Regional Economic Growth

by Palipada Palisuri

Submission date: 19-Jan-2023 02:16PM (UTC+0700)
Submission ID: 1995259360
File name: IJISRT22DEC1670_Palipada_Palisuri.pdf (563.06K)
Word count: 4798
Character count: 25409

Regional Economic Growth: Effectiveness of Local Revenues and Equalization Funds

Palipada Palisuri[1], Thamrin Abduh[2], Herminawaty Abubakar[3], Yuyun Yuningsih[4]
[1,2,3,4]Faculty of Economics and Business, Bosowa University, Makassar, Indonesia

Corresponding Author: Herminawaty Abubakar

Abstract:- The rapid development of regions requires a large allocation of development funds, causing local government spending to also increase. The amount of regional expenditure is determined by the amount of income of the region concerned. Regional income plays an important role in the welfare of the community and creating regional independence. This study aims to determine and analyze the effect of Regional Native Income and Equalization Fund on Economic Growth in Maros Regency. This research was conducted in Maros district, South Sulawesi Province, Republic of Indonesia. This research uses a quantitative approach with data collection methods in the form of data collection through documentation and available data. The source of data in this study is in the form of secondary data, namely in the form of documents regarding the realization of local original income and equalization funds obtained from the Regional Finance and Assets Agency of Maros Regency and data on the realization of economic growth seen from the Gross Regional Domestic Product on the basis of constant prices obtained from the Regional Development Agency of Maros Regency. Data analyzed using multiple linear regression analysis with IBM SPSS statistical program version 25.0. The results showed that (1) Regional Original Income had a positive and significant effect on Economic Growth, (2) the Equalization Fund had a positive but not significant effect on economic growth.

***Keywords**: Local Income, Equalization Fund, Economic Growth.*

I. INTRODUCTION

Economic growth is a picture of the economic condition of a region, sustainable economic growth is a picture of the work of the government, both nationally and regionally, in prospering and increasing the prosperity of the community. High economic growth comes from high regional revenues, so the role of local governments must be able to explore the potential of the regions to become sources of regional income. The government is free to form policies and design government finances that can affect the progress and prosperity of the region. With high economic growth, people's welfare will increase, because high economic growth is expected to be able to absorb labor and reduce poverty rates.

Increasing local revenues must be done by local governments in order to be able to finance their own needs, so that the dependence of local governments on the central government is reduced and in the end the regions can be independent. Each region in Indonesia has different financial capabilities in supporting the financing of its regional activities, this is often the cause of fiscal inequality between regions due to the imbalance between regional revenues and regional expenditures. Therefore, to overcome fiscal inequality, the Central Government allocates funds from the State Budget to fund regional needs in order to implement decentralization. The transfer of power and authority of regional government which was originally Centralized became Decentralization so that the government created regional autonomy [1]. The fund in question is the Equalization Fund which consists of the General Allocation Fund, the Special Allocation Fund, and the Profit Sharing Fund. The Equalization Fund is a source of regional revenue sourced from the State Budget to support the implementation of local government authority to achieve the goal of granting regional autonomy, especially to improve community services and welfare. The main purpose of providing the Equalization Fund is to overcome fiscal gaps between central and local governments, fiscal gaps between local governments, improve the tax system, and improve low fiscal efficiency.

The implementation of regional autonomy that focuses on districts and cities is characterized by the handover of a number of authorities to determine the allocation of resources owned for regional expenditures by adhering to the principles of compliance, needs, and regional capabilities listed in the regional budget [2]. A region can be said to be an autonomous region if the regional government has the ability to dig up its own finances. Autonomous regions must have the authority and ability, and strive to minimize dependence on the central government as much as possible. Each level of government can manage its finances to finance its respective local duties and authorities, this can be said to be an ideal balance between the central government and local governments [3].

Maros Regency is one of the districts authorized by the central government to implement regional autonomy. With the handover of authority, of course, the central government hopes that Maros Regency can explore the potential of its region, so as to reduce fiscal dependence and subsidies from the central government.

