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Analysis of Fiscal Gaps and Regional Transfers between Regions in Indonesia

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ABSTRACT
This research aims to analyze fiscal gaps and regional transfers between regions in Indonesia within the framework of the fiscal decentralization policy implemented by the Indonesian government. The research method uses a qualitative descriptive research type using literature studies based on secondary data. The results of the research show that the fiscal gap and regional transfers between regions in Indonesia are a form of the failure of transfer funds between regions in Indonesia to significantly reduce economic inequality and public services between regions, which are also thought to be influenced by factors in regional financial management and resource allocation that are not yet efficient and effective. Even though transfer funds have been distributed to areas outside Java-Bali, if the management is not efficient and effective, the limited amount of funds will certainly not be able to catch up with the region. This condition is influenced by the implementation of centralized policies in Indonesia, which have proven to cause high regional dependence on the center. This dependence can be seen from the large contribution from the center, which far exceeds revenues from PAD. As a result of the centralized budget policy pattern at the center, high vertical fiscal inequality occurs.

Keywords: Fiscal Gaps, Regional Transfers, Development Inequality Between Regions.

INTRODUCTION

In the era of fiscal decentralization, the Central Government provides transfer funds to local governments through the General Allocation Fund (DAU) and Special Allocation Fund (DAK). The Special Allocation Fund (DAK) according to Digdowiseiso & Lukman (2023), is one of the fiscal decentralization instruments together with the General Allocation Fund (DAU), the Profit Sharing Fund (DBH) which is incorporated in the Balancing Fund group. According to Wardhana, et.al (2013), DAU is a fund in the form of grants both the use and management of which are handed over to local governments, while DAK given to regions in financing special needs that are national priorities are based on priority areas such as education, health, infrastructure. In the case of DAU grants, there is a rule of hold harmless, regulating the provision of smaller DAUs in the previous year. The function of DAU is that regions with low fiscal capacity will be given relatively large DAU which creates inequality between regions both in terms of fiscal and income distribution.

This is not yet fiscally independent, and there are indications that APBD spending is higher in transfer funds than PAD. Therefore, researchers are interested in researching it with the title "**Analysis of Fiscal Gaps and Regional Transfers Between Regions in Indonesia.**"

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RESEARCH METHODS

Research method as a way that researchers use to collect and obtain research data (Arikunto, 2019). The research approach used is a qualitative descriptive literature study. Descriptive research is intended to describe a phenomenon found based on secondary data (Sukardi, 2015). This research uses desk-literature method which is qualitatively descriptive. The data used is sourced from secondary data obtained from books, journals, scientific articles, internet searches and documents that have relevance to the subject matter studied.

To conduct an analysis of activities related to the government budget, a normative approach is used. Normative approach as an approach that includes criteria that need to be set to assess budget policy, how the quality of fiscal policy, and how achievements can be improved (Digdowiseiso, 2015). The normative approach in this study was used to analyze fiscal gaps and regional transfers between regions in Indonesia.

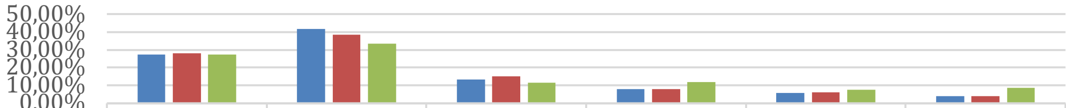
RESULTS AND DISCUSSION

Transfer policy to regions consisting of equalization funds, special autonomy funds, and regional incentive funds. The equalization fund is the largest component of transfer funds to the regions. This fund is sourced from state budget revenues allocated to regions to fund regional needs in the context of implementing decentralization. The balancing fund consists of a general allocation fund (DAU), a special allocation fund (DAK), and a profit sharing fund (DBH) sourced from tax revenues and natural resources (SDA). Each type of equalization fund has its own function. DBH acts as a fiscal balancer between the central and regional governments, DAU acts as fiscal equalization, and DAK acts as a special fund that finances the implementation of national priority programs in the regions. Local governments manage all of these funds, and it is hoped that they can use the funds effectively and efficiently to improve services to the community—thus providing stimulus for increasing economic activities in the regions—which in turn will be able to encourage the improvement of the welfare of local communities.

