REGIONAL FISCAL INDEPENDENCE, POVERTY RATE AND WELFARE SOCIETY IN SOUTH SUMATRA PROVINCE

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ABSTRACT

Background: Regional autonomy initiated in 1999 raised hopes that the occurrence of local fiscal autonomy so as to improve the welfare of society. Hope is not excessive, because the essence of regional autonomy to improve the welfare and public services. This study aims to know an overview of fiscal autonomy regencies/cities in the South Sumatra Province, and whether there are significant influences of regional fiscal independence to poverty rate, and welfare society (i.e. Human development index).
Method: The research was conducted on regions and cities located in South Sumatera. Study design used pool data from 2006-2010. Data were collected in 11 regencies and 4 cities. Variables were used welfare society i.e poverty rate and human development index, local owned revenue, and local expenditure. The analytical technique used the ratio of local owned revenue (PAD) to income and expenditure (measured of fiscal autonomy), typology Klassen, and simple linear regression.
Results: The result of this research found the regional fiscal independence of the regencies/cities in the Province of South Sumatra, were categorized as less and very less. Base on Klassen typology, there is region become main priorities. The area is a main priority (low fiscal autonomy and low HDI value) namely Ogan Ilir, Ogan Ilir Komering, OKU Timur, Banyuasin, and Empat Lawang. Besides, regencies with low fiscal autonomy-high poverty are Ogan Ilir, Ogan Komering Ilir, Musi Banyuasin, dan Empat Lawang. Meanwhile, the simple regression results indicate a negative effect of the regional independencies of the poverty rate with a coefficient of -0.264, but on the other hand it has positive effect on the Human Development Index is 0.508.

Keyword: Regional fiscal independence, local owned revenue, expenditure, poverty rate, human development index

INTRODUCTION

Regional autonomy is rolled out in 1999 raised hopes that the occurrence of local financial independence so as to improve the welfare of the community. These expectations are not excessive, because the essence of Regional Autonomy (OTDA) to improve the well-being and improve services to the public.

In a later development policies were revised with the issuance of Law no. 32 of 2004 and Law no. 3 of 2004. Law No. 32/2004 describes the principle of autonomy, it means the provision in the local authority to manage and organize all administrative matters outside the affairs of the central government. Further explanation regarding regional autonomy should imply the existence of regional independencies, both

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institutionally and financially. In finance, the area required to meet the financing comes on locally generated revenues.

Various researches suggest local financial independence in Indonesia is relatively low, only areas in Java that have financial independence very good area, while other areas, depend on the central government. Base on Haryanto (2008), the proportion of revenue to total revenue (financial independence) is very low, meaning that without a grant from central government, the regency/city will not be able to run the government. The phenomenon also occurred in the province of South Sumatera, Sukanto (2007) found only Palembang area that has the financial capacity of more than 10%, while other areas are less than 10%.

The other studies, Ladjin (2008), found most of the reception area in Central Sulawesi Province rely on DAU (61.31 percent), while only 21.48 per cent of revenue, so it is still relatively less fiscal autonomy. Similarly, Thesaurianto (2007), in conclusion said that fiscal autonomy is determined by the transfer of funds from the center, the number of vehicles, and investment areas. Pambudi (2008) examined the relationship of fiscal independence on HDI in West Java province, the conclusion of fiscal autonomy positively correlated to the HDI.

As already said before, the essence of regional autonomy is how to create a level of social welfare. United Nation Development Program (UNDP) to measure the welfare of society more comprehensively by using several indicators of health measured by life expectancy, level of education consisting of literacy and old of school, and purchasing power parity. The indicators are part of Human Development Index (HDI). Meanwhile, when the public welfare will increase decrease the poverty rate.