Table 1. Data on Economic Growth, Regional Native Income and Maros Regency Balance Fund 2015 -2020

No.	Year	Local Revenue (Rp)	Equalization Fund (Rp)	Gross Regional Domestic Product on the Basis of Constant Prices (Million Rp)	Economic Growth (%)
1	2015	141.487.686	759.792.905	10.916.729,1	8,44
2	2016	165.023.896	1.067.130.874	11.953.999,2	9,50
3	2017	194.999.054	903.546.699	12.768.318,4	6,81
4	2018	219.844.780	988.704.969	13.558.738,1	6,19
5	2019	203.706.048	966.759.310	13.726.282,7	1,24
6	2020	311.275.815	987.802.524	12.233.660,1	-10,87

Source : Central Statistics Agency of Maros Regency, 2022

Table 1 shows that central government assistance in the form of equalization funds can boost economic growth in Maros Regency. The economic growth of Maros Regency in 2017-2019 decreased by 2.75%. In 2019 experienced a sharp decline at 1.24%, this is because in that year people's movements began to be restricted due to the outbreak of the COVID-19 virus outbreak. In addition, economic growth in 2020 experienced a drastic decline of -10.87% from the previous year due to the covid-19 virus stopped almost all economic activities.

II. LITERATURE REVIEW

With the rapid development of each region in Indonesia, this is in line with the beginning of the emergence of policies regarding regional autonomy and fiscal decentralization. The implementation of decentralization is related to the central government and local government, one of which is the establishment of autonomous regions and the legal handover of power from the central government to local governments to take care of their respective governments and provide opportunities for regions to explore local potential for the realization of regional financial independence [2]. Regional Autonomy aims to ensure that the Central Government can be separated from unnecessary burdens in handling regional domestic affairs, thus providing opportunities for regions to better learn, understand, and respond to various matters in implementing government policies [1].

A. Economic Growth

Economic growth is a picture of the economic condition of a region, sustainable economic growth is a picture of the work of the government, both national and regional, in prospering and increasing community prosperity [4]. Economic growth is a benchmark for the development of economic activities where goods and services produced by the community increase in the long term or in other words, economic growth is a process of changing economic conditions that are more increasing than the previous year. A measure often used in calculating national-scale economic growth is Gross Domestic Product [4].

Economic growth is a way to see an increase in the economic capabilities of a region. Every country certainly wants its people to be able to have a good level of welfare in order to have a good quality of life as well. Indicators that can be used to see the level of public welfare through the size of investment and the pace of economic growth. by knowing how the pace of economic growth it has.

Investment is one of the important indicators for economic growth. Investments can also help grow the business climate. The more investment is made, the more new businesses will emerge. This will have an impact on the availability of jobs and employment, will support the growth of purchasing power, so that it can help increase economic growth. Furthermore, investment will have a positive impact on the production process in an increasingly enterprising business, then it will also have an impact on increasing household consumption. In addition, the Economic Growth Rate is a chain index of each economic activity. The resulting index numbers can be based on the prevailing price as well as the constant price. In general, what is often used or analyzed by economists is the Economic Growth Rate of constant prices, because it describes the real growth of production in each sector. The amount of this percentage of economic growth is seen to determine the level of welfare of life owned by the community.

An area with rapid and stable economic growth is able to become a developed area. This is because this economic growth is able to help in infrastructure development even better. As a result, facilities in various areas of life will also be better fulfilled and maintain the welfare of their people. This growth rate is viewed from year to year to find out whether growth is up or down.

B. Local Revenue

The implementation of development in the regions requires a lot of funds and the regions cannot only expect equalization funds from the center, so the regions must be able to explore the potential of the regions to be used as financing for routine expenditures and regional development expenditures in order to increase their income [5][6]. Law No.

33 of 2004 concerning Financial Balance between the central and local governments defines Regional Revenue is the right of the local government which is recognized as the addition of the net worth value in the relevant year period and the local Original Revenue is the income obtained by the region and collected based on local regulations in accordance with applicable laws and regulations.