Transfer funds are also called balancing funds, funds from the central government are channeled to regional governments for regional needs in the context of implementing decentralization. The division of authority for regions to manage finances for regional development according to personal will but in harmony with national development. Based on Law number 33 in 2004 concerning the financial balance of the central government and regional government, where the center gives authority to local governments, one of which is in the form of a balancing fund, the balancing fund is a fund sourced from State Budget / APBN revenues allocated to regions to finance their needs in the context of implementing decentralization. Regional transfers basically have the following objectives:

1) To reduce fiscal gaps between the central and regional as well as between regions;
2) To support national development priorities that become regional affairs;
3) To improve the quality of public services;
4) To increase for regional revenue;
5) To expand for development

In the last 15 years, it can be said that there has been a redistribution of transfer funds to regions from the Java-Bali region to areas outside Java-Bali, especially the eastern region of Indonesia The distribution of transfer funds to the Java-Bali region in the last 15 (five) years has continued to decline. If in 2001 the proportion of transfer funds to the Java-Bali region was 41.5% of the total transfer funds, then in 2015 the proportion has decreased to only 33.3%, shown in the following figure.



	Sumatera	Jawa-Bali	Kalimantan	Sulawesi	Maluku - Nusa Tenggara	Papua
2001	27,20%	41,50%	13,50%	7,90%	5,90%	3,90%
2005	28,20%	38,40%	15,20%	8,00%	6,30%	3,90%
2015	27,20%	33,30%	11,50%	11,80%	7,70%	8,60%

2001 2005 2015

Figure 1. Transfer Fund Distribution in Indonesia, 2001 – 2015
Source: DGT data of the Ministry of Finance of the Republic of Indonesia is processed.

Based on the phenomenon that has occurred since 2001, it is stated that the amount of transfer funds to the regions disbursed by the government continues to increase. In the Revised State Budget (APBN-P) 2015, the amount of funds transferred by the center to the regions in 2001 amounted to Rp 81.1 trillion, in 2010 amounted to Rp 344.7 trillion, and in 2015 reached Rp 664.6 trillion. On average, transfers to the regions account for 30% of the total state budget expenditure. This huge amount has not had an impact on the welfare of the people in the region in accordance with the expectations of fiscal decentralization.

Over the past 10 years, income disparity has increased quite high, as reflected in the latest Gini Ratio of 0.41. Some analysts say the disparity rate in reality is even higher because the expenditure indicator is biased and insensitive to the real spending of the middle and upper class groups. The worsening of disparities is in line with statistics showing an increasing trend in poverty severity. Various parties attribute the disparity to a pattern of development that does not favor the poor.

Data from the Central Statistics Agency (BPS) shows that the number of poor people in Indonesia is still quite high. In 2010, the number of poor people in Indonesia was 31.02 million people or 13.33% of the total population. Then, in 2012, the poor population was 28.59 million people (11.66%) and in 2014 as many as 28.28 million people (11.25%). Although the number is getting smaller, the decline in the number of poor people has not been significant.

Regional economic growth shows the development of the regional economy which includes increasing the production of goods and services from the results of economic activities. Gross Regional Domestic Product (GDP) is the accumulation of goods and services in a region. Judging from the comparison of the distribution of transfer funds, population, and GRDP between regions in Indonesia in 2014 is shown in the following table.

Table 1. Comparison of Transfer Fund Distribution, Population, and GRDP Between Regions in Indonesia in 2015

Region	Total Transfer to Regions 2015 (Rp thousand)	% Share	Population (thousand)	% share	GDP ADHK 2015 (Rp billion)	% Share
Sumatera	169.428.068.024	27,2	55.272,9	22,5	1.960.873	21,8
Java-Bali	207.340.997.375	33,3	139.118,5	56,7	5.379.690	59,9
Kalimantan	71.661.019.496	11,5	15.343,0	6,3	741.758	8,3
Sulawesi	73.833.868.059	11,8	18.724,1	7,6	525.020	5,8
Moluccas-Nusa Tenggara	47.761.694.261	7,7	12.804,5	5,2	190.908	2,1
Papua	53.306.233.849	8,6	4.020,9	1,6	183.618	2,0
Total	623.331.881.063	100,0	245.283,8	100,0	8.981.866	100.0

Source: DGT and BPS data are processed.