The Central Bureau of Statistic (BPS) reported that there were HDI in Regency/City in South Sumatra has increased significantly over the last 5 years. HDI in South Sumatera in the 2007 accounted for 71.4 it had risen to 72.95 in 2010. While the poverty data shows that trend reversed, poverty has decreased over the past five years of 20.99% in 2006 to 14.8% (down 6.19%) in 2010. Even though, this number down was 6,19%, but these achievements have not been proportional to the increase in general grants (DAU) from the central government grew 14.45% during the period. Based on the facts described in the previous section and then popped the question in this paper is: how the financial independence of the Regency/City in the province of South Sumatra, and how well the relationship to the welfare of local financial independence (HDI), and the poverty rate.

LITERATURE REVIEW

In the theory perspective, decentralization will bring government closer to the people (their citizens), resulting in a system of government based on decentralized will create efficiencies in the economy and the welfare of society. The traditional theories focus on locative benefits of decentralization. The main idea is the locative benefits, first; the government can easily make decisions using information efficiently because the government closer to the people or in other words, the government can use the knowledge in society. The second reason is the competition among local governments about the allocation of public expenditure allows people to choose a variety of public goods and services that suit their tastes and desires.

In addition, new perspective theories to explain how decentralization will affect the behavior of local governments. Theoretically there will be a difference in behavior when the central government authorizes local governments, which increasingly seek to improve the welfare of local communities. Furthermore, this theory states that decentralization will encourage economic growth, in the case of highly dependent on fiscal incentives given to the pubic. Essentially the process of decentralization is expected to make welfare local communities.

For measuring welfare, there were indicators; first consider the well-being identical with a healthy body and fulfillment of basic needs. But as time goes on welfare experts argue that it is also associated with level of education and per capita purchasing power. The three indicators that reflect the level of social welfare or the other meaning of pubic welfare can be seen from the human development index (HDI). Accordingly, poverty is a complex problem that must be resolved. A variety of factors affecting poverty and inter-related: the level of income, health, education, access to goods and services, location, geography, gender, and environmental conditions. Referring to the national poverty reduction strategy definition of poverty is a condition in which a person or group of people, men and women, not fulfilled their basic rights to maintain and develop a life of dignity. This definition is moved from a rights-based approach recognizes that the poor have rights equal basis with other community members.

While the Central Bureau Statistics (2010) explaining that the poor are the people who have an average monthly per capita expenditure below the poverty line. Determination of the poverty line calculation in society is a society whose income is below Rp 7,057 per person per day. Determination of the rate of Rp 7,057 per person per day is derived from the calculation of the poverty line which includes food and non-food needs. To be compared to the minimum requirement of 2,100 calories of food per capita per day. Besides that, the poverty standard set by income per capita (World Bank). Population per capita income is less than one-third of the average national income per capita; it is included in the poor category. In this context, the measure of poverty according to the World Bank is USD $ 2 per person per day.

METHOD

This study took the regency/city in the Province of South Sumatra (11 regencies and 4 cities), while the period of time that is used consists of time series data from 2006 to 2010 and combined with the cross section data on 15 Regencies /Cities in South Sumatra -study using the data pool. Use of this period because the data of Empat Lawang (new regency result of the split in 2006) is only available from 2006. The analysis applied in this research were use descriptive qualitative and quantitative. To solve the first problem used regional independencies, and then it's categorized in the degree of fiscal autonomy. And then, to see the relationship between the poverty rate, HDI and the independence of the region used Klassen Typology. The classifications are as follows:

Table 1. The classification of Regional Fiscal Independencies by Klassen Typology

Regional fical Independencies (RFI) / Poverty (P) / HDI	(RFI_i > RFI)	(RFI_i < RFI)
(P_i/HDI_i > P/HDI)	Rapid Growth Region	Growing regency
(P_i/HDI_i < P/HDI)	Relatively backward region	Retarded

Resource: Sjafrizal, modify (1997: 30)

where: RFI_1 is the regional fiscal independence regency/city; RFI is average of regional fiscal independence in regency/city, and P/HDI is poverty rate / human development index in regency/city; as well as P/HDI is average of poverty rate/human development index in regency/city

Meanwhile, to see the relationship between the welfare (HDI) and regional independencies using formula as follows:

$$HDI_{it} = \alpha + \beta RFI_{it} + \varepsilon_{it} \quad \text{..............................(1)}$$

