

# Driving Factors For Local Government Self-Financing Ability

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**Abstract.** The independence of Regional Development in regional autonomy is the ability of local governments to self-finance government activities, development, services to the community and manage regional finances, especially Regional Original Income (PAD) and Economic Growth Levels without relying mostly on assistance from the central government. This study aims to determine the effect of local taxes, levies and the level of economic growth on the independence of regional development in CIAYUMAJAKUNING regencies/cities for the period of 2011-2018, either partially or simultaneously. The variables used in this study are Local Taxes, Retribution, Economic Growth Rate and Regional Development Independent Ratio obtained from the website of the Directorate General of Fiscal Balance (DJPK) and the website of the Regency / City Central Statistics Agency (BPS) in West Java. The analytical method used is descriptive analysis method and verification. The sample selection in this study used the saturated sample method, and the samples from this study were 5 districts/cities, namely Cirebon City, Cirebon Regency, Majalengka Regency, Indramayu Regency and Kuningan Regency in the period of 2011-2018 so that 40 sample data were obtained. The analytical tool used in this research is multiple regression analysis. The results of this study indicate that partially Local Taxes have a significant effect on the Independence of Regional Development, Levies have a significant negative effect on the Independence of Regional Development and the Level of Economic Growth has no effect on the Independence of Regional Development. However, simultaneously it shows that local taxes, levies and economic growth rates have a significant effect on the independence of regional development.

## 1. Introductions

Regional development is defined as "development in the regions" with initiatives, directions, planning and central government funds [1]. The ability of regions to self-regulate and take care of government and community affairs both in terms of development and economy with the provisions of laws and regulations, namely called regional autonomy [2]. The most important problem in the framework of regional autonomy concerns the division or balance between the center and the regions. This is in accordance with the fiscal decentralization in Law Number 22 Year 1999 which was later updated by Law Number 32 Year 2004 concerning Regional Government and Law Number 25 Year 1999 which was later renewed to Law Number 33 Year 2004 concerning Financial Balance between the Central and Local Governments [3], the enactment of this Law provides an opportunity for regions to increase local potential and improve performance in realizing regional independence [4], regional financial independence shows the ability of local governments to self-finance government activities, development and services. Regional independence is influenced by several factors, namely, Regional Original Income (PAD). PAD is divided into several parts, namely Regional Taxes, Retribution,



Proceeds from the Management of Separated State Owned Assets and Others from legal PAD. Apart from PAD, factors that influence regional independence are Regional Expenditures, Regional Revenues, Profit Sharing Funds, and the Level of Economic Growth. This study will examine some of the dominant factors contributing to PAD, namely Regional Taxes and Retribution, while the second factor is by looking at the Regional Economic Growth Rate. Doing the research is expected to provide more explanatory power because previous studies still provide different results.

Local taxes are mandatory contributions that must be paid by the community to local governments whose benefits are to finance regional interests and activities and are collected based on law and are compelling and no direct achievement is given (Law Number 28 of 2009). Local taxes are a measuring tool or determinant of the size of PAD because local taxes are one of the sources of PAD so that the high and low levels of Regional Taxes affect the ability of local governments to finance their own regional development which in turn will affect the Independence of Regional Development.

Retribution is a regional levy as a payment for certain services or permits that are specifically provided and or given by the Regional Government for the benefit of private persons or entities [5]. Fluctuations in regional levy receipts will have an effect on the amount of PAD, if the levy funds that go to the regional treasury are able to contribute to the regions for regional development so that the regions are able to meet their needs from PAD and dominate regional financing compared to central government funds, so that regions are able to finance their own regional development. It means that the low level of levies can affect the independence of regional development. Apart from local taxes and levies, the independence of a region can be affected by the level of economic growth. Economic Growth Rate is the ability of a region to explore and be able to optimize its fiscal capacity. Economic growth indicators can be measured by the Gross Regional Domestic Product (PDRB) at constant prices according to the business field of the Regency/City. If the PDRB increases, it will increase PAD, a region has reached a good level of economic growth, if the local community has entrepreneurial potential and expertise so that it can increase regional income and be able to meet needs, carry out development and reduce dependence on the government center.

Apart from the above phenomena, the background of this research is the gap research result. For local tax variables [6] research results show that the results of regional taxes have a significant positive effect on regional independence, while the results of [7] show that local taxes have no effect on regional independence and the results of this study are not in line with research that has been conducted For the levy variable, research results [8] show that levies have a significant positive effect on regional independence, meanwhile, according to [7], levies have no effect on regional independence. And for the economic growth variable, the results of research [9] show that the level of economic growth has an effect on regional financial independence, while the results of research [7] that the rate of economic growth has no effect on regional tax independence.