Local income is a tax on the income or receipts of individuals, companies, plantations, or land, securities or trusts. Local Revenue is revenue derived from sources within its own territory [7]. Local revenue is one of the sources of regional income obtained from sources of revenue in the regions in the form of tax proceeds, regional levy proceeds, and the results of segregated regional wealth management.

C. Equalization Fund

This growth rate is viewed from year to year to find out whether growth is up or down. Meanwhile, for regions that only rely on revenue and revenue from the regions, they have not been able to finance all the mandatory affairs proposed by the government. For this reason, a central fund is needed that is presented to the regions in an effort to reduce vertical and horizontal inequality called the Equalization Fund. The details of income included in the balance fund are contained in Law Number 33 of 2004 concerning Financial Balance of the Central Government and Regional Governments, namely the balance fund sourced from the State Budget is divided into three, namely: Revenue Sharing Fund, General Allocation Fund, Special Allocation Fund [8]. The General Allocation Fund is allocated to provinces and districts or cities, where the proportion of the General Allocation Fund for provincial areas and for district or city areas is determined according to the balance of authority between provinces and districts or cities.

The Equalization Fund is a fund sourced from the receipt of the State Budget, which is allocated to the regions to finance regional needs in the context of implementing decentralization. In addition to assisting regions in funding their authority, the equalization fund also aims to reduce inequality in funding sources between the central and local governments and between local governments the equalization fund is a system of transferring funds from the government which is a unified whole. The purpose of the central government to transfer funds to local governments is as a concrete action to reduce the inequality of national income sharing, both vertically and horizontally and to improve the efficiency of government spending by handing over some of the authority in the field of state financial management so that it can be enjoyed by the people in the regions concerned [3].

D. The Relationship between Local Revenues and Equalization Funds with Economic Growth

The regional revenue sector plays a very important role, because through this sector it can be analyzed the extent to which a region can finance government activities and regional development. Local Revenue is revenue obtained by the region from sources within its own territory which is collected based on local regulations in accordance with applicable laws and regulations [9]. The development of the original income of this area is determined by how much the regional revenue concerned is in accordance with the authority handed over to the local government, namely the authority to dig up its own financial resources. Local governments can increase local revenues, which through the results of managing these resources will be included in the revenues of Regional Original Revenues which will later be allocated as a source of funding for local governments in addition to other sources of income [10].

Apart from the Regional Original Income, regional revenues are also sourced from equalization funds and other legitimate income. When local revenues have not been able to meet local expenditures, local governments expect transfer funds from the central government to cover local expenditure allocation funds annually. In this context, the equalization fund, which is the regional revenue transferred from the center, is often used as a source of financing to fund all activities every day [8]. The equalization fund is a fund from state budget revenues allocated to regions (autonomous) to fund regional needs in the context of implementing decentralization, and economic growth itself is a continuous change in the state of the economy of a region for the better in a certain period of time.

Economic growth is a benchmark that plays a vital role in the development process of a region or country. Economic growth is characterized by an increase in real income per capita [9]. Economic growth is a continuous increase in national income, namely by increasing per capita income in a certain calculation period. An increase in the amount of production and output can be interpreted as economic growth, this indicator is measured through the Gross Domestic Product or Gross Regional Domestic Product of a region [7]. The ability of the region to manage local revenues and the Equalization Fund for the welfare of the community determines the economic growth of the area.

III. RESEARCH METHODOLOGY

A. Types of Research

The research method that the author uses is a descriptive method of analysis, namely a research method that describes and describe the situation that occurs in the present, then analyze and interpret the data obtained with certain analysis. The purpose of this study is to make systematic, factual and accurate descriptions, drawings or paintings regarding the facts, properties, as well as the relationship between the phenomena investigated.

B. Data Type

The types of data used in this study are primary data and secondary data. Primary data is obtained through observation and documentation, while secondary data is obtained through books and other references in the form of previous research

ISSN No:-2456-2165

journals related to the object of study. The data studied are the original regional income, balance fund and economic growth of Maros Regency for the period 2015 to 2020. Data on the realization of local original income and equalization funds obtained from the Regional Finance and Assets Agency and data on the realization of economic growth in view of the Gross Regional Domestic Product on the basis of constant prices 2010 obtained from the Regional Development Agency of Maros Regency.