Where α and β is parameter, whereas RI is regional independence, HDI is Human Development Index

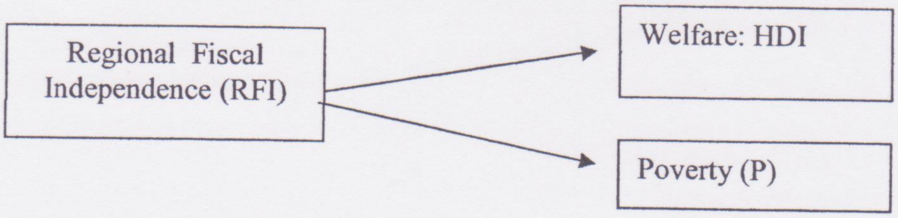
Then to see the regional fiscal independencies relation to poverty rate also conducted simple regression econometric model as follows:

$$P_{it} = \alpha + \beta RFI_{it} + \varepsilon_{it} \quad \text{..................................(2)}$$

Where α and β is parameter, whereas RFI is regional fiscal independence, P is poverty rate

FRAMEWORK

Regional fiscal independence of a region is a reflection of the progress of a region that is able to manage their sources of income. A good source of income management will be closely related to the level of social welfare. Local owned revenue (PAD) behavior is strongly influenced by the high/low revenue sources PAD it self, so expect the higher the independence of a welfare of society increase (in this case the value of HDI) and reducing poverty rate.



RESULT AND DISCUSSION

1. Ratio Local Owned Revenue (LOR) to Total Local Revenue (TLR)

According Daud (Sukanto, 2007: 59) for measuring how much regional fiscal independence was used fiscal autonomy degree (DOF). In this research, this is standard for describing regional independencies in a region. The result can be seen in the table 2.

Table 2. Ratio Local Owned Revenue (LOR) to Total Local Revenue (TLR) Period 2006-2010

Regency/City	Ratio LOR/TLR					Fiscal Ability	Relationship Pattern
	2006	2007	2008	2009	2010		
Lahat	3,90	3,96	5,78	4,57	4,49	Very Less	Instructive
MUBA	3,74	2,17	2,39	3,11	2,91	Very Less	Instructive
MURA	4,09	3,90	4,08	3,93	5,60	Very Less	Instructive
Muara Enim	6,77	6,81	6,63	5,78	7,60	Very Less	Instructive
OKI	4,01	3,31	3,54	4,10	3,67	Very Less	Instructive
OKU	4,22	4,51	4,82	5,91	6,57	Very Less	Instructive
Palembang	10,06	11,23	11,82	13,66	16,98	Less	Instructive
Prabumulih	4,76	4,53	3,82	5,50	4,85	Very Less	Instructive
Pagar Alam	2,15	2,20	2,78	3,58	3,26	Very Less	Instructive
LubukRInggau	5,11	4,83	5,26	4,13	6,83	Very Less	Instructive
Banyuasin	2,76	2,25	1,72	2,96	2,43	Very Less	Instructive
Ogan Ilir	3,04	2,41	2,51	1,97	3,75	Very Less	Instructive
OKUT	2,46	1,50	2,01	1,65	4,46	Very Less	Instructive
OKUS	2,12	2,67	2,97	2,27	1,41	Very Less	Instructive
Empat Lawang	0,46	0,88	1,01	2,62	2,49	Very Less	Instructive

Out of the data in table 2 shows fiscal ability Regency/City in South Sumatra Province. There is one area, namely Palembang that belongs to a region of less fiscal ability, while the others included in very less. This means that almost all the regencies in the Province of South Sumatra were depend on grants from central government (DAU). Data show that more than 90 percent of regional income in South Sumatra supported by the DAU. This study also found a pattern of relationship between the county/city with the central government. In fact, all the regencies in the Province South Sumatra have an instructive relationship. It means the dependency of the local government on the grant (DAU) as a source of funds for financing the development in the state is still high. According to Kuncoro. (2007:3) such dependency tends to "spoil" the local government which make them did not give their best effort to optimize the regions potential resources to boost up the economy. International empirical evidences indicated that high dependency by the local government on grant transfer for the central government has negative relationship with their governance result. In other words, there is a tendency that the local government used their original income carefully, which is opposite to their attitudes toward the grant transfer fund from the central government).

