ Expenditure}{Total\ Local\ Expenditure} \times 100\%$$

The population of this study based on data reported budget all regions in Indonesia from 2008-2014. The first step taken was to collect data on Indonesian local financial capacity to support the implementation of fiscal decentralization. Then do the grouping of data and information obtained as a basis for the operationalization of the variables to be measured.

From the results of the ratios presented, the final stage is to draw conclusions on the financial performance of fiscal decentralization.

RESULT AND DISCUSSION

The result of the calculation using the fiscal decentralization degree indicators can be seen in Table 1 and Table 2.

Table 1. Calculation of degree of decentralization

	DDF I (%)	DDF II (%)
2008	17,2	17,6
2009	17,2	16,7
2010	18,1	18,5
2011	19,9	21,1
2012	20,4	21,3
2013	22,3	22,6
2014	22,6	21,1

Source: Ministry of Finance, 2015, data is processed

Table 1 illustrates the overall decentralization degree indicators in regions in Indonesia from 2008 to 2014. DDF I indicator is calculated using the formula Total Revenue/Total Revenue x 100% while DDF indicator II is calculated using the formula Total Revenue/Total Expenditure x 100%. Accordingly, DDF I describe the contribution of Total Revenue in the overall revenue budget in the region. While DDF II illustrate how much contribution of revenue in the expenditure budget in the fiscal area.

Based on Halim (2007), mentioned several criteria depiction degree of decentralization in the area as mentioned in Table 1.

Table 2. Regional decentralization degree criteria

Decentralization Ability	Decentralization Degree Ratio (%)
Very Good	> 50
Good	25-50
Less Good	10-25
Not Good	<10

Source: Halim, 2007

The results of the analysis in Table 1 compared to the criteria in Table 2 illustrates that fiscal decentralization in Indonesia from 2008 to 2014 has not yet been able to realize aspects of the region's autonomy. This can be represented by the ratio of the degree of fiscal decentralization is still worth 'less good' (10-25) from 2008 to 2014 both in terms of contribution to regional income (DDF I) and the ability to finance budget expenditure (DDF II).

However, the positive impression conveyed is that there is a consistent increase every year of indicators DDF I and DDF II. If in 2008 the amount of DDF I ranges from 17.2% while DDF II at 17.6%, then in 2011 the amount risen to 19.9% for the DDF I and 21.2% for the DDF II. In 2014, both indicators had increased to 22.6% for the DDF I and 21.1% for the DDF II.

Interestingly, the difference between the amount of DDF I and DDF II each year is relatively not too significant, even in 2014, DDF I value greater than DDF II. It can be concluded that in 2014, the local revenue's role in supporting regional income greater than the contribution of local revenue contribution towards expenditure budget, although it may also be due to the savings made area.

The same analysis can be applied to a case-by region. Based on Table 3, fiscal decentralization degree has a very diverse value in each region in Indonesia. The conditions and reflects the diversity of fiscal regions that have been the basis for government policy making. Generally, the analysis is based on Table 3 are juxtaposed with the criteria in Table 2 are as follows:

1. Regions with 'very good' criteria of fiscal decentralization degree: Jakarta;
2. Regions with 'good' criteria of fiscal decentralization degree: West Java, Banten, East Java and Bali;
3. Regions with 'less good' criteria of fiscal decentralization degree: North Sumatra, West Sumatra, Riau, Riau Islands, Jambi, South Sumatra, Bangka Belitung, Lampung, Central Java, Yogyakarta, West Kalimantan, Central Kalimantan, South Kalimantan, East Kalimantan, South Sulawesi, West Sulawesi and West Nusa Tenggara;
4. Regions with 'not good' criteria of fiscal decentralization degree: NAD, Bengkulu, North Sulawesi, Gorontalo, Sulawesi Tenggara, Central Sulawesi, East Nusa Tenggara, Maluku, North Maluku, Papua and West Papua.

Most of the regions in Indonesia are in category class of 'less good' fiscal decentralization degree. However, regions that need attention are regions with 'not good' category of fiscal decentralization which the area is still very dependent on central government in running the economy and its development.