West Java Province has abundant natural resources, such as tourist destinations, airports, hotels, restaurants and so on. Not only in urban areas, but also even in the Regency / City Ciayumajakuning has abundant natural resources. As currently Majalengka which is developing and experiencing development around it, be it a tourist destination, hotel, restaurant, or an international airport which has now been officially opened. The presence of the West Java International Airport (BIJB) mega project in Kertajati, Majalengka, is believed to be a magnet that will attract large amounts of new investment. Seeing this will certainly make Majalengka a new growth center in eastern West Java.

Cirebon City with city infrastructure that can be said to be good and sources of Regional Original Revenue that have increased for 4 consecutive years, especially those originating from Regional Taxes, In addition, Indramayu Regency is also currently experiencing developments in the tourism sector, beaches and urban infrastructure are getting better, then Kuningan Regency has abundant natural resources and one of them is Mount Ciremai which is a tourist destination. This is a potential source of revenue for PAD, both individually and as a whole region [10].

Based on the description above, the researcher is interested in conducting research with the title Driving Factors For Local Government Self-Financing Ability, the formulation of the problem in this study is "How the influence of Local Taxes, Levies, Economic Growth Levels on the independence of

regional development of the Ciayumajakuning Regency/City either partially or simultaneously. So the purpose of this research is to find out and provide empirical evidence about how the influence of Local Taxes, Levies, Economic Growth Levels on the independence of regional development of the Ciayumajakuning Regency/City either partially or simultaneously.

## 2. Materials and Method

This research was conducted in January, submitted in August and presented in October 2020. The method used in this research is descriptive analysis and verification analysis. The population in this study are Cirebon Regency, Cirebon City, Indramayu Regency, Majalengka Regency, and Kuningan Regency (CIAYUMAJAKUNING). The sampling technique used for this research is saturated sampling technique. Saturated sampling technique is a sampling technique when all members of the population are used as samples, so the number of samples in this study are 4 districts and 1 city with a research period of 8 years. So that the total sample data in this study is 40 sample data. The type of research data used in this research is quantitative data, the data source used in this research is secondary data sources. The data collection procedure in this research is a Documentation Study which is obtained through its official website ([www.djpk.keu.go.id](http://www.djpk.keu.go.id)) and the Central Bureau of Statistics which publishes Gross Regional Product data through its official website ([www.jabar.go.id](http://www.jabar.go.id)).

The analytical tool used is multiple linear regression analysis and hypothesis testing with the following test rules:

Partial hypothesis testing rules

1. If  $t_{count} > T_{table}$ :  $H_0$  is rejected and  $H_a$  is accepted
2. If  $t_{count} < t_{table}$ :  $H_0$  is accepted and  $H_a$  is rejected

Simultaneous hypothesis testing rule

Using the F statistical test is if  $p \text{ value} < 0.05$  or  $F \text{ count} \geq F \text{ table}$  then  $H_a$  is accepted. Conversely, if the  $p \text{ value} \geq 0.05$  or  $F \text{ count} < F \text{ table}$ , then  $H_a$  is rejected.

## 3.Result and Discussion

### 3.1 Research Result

On table 1, it can be seen that the t value in the Local Tax variable is 18,121, which is positive with a significance level of 0,000, the value of  $t_{count} > t_{table}$  is  $18,121 > 2,02619$  and the significance value is  $0,000 < 0.050$ , then  $H_0$  is rejected and  $H_a$  is accepted, meaning that local taxes affect the independence of regional development. The influence of the levy variable can be seen through the t value is 2,400 is negative with a significance level of 0.022, the value of  $t_{count} > t_{table}$  is  $2,400 > 2,02619$  and the significance value is  $0.022 < 0.050$ , then  $H_0$  is rejected and  $H_a$  is accepted, meaning that the levy has an effect on independence regional development. The t value in the Economic Growth Rate variable is 0.272 negative with a significance level of 0.787, the t value  $< t_{table}$  is  $0.272 < 2.02619$  and the significance value is  $> 0.05$ , namely  $0.787 > 0.050$ , so  $H_0$  is accepted and  $H_a$  is rejected, this means that the rate of economic growth has no effect on the independence of regional development