2 Ratio Local Owned Revenue to Total Local Expenditure

Table 3 shows the ability regions for finance the local expenditure still relatively small, only Palembang who has the ability financing at the above 10 percent (less), whereas other areas are only below 10 percent (very less). This indicates that the central government still dominant in the funding regency/city in the province of South Sumatra. Meanwhile, the pattern of relations between regency/city and central government were categories in instructive (see table 3).

Table 3. **Ratio Local Owned Revenue (LOR) to Total Local Expenditure (TLE)**
Period 2006-2010

Regency/City	Ratio LOR/TLE					Fiscal Ability	Relationship Pattern
	2006	2007	2008	2009	2010		
Lahat	4,18	3,97	5,19	4,7	4,32	Very Less	Instructive
MUBA	3,65	1,95	2,53	3,1	2,82	Very Less	Instructive
MURA	4,95	3,73	3,41	3,4	5,20	Very Less	Instructive
Muara Enim	7,75	6,57	6,22	5,47	7,13	Very Less	Instructive
OKI	4,11	3,31	3,40	4,3	3,53	Very Less	Instructive
OKU	4,24	4,40	4,44	5,7	5,92	Very Less	Instructive
Palembang	10,71	11,69	11,14	13,5	16,42	Less	Instructive
Prabumulih	5,68	4,86	2,93	4,5	4,60	Very Less	Instructive
Pagar Alam	2,33	2,17	2,73	3,1	3,37	Very Less	Instructive
Lubuk Linggau	5,60	5,69	4,64	3,6	6,04	Very Less	Instructive
Banyuasin	3,88	2,48	1,70	3,4	2,53	Very Less	Instructive
Ogan Ilir	3,25	2,42	2,51	2,3	3,76	Very Less	Instructive
OKUT	2,41	1,46	2,00	1,8	4,98	Very Less	Instructive
OKUS	2,60	2,59	2,74	2,3	1,46	Very Less	Instructive
Empat Lawang	0,54	1,00	1,12	2,6	2,42	Very Less	Instructive

3. Klassen Typology Analysis Based on the Human Development Index, Poverty and Regional independencies.

To analyze the region's autonomy and its relationship to poverty, as well as the human development index, in this study the typology of regional mapping of the 15 regency/city in the Province of South Sumatra. The mapping results can be seen in Figure 1. The first priority is the regency/city which had low regional independencies and low human development index. These areas need to increase regional independencies through increase local revenue and an increase in the human development index. In the HDI increased need to consider the components of the HDI itself is the life expectancy, education levels and purchasing power. Areas with low regional independencies and a low human development index, namely: Ogan Komering Ilir, Ogan Ilir, OKUT, Banyuasin, and Empat Lawang. While the area has a high regional fiscal independence and a high HDI is Prabumulih, Palembang, OKU. Meanwhile, the second priority (low regional fiscal independence and high HDI) are Muba, OKUS, and Pagar Alam. The third priority (high regional fiscal independencies and low HDI) are Muara Enim, Mura and Lahat. Thus, the area by high regional fiscal independence and high HDI are OKU, Prabumulih, and Palembang.