C. Data Analysis Technology

Data analysis techniques used in this study using software 1) Microsoft Office Excel 2010 with the aim of knowing the development of Regional Original Income and the Equalization Fund obtained by the Maros County Local Government from 2015 to 2020, 2) Multiple Linear Regression Statistics Program using SPSS 25 with the aim of determining the Effect of Regional Native Income and Equalization Fund as independent variables on economic growth as dependent variables.

IV. RESULTS AND DISCUSSION

A. Analysis Results

Economic growth is an increase in output in the form of goods and services that describes the development of the regional economy in a given year compared to the previous year. Economic growth can also be interpreted as an increase in the economic production capacity of a region which is seen in the form of an increase in national income. Regional revenue is a regional revenue that has been budgeted in the Regional Budget which includes all regional revenues through the regional general cash account, which in nature adds to regional revenues. Regional Original Revenue is income processed from the region itself which is collected based on local regulations in accordance with laws and regulations.

Table 2. Maros Regency Economic Growth Data 2012-2020

No	Year	Gross Regional Domestic Product (Rp)	Ln Gross Regional Domestic Product (%)
1	2012	9.044.451.000	22,93
2	2013	9.612.782.100	22,99
3	2014	10.067.224.600	23,03
4	2015	10.930.835.750	23,11
5	2016	11.953.999.200	23,20
6	2017	12.768.318.400	23,27
7	2018	13.558.747.500	23,33
8	2019	13.726.282.600	23,34
9	2020	12.233.282.600	23,23
Average			23,16

Source: Maros Regency Regional Development Agency, data processed 2022

Table 2 shows that economic growth in Maros Regency has increased. In 2012 it reached 11.14%, this is the highest and lowest achievement in 2020 of -10.87%. This data indicates that economic growth in Maros Regency has increased from year to year although the percentage increase is still fluctuating.

Table 3. Data on the Realization of Original Regional Income of Maros Regency in 2012-2020

No	year	Local Revenue (Rp)	Ln Local Revenue (%)
1	2012	60.364.408.988	24,82
2	2013	79.513.862.571	25,10
3	2014	118.267.910.133	25,50
4	2015	141.487.685.605	25,68
5	2016	165.487.675.628	25,83
6	2017	194.999.053.694	26,00
7	2018	219.813.979.862	26,12
8	2019	248.747.244.304	26,24
9	2020	219.096.914.071	26,11
Average			25,71

Source: Regional Finance and Assets Agency of Maros Regency, data processed 2022

Table 3 shows that the original income of the region has increased every year. The highest local revenue was achieved in 2019 worth Rp. 248,747,244,304 while the lowest local income in 2012 was Rp. 60,364,408,988. This shows that the income earned by Maros Regency from various sources within its own territory has increased by an average of 25.71%.

Table 4. Maros Regency Balance Fund Realization Data for 2012-2020

No	**Tahun**	**Equalization Fund (Rp)**	**Ln Equalization Fund (%)**
1	2012	541.142.617.873	27,02
2	2013	626.203.965.763	27,16
3	2014	713.906.816.093	27,29
4	2015	759.792.905.384	27,36
5	2016	1.067.130.874.537	27,70
6	2017	903.546.699.475	27,53
7	2018	988.704.968.934	27,62
8	2019	979.207.172.107	27,61
9	2020	882.646.034.275	27,51
Average			27,42

Source: Regional Finance and Assets Agency of Maros Regency, data processed 2022

The equalization fund is the transfer of funds sourced from the State Budget given to the regions to fund regional needs in order to carry out decentralization. Table 4 above shows that the equalization fund provided by the government to Maros Regency was stable with an average of 27.42% from 2012 to 2020. Based on tables 3 and 4 explained that the balance fund disbursed by the government is greater than the original income of the Maros Regency area, this indicates that Maros Regency's financial dependence on transfer income from both the central and provincial governments is relatively high.