Table 1 shows that the distribution of transfer funds has been relatively biased to the eastern region. This condition has persisted for the last 15 years as shown in Table 1. The proportion of transfer funds enjoyed by the eastern region is much greater both than the proportion of its population and from the proportion of its contribution to the national economy. For example, Papua enjoys a transfer fund of 8.6%, whereas the population served in this region is only 1.6% and its contribution to the national economy is only 2%. The same thing happened for Kalimantan and Sulawesi with the proportion of transfer funds they enjoyed at 11.5% and 11.8% respectively. Even though these two regions only serve the population of around 6.3% and 7.6% respectively and with contributions of only 8.3% and 5.8% respectively. Compared with the Java-Bali region which enjoys transfer funds of only 33.3% to serve the population as much as 56.7% and with a contribution to the national economy of almost 60%.

The increase in population makes income inequality even higher. The rapid number of non-productive age population makes it a burden for the working-age population to finance the number of non-productive population. The majority of the non-productive age population in Indonesia is the non-working age population or the population under the age of 10 years. The condition of the increase in the non-productive age population will cause income inequality to worsen. Population growth can have an impact on greater migration flows. With migration makes the population look for job opportunities and wages in developed areas. For this reason, it will cause inequality between regions.

Developed regions will get more productive working-age residents so that economic growth will be faster. Meanwhile, poor areas will slow economic growth due to more productive working-age people in developed areas. Sometimes residents are unaware of new jobs and higher wages will lead to a high cost economy. The emergence of such a high cost economy remains insufficient for its needs. The impact of these large migration flows will slowly increase income inequality. This result is also explained by Todaro (2010), explaining the unrealistic assumption that real wages in developed regions are better and job opportunities are more open. But in reality, developed areas such as urban areas have more unemployment than rural areas.

Larger transfer funds outside Java-Bali were unable to encourage higher economic growth in the region. The exception is only for the Sulawesi region whose contribution has increased in the last 15 years due to economic growth that is above the national average. Due to lower growth than growth in the Java-Bali region, in the last 15 years, four regions (Sumatra, Kalimantan, Maluku-Nusa Tenggara, and Papua) have experienced a decrease in economic contribution.

The allocation of transfer funds in Indonesia has been designed by considering the acceleration of development in the eastern region by providing a relatively large proportion of transfer funds. This policy is actually "unfair" to the western region, especially Java-Bali and it is likely that such a policy is causing the continued high inequality of regional fiscal capacity per capita in Indonesia as measured by the Williamson index, shown in the following table.

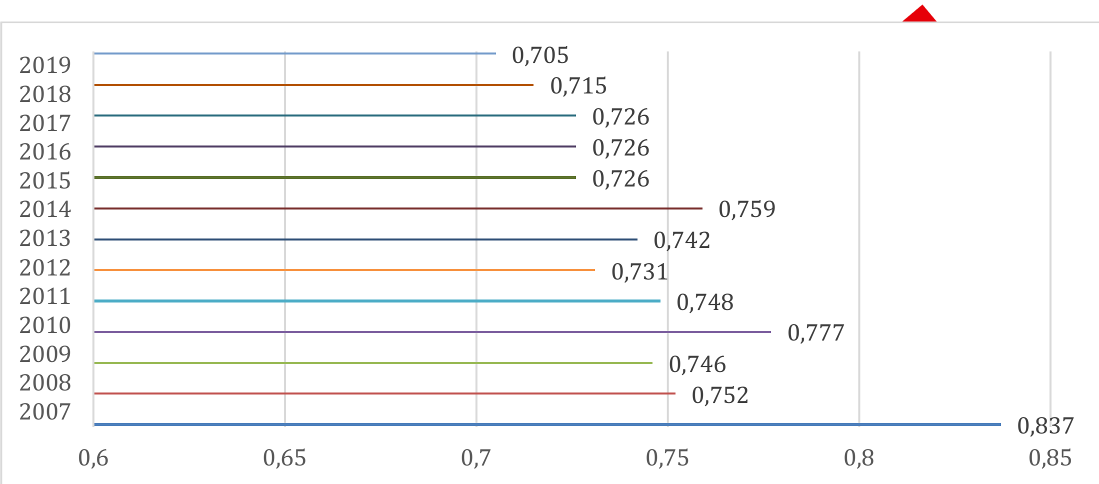


Figure 2. Development of the Williamson Index of Indonesia's Regional Physical Capacity Per Capita in 2007-2015 and Target for 2016-2019
Sumber: DJPK Kemenkeu RI, 2016.