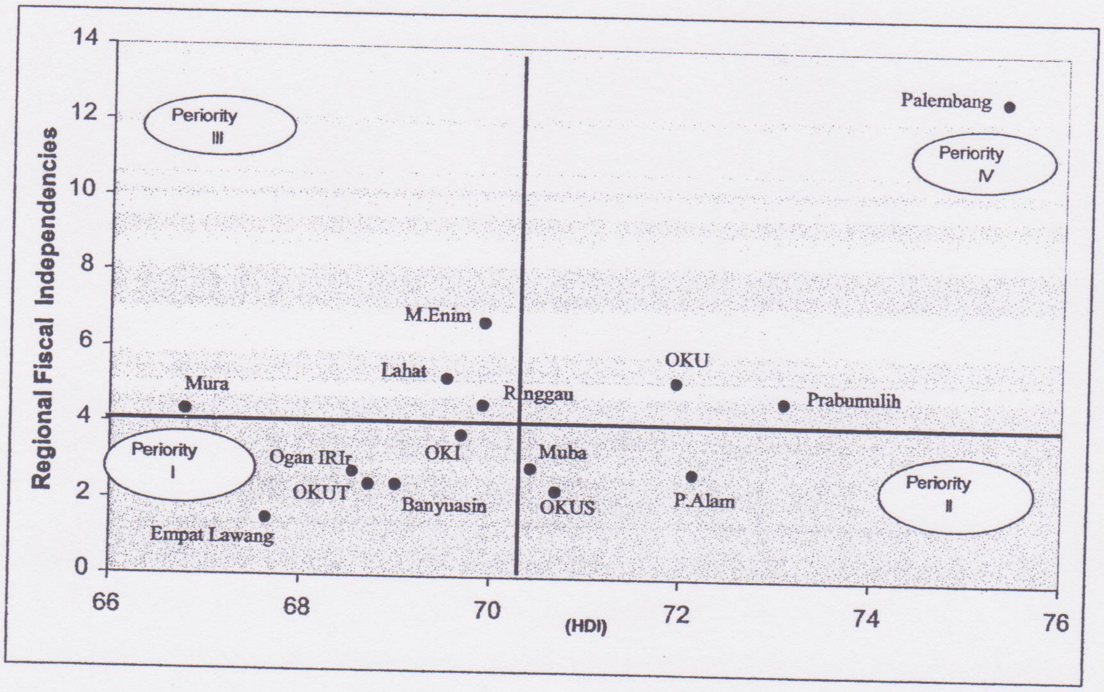


Figure 1. The Main Priority of Regency/City to Increase Regional Fiscal Independence and HDI.

Resource: Indikator Kesejahteraan, BPS (the data processed), 2011

Out of Figure 2, this map depict all of the regency/city in the South Sumatera had been success to reduce poverty. However, the mapping use regional independencies and poverty rate show that there is region be a main priority. The first priority is the area that has low autonomy and high poverty. In areas classified as first priority the OKI, Ogan Ilir, Banyuasin, and Empat Lawang. The region were include in the first priority should do thus increased revenue to fund poverty alleviation will be available much more. Meanwhile, Pagar Alam, OKUT, OKUT, Banyuasin included in the second priorities (low regional fiscal independence and low poverty rate). Third priority (low regional fiscal independence and high poverty rate) occupied by Mura, Lahat and Muara Enim. Finally, the area has a low regional fiscal independence and low poverty is the Palembang, Prabumulih, Lubuklinggau, OKU (fourth priority).