Table 3. Calculation of decentralization accumulated regional degree Year 2008-2014

	2008		2009		2010		2011		2012		2013		2014	
	DDF I	DDF II	DDF I	DDF II	DDF I	DDF II	DDF I	DDF II	DDF I	DDF II	DDF I	DDF II	DDF I	DDF II
	NAD	7,0	7,3	7,4	6,4	6,7	6,5	6,4	6,5	6,9	7,2	8,9	8,9	8,2
Sumut	17,3	17,8	15,6	15,3	17,9	18,1	20,9	21,2	20,1	20,2	19,7	20,0	21,2	20,6
Sumbar	13,0	13,2	12,1	12,2	13,9	13,2	14,7	15,2	13,6	13,6	13,4	14,6	14,5	13,5
Riau	15,6	16,7	17,2	13,6	14,4	15,6	14,3	16,7	15,3	16,7	15,9	15,1	15,9	13,3
Kepri	18,4	21,3	18,4	17,0	15,9	17,2	19,1	17,9	18,0	18,5	16,2	16,0	18,7	16,3
Jambi	14,0	13,4	11,8	10,9	12,3	13,0	14,7	15,8	12,8	13,4	12,9	12,4	12,2	11,2
Sumsel	12,8	12,6	12,6	12,5	12,9	14,0	14,6	15,5	14,3	15,0	14,7	14,1	14,1	13,9
Babel	13,6	14,7	13,1	12,0	15,6	14,1	15,1	16,5	14,0	14,1	15,2	14,8	13,9	12,6
Bengkul	8,8	8,5	9,2	9,1	9,3	9,4	9,8	10,4	10,0	10,3	10,7	11,0	9,9	9,4
Lampung	13,6	13,7	12,5	12,6	15,1	15,6	14,2	14,5	15,2	15,1	15,8	15,7	15,7	15,1
Jakarta	54,4	65,5	55,0	54,3	56,0	59,8	63,0	67,5	62,3	69,8	68,0	70,1	61,1	61,0
Jabar	23,6	24,6	22,3	22,6	25,1	25,2	27,3	28,3	27,6	28,4	30,1	30,7	32,5	30,3
Banten	29,6	31,3	29,1	29,6	30,4	31,5	35,2	36,9	35,8	37,4	37,5	39,8	41,0	37,1
Jateng	19,4	19,1	20,1	20,3	21,1	21,5	20,6	21,1	21,3	21,9	23,1	24,0	22,6	21,3
DIY	20,3	19,6	21,6	21,3	22,0	22,0	22,9	23,5	23,7	25,2	25,7	27,3	24,2	22,8
Jatim	22,6	22,9	22,7	22,3	23,6	23,6	26,5	27,1	25,4	26,2	27,5	28,4	26,7	25,2
Kalbar	10,3	10,3	9,9	9,7	11,1	11,2	13,7	14,4	13,7	13,8	14,2	14,3	15,5	14,9
Kalteng	7,9	7,6	7,9	7,6	8,9	9,0	11,2	12,3	12,1	12,8	12,7	12,9	12,7	11,9
Kalsel	17,8	18,5	14,5	15,0	17,2	16,7	19,5	22,4	19,9	23,4	23,3	23,8	22,6	19,6
Kaltim	12,3	13,1	15,4	13,7	14,3	14,8	19,2	23,7	19,6	22,2	22,2	19,8	21,0	16,5
Sulut	9,2	9,5	8,1	8,5	8,9	9,3	5,7	7,2	4,5	5,7	4,3	4,6	4,0	2,7
Gorontalo	7,6	7,7	8,3	7,9	8,5	8,9	10,0	10,3	11,2	11,4	12,6	13,6	12,9	12,3
Sulteng	7,5	7,8	8,4	8,2	9,0	9,2	8,1	8,1	9,9	10,0	9,9	9,8	11,7	11,2
Sulse	14,3	13,8	14,2	13,5	14,5	15,1	9,7	10,1	10,5	10,6	10,7	10,8	10,8	10,6
Sulbar	5,1	5,0	4,6	4,3	5,0	5,2	15,5	16,1	16,4	16,8	17,9	18,1	18,5	17,9
Sultra	8,6	8,7	6,5	6,3	8,3	8,4	5,5	5,7	6,1	6,4	7,1	7,3	7,6	7,3
Bali	30,5	32,8	31,8	31,9	34,6	36,1	38,9	40,7	38,5	40,0	41,8	43,5	40,0	36,4
NTB	11,0	11,1	11,4	11,6	11,5	11,6	15,6	15,9	13,3	13,5	14,1	14,2	15,8	15,4
NTT	7,1	6,9	6,9	7,0	7,2	7,2	7,4	7,6	7,9	8,0	8,3	8,6	9,0	8,7
Maluku	5,9	5,8	6,0	5,6	5,3	5,5	5,8	6,0	6,0	6,2	7,2	7,5	7,6	7,3
Malut	6,5	6,4	5,2	4,8	5,8	5,9	6,8	7,4	7,3	7,3	8,4	8,4	8,0	7,8
Papua	4,3	4,3	4,4	4,6	4,0	4,1	3,5	3,7	5,2	5,2	4,4	4,6	4,1	4,0
P. Brt	3,5	3,4	2,8	2,8	3,1	3,2	2,9	3,0	3,3	3,2	3,4	3,9	3,6	3,4