The Williamson index can also be used as a tool to measure the level of fiscal inequality between regions. Using data on local government income per capita from 2007–2015, we can see the development of IW as carried out by the DGT of the Ministry of Finance, accompanied by Indonesia's IW target from 2016–2019. From the graph, it can be seen that the IW figure of interregional fiscal capacity in Indonesia fluctuates with a downward trend from 0.837 in 2007 to 0.726 in 2015 and is expected to be 0.705 in 2019. This means that in the period 2007-2015 there has been a reduction in fiscal gap in Indonesia. However, if we look at the IW figure in 2015 (0.726) it can be concluded that the fiscal gap in Indonesia is still at a high level.

According to Bird and Vaillancourt (2000), fiscal decentralization has three meanings, namely first, deconcentration means the release of responsibilities within the central government to vertical agencies in the regions or to local governments; second, delegation means that regions act as representatives of the government to carry out certain functions on behalf of the government; And third, devolution means dealing with certain situations that are not only implementation but also the authority to decide what needs to be done in the regions. In the implementation of fiscal decentralization, the principle that must be observed and implemented, namely the transfer or delegation of government authority has consequences on the budget needed to exercise that authority.

One of the objectives of fiscal decentralization is the achievement of vertical fiscal equity, namely between the central government and autonomous regional governments. Because vertical fiscal inequality occurs because the central government has earned most of the revenue sourced from autonomous regions. The lack of income of autonomous regions causes many government, development and community public services to be suboptimal; In terms of autonomous regions, it is the spearhead of these public services. To overcome this, the central government allocates some of the revenue it has earned from autonomous regions, redistributed to autonomous regions based on certain legal rules and formulas known as fiscal decentralization (Langoday, 2006).

According to Langoday (2006), the main objective of fiscal decentralization, namely first, to narrow the fiscal gap vertically, especially between the central government and autonomous regional governments; and second, to minimize horizontal fiscal gaps, namely between autonomous regions with other autonomous regions, both within one provincial region, and autonomous regions in other provinces. In other words, the purpose of horizontal fiscal equity is so that the funds prepared by the central government for autonomous regional governments are distributed as evenly as possible to all autonomous regions. In addition to these two objectives, there is also an indirect goal of implementing fiscal decentralization, namely to achieve equal distribution of income or development between autonomous regions. This goal can be achieved more quickly when followed by vertical and horizontal fiscal equity in all autonomous regions. By using a certain formula, it is expected that fiscal equality is very even, in accordance with indicators of fiscal capacity and fiscal needs as a determinant of fiscal gaps in each autonomous region.

The centralistic policy that has been implemented by the Indonesian government so far has proven to have caused a high dependence of the region on the center. This dependence can be seen from the amount of donations from the center which far exceeds the receipts from PAD. As a result of the pattern of centralized budget policy at the center, it causes high vertical fiscal inequality. The failure of transfer funds between regions in Indonesia to significantly reduce economic inequality and public services between regions is also thought to be influenced by factors such as regional financial management and resource allocation that have not been efficient and effective. Although the transfer funds have been distributed to areas outside Java-Bali, if the management has not been efficient and effective, the limited amount of funds will certainly not be able to catch up with the region.

CONCLUSION

Based on the results of the analysis of fiscal gaps and regional transfers between regions in Indonesia, it can be stated that the failure of inter-regional transfer funds in Indonesia to reduce economic inequality and public services between regions significantly is also thought to be influenced by factors of regional financial management and resource allocation that have not been efficient and effective. Although the transfer funds have been distributed to areas outside Java-Bali, if the management has not been efficient and effective, the limited amount of funds will certainly not be able to catch up with the region.

This condition is influenced by the implementation of centralistic policies in Indonesia which are proven to cause high regional dependence on the center. This dependence can be seen from the amount of donations from the center which far exceeds the receipts from PAD. As a result of the pattern of centralized budget policy at the center, it causes high vertical fiscal inequality.

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