Local financial dependence shows how much local governments depend on transfer revenues, both from the central and provincial governments. The largest contribution of transfer income is found in the Equalization Fund such as the General Allocation Fund, which is one of the transfers of central/provincial government funds to local governments sourced from state budget revenues, allocated with the aim of equitable distribution of financial capabilities between regions to fund the needs of local governments in the context of implementing decentralization.

B. Discussion

- *Effect of Local Revenue on Economic Growth*

The results of statistical data using the SPSS 25 program, show that partially the original regional income has a positive and significant effect on Economic Growth in Maros Regency which is indicated by the t-count value of 2.921 > t-table 1.9438 in addition to the significant value of the original income of the area 0.027 < 0.05 so it can be interpreted that the original income of the region has a positive and significant effect on economic growth in Maros Regency. This means that the higher the original income generation of the region, the higher the economic growth of the area. The results of this study are in accordance with the results of research which states that local indigenous income has an influence that is directly proportional to economic growth [11]. This is in line with the results of research which states that local income and economic growth have a positive relationship. Local revenue is a financial structure obtained by the region to carry out development activities in its area [3][11].

Local revenues can contribute to the improvement of Maros County's financial performance, because local income is a resource that can be utilized in the context of regional development so as to create economic growth. As one of the sources of regional revenue, the original regional income will reflect the level of regional independence. The higher and greater the original regional income to the total regional income, this shows the independence of the region in financing the development of the region.

- *Effect of Equalization Fund on Economic Growth*

Based on the results of a partial significant test, it shows that the equalization fund has a positive but not significant effect on economic growth in Maros Regency, this is indicated by the t-count value of 0.876 < t-table 1.94318 and the significant value of the equalization fund of 0.415 > 0.05 so that it can be interpreted that the balance fund variable has a positive but not significant effect on Economic Growth in Maros Regency. The results of the study can be related to the theory that the equalization fund is a fund sourced from the State Budget which is allocated to the regions to fund regional needs in the context of decentralization [6]. Maros County Government local revenues derived from the equalization fund consist of a tax or non-tax revenue sharing fund, a general allocation fund and a special allocation fund. The balance fund from the central government received by Maros Regency is used to reduce the fiscal gap between the central government and local governments. The level of regional financial independence will continue to increase if the original regional income is greater than the equalization fund [2].

The transfer fund or equalization fund is a source of income derived from the budget to support the implementation of local governments in achieving the goal of granting autonomy to the regions, especially with improved services and better community welfare [3]. The increase in equalization funds is due to the increase in the type of equalization fund received receipts. When local revenues are not yet able to meet local expenditures, local governments expect transfer funds from the central government to cover local expenditure allocation funds annually [4][7]. This is because the General Allocation Fund, Special Allocation Fund and Profit Sharing Fund received by the regions are not used directly for economic development, for example, the General Allocation Fund is used for routine expenditures, namely expenditures for the implementation or maintenance of daily government. Routine expenditures are also such as employee spending, goods shopping, autonomous region subsidies and others. The General Allocation Fund received is not focused on the development of infrastructure and infrastructure that can support economic growth.

V. CONCLUSION

Regional Original Income and Equalization Fund are indicators of Regional Income which are the basis for measuring the economic growth rate of a region. The higher the level of Regional Native Income, the higher the possibility of a region being able to finance activities in its area. Conversely, the higher the Balance Fund of a region, the higher the level of dependence of the area on the central government.

Regional development is a development that is all prepared and implemented by the region by utilizing the resources in the area. Local income comes from various types of income, such as local taxes, regional levies, profits from regionally owned enterprises, and other legitimate local revenues, while the equalization fund comes from the General Allocation Fund, the Special Allocation Fund and the Profit Sharing Fund. The equalization fund is one of the central government assistance received by a region to meet the needs of government programs in the event of a deficit.

The relatively low local income and the imbalance between regional income and regional expenditure in Maros Regency are the causes of the increasing dependence on equalization funds from the central government. Local revenue is also an indicator of the ability of the region to carry out government functions, both for development and public services. The lack of optimal efforts made by the Maros Regency local government in increasing local revenue is the cause of the lack of income obtained by the area.

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