Source: Ministry of Finance, 2015, data is processed

NAD Province, Papua and West Papua are some examples of areas that fall into the category of ‘not good’ fiscal decentralization degree, even though it was getting extra special autonomy fund allocations. Thus, in case the government needs to do deeper evaluation of the effectiveness and benefits of additional special allocation to the creation of self-reliance in the area. Anything else you need to get serious attention is precisely these areas area which has a wealth of natural resources (SDA) is abundant, especially of oil and gas.

Generally an indicator of local financial independence is defined as the ability of local finance in funding independently of government activities, public service and development. Based on this formula, the list of areas with local financial independence indicators can be seen in Figure 1.

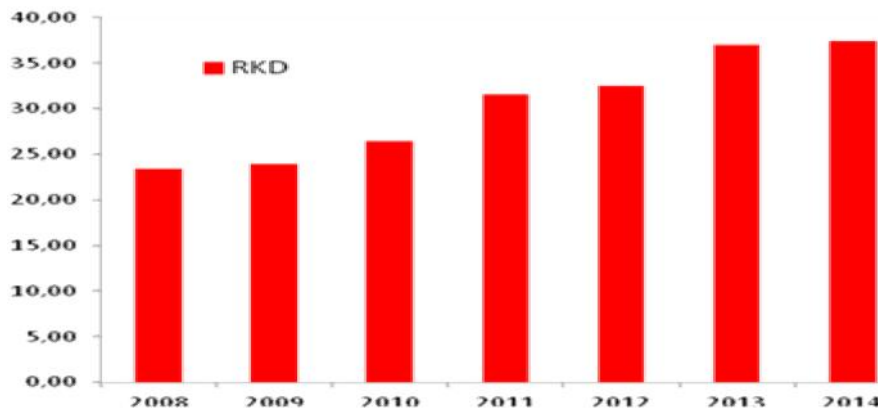


Figure 1. Calculation of regional independence indicators

Source: Ministry of Finance, 2015, data is processed

As Figure 1 shows that the local financial independence ratio in Indonesia continues to increase significantly each year from 2008 to 2014.

Table 4. Interval regional financial independence

Decentralization Ability	Regional Financial Independence Ratio (%)	Pattern Correlation
Very Low	0-25	Instructive
Low	25-50	Consultative
Standard	50-75	Participatory
High	75-100	Discretionary

Source: Halim, 2007

If in 2008 the local financial independence ratio was approximately 23.45%, increased to 31.67% in 2011 and 37.47% in 2014. To better interpret, criteria that used is based on the local financial independence (Halim, 2007) that presented in Table 4.