**Table 1. Results of Multiple Regression Analysis**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,805	,062		29,001	,000
	Pajak Daerah	,640	,035	,934	18,121	,000
	Retribusi	-,133	,055	-,127	-2,400	,022
	Tingkat Pertumbuhan Ekonomi	-,009	,032	-,014	-,272	,787

Based on table 1, the results obtained by the regression equation are as follows:

$$Y = 1.805 + 0.640X_1 - 0.133X_2 - 0.009X_3 \quad (1)$$

From the formula we can see that the value of Y is the independence of regional development, X1 is local taxes, X2 is the levy and X3 is the level of economic growth, from the equation it can be concluded that:

- The constant value of 1.805 is positive. This means that if the variables of Local Taxes, Levies and Economic Growth Rate are 0 (zero), then the Regional Development Independence will be valued according to the constant value in the equation, which is 1.805.
- The value of the Regional Tax regression coefficient of 0.640 is positive, meaning that each addition of 1 unit to the Regional Tax variable will increase the Independence of Regional Development by 0.640 units. Conversely, every 1 unit reduction in the Regional Tax variable will reduce the Regional Development Independence by 0.640 units, assuming other variables are considered constant.
- The value of the levy regression coefficient of 0.133 is negative, which means that every addition of 1 unit to the levy variable will reduce the independence of regional development by 0.133 units. Conversely, each reduction of 1 unit in the Levy variable will increase the Independence of Regional Development by 0.133 units, assuming other variables are considered constant.
- The regression coefficient value of the Economic Growth Rate of 0.009 is negative, which means that each addition of 1 unit to the Economic Growth Rate variable will reduce the Independence of Regional Development by 0.009 units. Conversely, every 1 unit reduction in the Economic Growth Rate variable will increase the Regional Development Independence by 0.009 units, assuming other variables are considered constant.

**Table 2.** F Test Results ANOVA<sup>a</sup>

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	7,085	3	2,362	118,948	,000 <sup>b</sup>
Residual	,715	36	,020		
1 Total	7,800	39			

a. Dependent Variable: Kemandirian Pembangunan Daerah

b. Predictors: (Constant), Tingkat Pertumbuhan Ekonomi, Pajak Daerah, Retribusi

Source: Processed secondary data, 2020

Based on table 2, the Sig. 0,000 is smaller than the probability of 0.05 or 0,000 <0.050 and the value of F count > F table is 118,984 > 2.87, so Ho is rejected and Ha is accepted, meaning that local taxes, levies and economic growth rates have a significant effect on the independence of regional development.

## 3.2 Discuss

### 3.2.1 Local Taxes on the Independence of Regional Development

Local taxes affect the independence of regional development. The results of this study are consistent with previous research conducted which states that Regional Taxes have a positive and significant effect on Regional Development Independence. However, this study contradicts the research which states that local taxes do not have a significant effect on regional development independence,[7]. Theoretically, local tax efforts show the efforts of local governments to get revenue for their regions by considering their potential. What is meant by regional potential that is owned is how much the target set by the regional government can be achieved in the regional budget year. If Local Taxes increase, it will increase the amount of regional revenue received, so that when PAD increases, it will

reduce regional dependence on the central government. Conditions like this will result in increased regional independence, especially the independence of regional development.

This research is in accordance with this theory which states that local taxes affect the independence of regional development, this is because local taxes are one component of local revenue so that the high and low local taxes will affect the level of regional development independence. Empirically based on the results of descriptive data, the average regional tax of CIAYUMAJAKUNING Regency/City is low, this is because the district/city has not been able to explore its regional tax potential maximally, so that the amount of regional revenue is also low, which in the end when PAD is low, the district / cities cannot afford to finance their own purchases and will increase regional dependence on the central government so that the autonomy of regional development in districts/cities becomes low.

### *3.2.2 Retribution for the Independence of Regional Development*

Retribution affects the Independence of Regional Development. The results of this study are consistent with previous research conducted which states that Retribution has a significant effect on Regional Development Independence[8]. However, the results of this study are not in accordance with the research which states that Regional Taxes do not have a significant effect on Regional Development Independence[6][7]. Theoretically, regional levies are also a source of PAD extracted or obtained from each region, so that it can be seen the actual financial capacity of an area. Retribution is a source of PAD that can affect the ability of districts/cities to finance regional development. The results of levies are used to finance general expenses, but can be enjoyed directly by people who have paid retribution and used government facilities. For example, it has used hospital facilities, airports, schools, markets, and so on. So the high and low regional levies will affect the level of regional development independence.