Based on these criteria, the general implementation of the fiscal decentralization in Indonesia is still in the consultative criteria from 2008 to 2014. This indicates that the intervention of the central government began to diminish in providing assistance to the region and on the other hand, the ability of local financial independence also began to rise although it has not been able to migrate into participatory criteria. Increasing numbers of local financial independence significantly occurred in 2012/2013 increased from 32.59% to 37.10%.

In terms of independency ratio per region, based on Table 5, it can be seen several classifications of regions, namely:

- 1) Region with the local financial independence ratio of discretionary: DKI Jakarta;
- 2) Regions with the local financial independence ratio of participatory: West Java, Banten and Bali;
- 3) Regions with local financial independence ratio of consultative: North Sumatra, Central Java, Yogyakarta, East Java, South Kalimantan and South Sulawesi;
- 4) Regions with local financial independence ratio of instructive: NAD, West Sumatera, Riau, Riau Islands, Jambi, South Sumatra, Bangka Belitung, Lampung, West Kalimantan, Central Kalimantan, East Kalimantan, North Sulawesi,

Gorontalo, Central Sulawesi, West Sulawesi, Southeast Sulawesi, West Nusa Tenggara, East Nusa Tenggara, Maluku, North Maluku, Papua and West Papua.

Table 5. Calculation of per regional financial independence

Province	2008	2009	2010	2011	2012	2013	2014
NAD	10,42	11,36	10,63	10,58	12,23	14,95	15,42
Sumut	23,17	21,03	25,09	32,43	32,46	31,72	34,93
Sumbar	16,48	15,64	18,82	21,03	18,76	18,73	20,12
Riau	19,21	22,11	17,99	18,11	20,39	21,36	21,42
Kepri	24,40	25,73	20,61	26,33	23,95	21,52	25,85
Jambi	17,87	14,61	15,57	19,82	16,93	17,11	16,07
Sumsel	15,34	15,56	16,32	20,16	19,68	20,35	19,08
Babel	16,72	16,05	20,30	20,20	18,92	21,02	18,31
Bengkulu	11,20	11,13	11,95	13,07	12,73	13,60	12,53
Lampung	16,74	15,94	21,30	20,93	22,33	23,60	23,41
DKI Jakarta	120,14	122,54	135,17	194,83	190,75	286,04	222,62
Jabar	35,53	34,69	41,72	52,22	53,81	63,53	64,79
Banten	48,47	45,72	51,43	77,15	79,33	86,80	96,13
Jateng	26,75	28,05	31,95	35,32	37,16	41,85	39,44
DIY	29,99	31,07	34,30	40,17	41,15	48,02	45,28
Jatim	32,35	33,34	38,80	48,25	45,51	51,68	48,43
Kalbar	12,23	12,17	14,68	18,71	18,61	19,59	21,41
Kalteng	9,49	9,28	10,78	14,13	15,35	16,66	16,56
Kalsel	23,71	19,14	24,89	29,60	31,51	38,00	37,03
Kaltim	15,66	21,02	18,77	27,63	29,12	34,92	32,90
Sulut	11,23	9,97	11,88	14,00	14,47	16,76	17,20
Gorontalo	9,29	9,94	11,16	11,14	12,57	12,72	15,12
Sulteng	8,73	10,17	11,54	12,99	13,69	13,92	14,15
Sulsel	18,46	18,72	21,09	24,57	24,55	27,69	28,69
Sulbar	5,61	5,09	6,33	7,09	7,34	8,76	9,27
Sultra	9,98	7,54	10,20	10,01	10,19	12,42	12,75
Bali	51,13	55,55	68,24	88,83	87,00	99,82	89,20
NTB	13,00	14,16	14,86	22,88	18,38	19,98	23,08
NTT	7,96	7,77	8,74	9,45	9,79	10,41	11,46
Maluku	6,53	7,15	6,65	7,29	7,09	8,61	9,03
Malut	7,46	5,90	6,87	8,58	8,56	9,92	9,47
Papua	6,76	6,85	5,77	5,09	7,52	6,58	6,08
Papua Brt	4,71	4,76	4,95	4,45	4,98	4,87	5,40

Source: Ministry of Finance, 2015, data is processed

For areas with discretionary and participatory criteria means the ratio of local financial independence is already relatively high and considered capable of reducing dependence on financial aid from the central government. Which is still a problem are the regions that are in consultative and instructive criteria, considering these areas did not have financial independence ratio adequate area.