This research is in accordance with this theory which shows that levies affect the autonomy of regional development but in a negative direction, meaning that the higher the regional levies, the lower the independence of regional development, this is because the efforts made by local governments in exploring potential levies are less effective, so that high user charges as a component of regional revenue actually reduce the ability of local governments to finance their own regional development. The inability of local governments to explore the potential of their regions to the maximum causes local governments to still rely on the allocation of funds from the central government in financing regional development. The effectiveness of a region in exploring financial resources will depend on the policies or regulations taken by the government itself. On the one hand, the mobility of financial resources to finance various regional activities can improve the government's performance in carrying out its functions. On the other hand, the ineffectiveness of the government in developing potential levies as a result of the handling of levies in the Ciayumajakuning Regency/City, such as the internal control of the regional government system is still not running well, so that the high costs incurred are inversely proportional to the fees obtained. In addition, the things that cause retribution have a negative effect on independence are the many problems with retribution that often occur in regions, such as parking fees on public roads or in traditional markets which are often misused by irresponsible individuals to reap personal benefits so that government efforts to improve facilities and infrastructure have not contributed to increasing local user fees. Local government regulations that are supposed to be implemented are useless, because they are levy collectors who are supposed to deposit retribution to the regions, instead they are used privately. So that the retribution results obtained are not in accordance with the budget, and the revenue from PAD is low.

### *3.2.3 Economic Growth Rate on Regional Development Independence*

The rate of economic growth affects the independence of regional development. The results of this study are consistent with research conducted which states that the level of economic growth does not have a significant effect on the independence of regional development[7] and is not in accordance with the research conducted which states that the rate of economic growth has a significant effect to the

Independence of Regional Development[9]. The level of economic growth can be interpreted as the development of economic activities that causes goods and services produced in society to increase and the prosperity of society to increase. The rate of economic growth is a measure for the prosperity of a region, a high level of economy tends to encourage an increase in the level of consumption which in turn creates an incentive for changing the structure of production (when income increases, the demand for manufactured goods and services will inevitably increase faster than demand of agricultural products). The results of this study are in accordance with the theory according[11], namely, the success of a development in an area can be shown by an increase in the Economic Growth Rate. The district/city economic growth rate is still low, the weak level of economic growth is due to the quality of human resources, the industrial sector that opens up investment opportunities, the high number of unemployed due to the lack of business fields and the low level of productivity which results in low district/municipal GRDP. Thus, it can be concluded that the level of economic growth has no effect on the independence of regional development because the average rate of economic growth is still low and has not met the target set by the government.

#### *3.2.4 Taxes, Levies and Economic Growth Rate on the Independence of Regional Development*

Local taxes, levies and the level of economic growth simultaneously have a significant effect on the independence of regional development. The results of this study are not in accordance with previous research conducted which states that Regional Taxes, Levies and Economic Growth Levels do not have a significant effect on Regional Development Independence[7]. This happens because the value of Local Taxes, Levies and the Level of Economic Growth on the Independence of Regional Development is approaching simultaneously having a significant effect because it has reached the target set by the local government to increase the independence of regional development, it's just that it still needs to be increased again. the rate of economic growth, as well as fixing constraints and minimizing risks. The results of this study indicate that the increase and decrease in local taxes, levies and the rate of economic growth affect the independence of regional development. This is because changes in the value of Regional Taxes, Levies and Economic Growth Rates can increase or decrease Regional Original Income and PDRB so that it will encourage the independence of regional development.

#### **4. Conclusions**

Partially local taxes and levies have a significant effect on the independence of regional development, the level of economic growth does not affect the independence of regional development, but simultaneously Regional Taxes, Levies and Economic Growth Levels have a significant effect on Regional Development Independence.

To create an independent Regency/City, the CIAYUMAJAKUNING Regency/City Government should be able to optimize PAD by mapping PAD which tends to increase, increase, have the potential to increase and decrease so that the district/city government is able to optimize PAD from the appropriate potential, for example by developing the potential for PAD which potential increases and provides a multi-player effect on other revenues such as increasing tourism potential which will have a multi-player effect on hotel and restaurant tax revenues. In addition, district/city governments should carry out good institutional arrangements to improve the internal control system, improve the legal basis and regulations for the adjustment of collection rates so as to create attractiveness and a conducive climate for investors, provide convenience for investors and can increase PAD.

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