The inadequacy of local financial independence ratios can be created either as a result of independent funding sources are insufficient or expenditure burden that is too large. Most regions still classified as having financial independence ratio consultative and instructive also required a deeper attention from governments. Moreover, the age of the implementation of fiscal decentralization and regional autonomy in Indonesia which has entered its 15th year since its implementation officially dated January 1st of 2001.

Harmonious local expenditures indicators are used as a benchmark for the region in an effort to prioritize the allocation of budget funds optimally both for purchases that are routine operational and development spending in the region. Generally there are no indicators that have become a benchmark of how large a percentage allocation routine

expenditure and development that is required to support the implementation of economic growth in the region.

Based on the theory of Keynes, consumption growth also had an impact, but instead of basing the classical theory of economic growth, which is capable of ensuring sustainable economic growth is the growth that comes from investments or productive economic activity. Analysis results from the calculation of the local harmonious expenditures indicators nationwide from 2008 to 2014 is shown in Figure 2.

Figure 2 showed that the comparison of recurrent expenditure allocation nationally is still very dominating than the allocation of development expenditure from 2008 to 2014. Thus it can be concluded that the source of economic growth in the region is still very encouraged by the activities of a consumptive. This can be evidenced by the amount of harmonious recurrent expenditure (KBR) is in the range of 70% -80% annually.

While the amount of harmonious development spending (KBP) is not more than 20% -30% of the rest. One positive thing that came up was the trend of decreasing of routine expenditure allocation in each region nationwide accompanied by increase in development expenditure allocation adequately. In the future the government must ensure this movement to continue running and continue to rise.

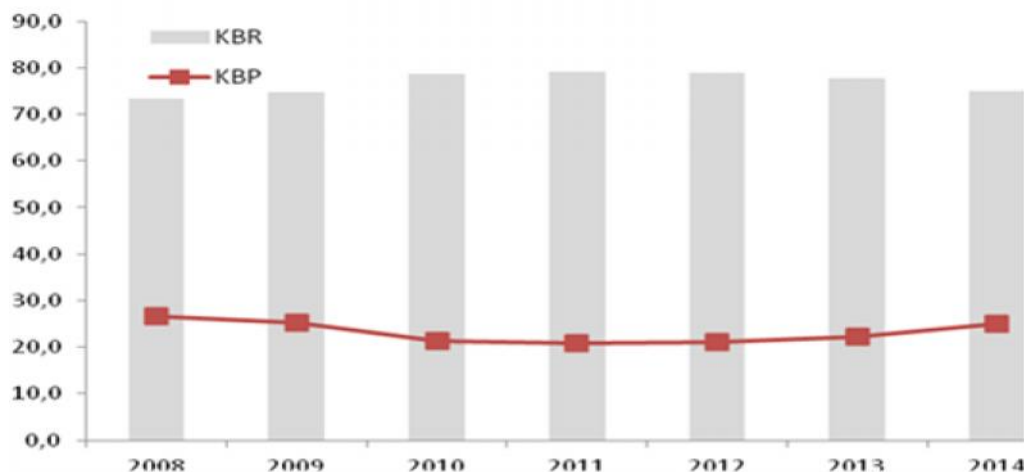


Figure 2. Calculation of adjusted local expenditure indicator

Source: Ministry of Finance, 2015, processed data

Interesting results of analysis came from the calculation of the harmonious spending indicators in each region from 2008 to 2014. The deeper explanation can be described as follows:

- 1) On average, the amount of the allocation routine expenditure in 2008 is 71.35%, increased to 73.00% in 2009 and 77.06% in 2010. In 2011, the average amount of allocation routine expenditure increased slightly to 77.65% and reached its peak in 2012. that number began to drop in 2013 to 77.06% and 75.54% in 2014;
- 2) Meanwhile, the average rate for the amount of the allocation of development spending in 2008 to reach 28.70%, dropped in 2009 to 27.16% and 22.98% in 2010. The magnitude was stable in 2011 at 22, 39%, then fell again to 21.72% in 2012, increased to 23.11% in 2013 and 24.51% in 2014;
- 3) Some regions recorded stay consistent in the category of regions with relatively high allocation of recurrent expenditure in the years 2008 to 2014. These areas include:

- North Sumatra, West Sumatra, Lampung, West Java, Central Java, Yogyakarta , East Java, South Sulawesi, Bali, West Nusa Tenggara and East Nusa Tenggara;
- 4) Especially for Jakarta and Banten, occurred saving schemes in the allocation of expenditures. DKI Jakarta in 2008 and 2009 was recorded as one of the areas with the largest routine budget allocation, while Banten was recorded in 2008 and 2011 still has a high ratio of recurrent expenditure. But since 2010 for Jakarta, and 2012 for Banten, the allocation of recurrent expenditure in its budget experienced a pattern of steady decline until 2014;
 - 5) For development expenditure allocation, some areas have a good track record from 2008 to 2014 include: Riau, Jambi, South Sumatra, West Kalimantan, South Kalimantan, East Kalimantan, Central Kalimantan, Southeast Sulawesi, North Maluku, Papua and West Papua;

CONCLUSIONS AND RECOMMENDATION

Conclusions

From the result of fiscal decentralization degree analysis, it is known that the implementation of the fiscal decentralization in Indonesia from 2008 to 2014 has not yet been able to realize the aspects of the region's autonomy. This can be represented by the degree of fiscal decentralization ratio which is still worth less good (10-25) from 2008 to 2014 both in terms of contribution to regional income (DDF I) and the ability to finance budget expenditure (DDF II). Positive impression conveyed is that there is a consistent increase every year of indicators DDF I and DDF II.

Based on the distribution per region, most of the regions in Indonesia are in a class of regions with less good degree of fiscal decentralization. However, the areas that need more attention are in the 'not good' fiscal decentralization degree category which the area is still very dependent on central government in running the economy and its development. NAD Province, Papua and West Papua are some examples of regions that included into the 'not good' degree of fiscal decentralization category, even though it was getting extra special autonomy fund allocations.

Meanwhile, from local financial independence indicators in Indonesia, from 2008 to 2014 there was a significant increase. Generally fiscal decentralization in Indonesia is still in the consultative criteria from year 2008 to year 2014. This indicates that the intervention of the central government began to diminish in providing assistance to the region and on the other hand, the ability of local financial independence also began to increase, although not able to migrate into participatory criteria.

One thing that is still a problem is the regions that are in consultative and instructive criteria, considering these regions are considered not to have adequate local financial independence ratio. The inadequacy of local financial independence ratios can be created either as a result of independent funding sources are insufficient or expenditure burden that is too large. Most regions still classified as having consultative and instructive financial independence ratio also required a deeper attention from the governments.

From the harmonious expenditures indicator, comparison of local expense allocation routine still dominates compared to the allocation of development expenditure from 2008 to 2014. Thus it can be concluded that the source of economic growth in the region is still very encouraged by the activities of a consumptive.

Recommendations

As recommendation, if it were mandatory for local authorities to continue to improve aspects of the region's autonomy, especially in terms of funding through a mechanism that does not burden the private and public sectors. Some of the things that have made the regional government actually felt burdensome despite the impact of income in the short term.

In this case must also involve the participation of other stakeholders in public hearings related to the imposition of levies and taxes in the area. Meanwhile, for the existing business in the region, awareness of the importance of contributing significantly also need to continue to be raised either through existing mechanisms or voluntary.

Academics and universities in the regions can also contribute through the implementation of assessments that are implementable and can be applied directly in the community not only at the theoretical level. Colleges inside the regions can also make their area as the best vehicle in practicing the students before they would later plunge in the real world.

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