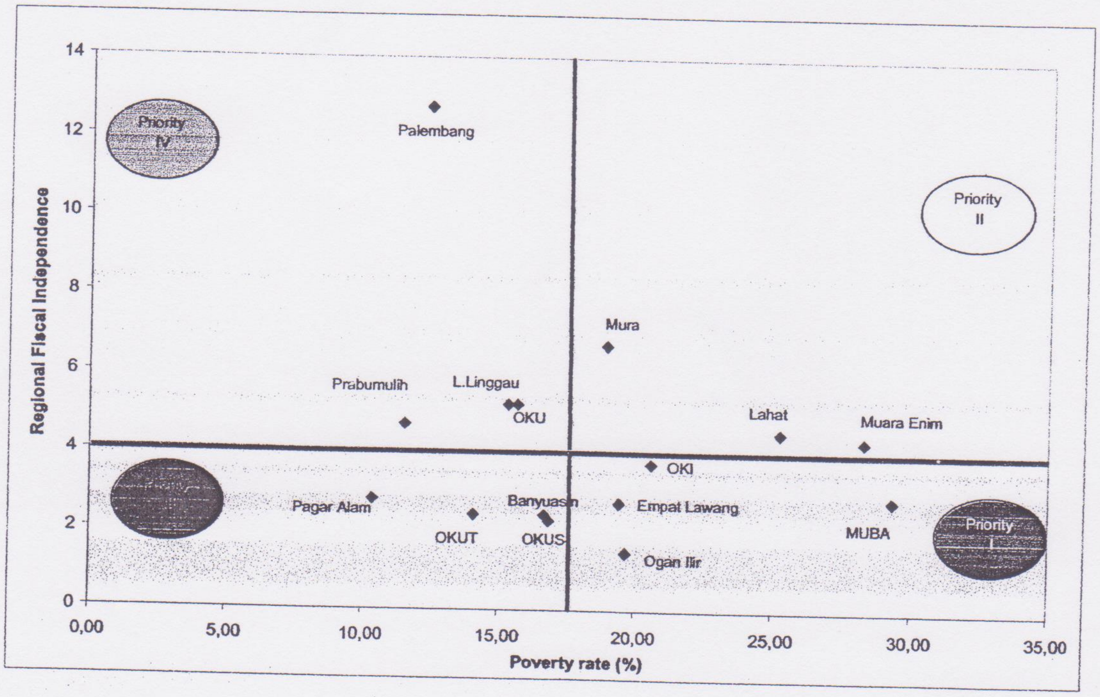


Figure 2. The main priority of Regencies/ City Priorities to Increase Regional Fiscal Independence and Poverty Alleviation.

Resource: Indikator Kesejahteraan, BPS (the data processed), 2011

4. Influence of Regional Fiscal Independence (Ratio Local Owned Revenue to Total Revenue; Ratio Local Owned Revenue to Total Expenditure) on Poverty Rate

In this study used simple linear equations to determine the relationship between regional fiscal independence and poverty rate. Both using ratio local owned revenue to total revenue or ratio local owned revenue to total expenditure) has negative effect to poverty rate but it's not significant. The coefficient of regional fiscal independence using ratio PAD to total revenue is -0.26402, means that if other variables are constant, the average increase in 1% regional independencies will reduce poverty 0.26402%. Similarly, the ratio of the coefficients by using total expenditure that show -0.260426 (see table 4).

Table 4 also shows the correlation between regional fiscal independence to poverty by 46.73% and 46.68%. According to Nachrowi, these correlations were moderate. While the coefficient of determination of 21%, meaning that the behavior of poverty rate described by the regional fiscal independencies is 21%. So, as much as 79% is determined by other factors not included in the model. Such factors include: the existence of poverty alleviation programs such as aid to the National Development Program (PNPM), Direct Cash Transfer program (BLT), Program Business Credit (KUR), Regency Development Program, the Village Allocation Fund (DAD) and other programs.

5. Influence of Regional Fiscal Independence (PAD Ratio of Total Revenue; PAD to Expenditure) on the Human Development Index.

Both using ratio local owned revenue to total revenue or ratio local owned revenue to total expenditure) has positive effect to HDI and significant. The coefficient of regional fiscal independence using ratio PAD to total revenue is 0.5079. Meanwhile, coefficient of ratio PAD accounted for 0.480279. Means that if other variables are constant, the average increase in 1% regional independencies will increase HDI 0.5079 and 0.480279. This means that the higher the local dependence will cause HDI better.

So, one of the priorities is how to increase PAD for improving the value of HDI. The high value of PAD region's encourages independence, so as to implement regency development independently without the assistance and intervention of the central government. The larger the PAD regency development financing needs will be increasingly met, if development is done then the regency will continue improving the well-being of the local community-HDI- in the area will increase. In addition, the regency will be able to meet the needs of independent public service so as to provide benefits to society and the community. Thus, regional independencies will be able to increase the value of HDI. These findings also reinforce research Pambudi (2008), which states that there is positive influence between regional fiscal independenceand HDI.

Based on the estimation results can be seen that the variable regional fiscal independence has strong correlation to Human Development Index (HDI). Correlation between the regional independencies are 70.19% and 67.44%, while the coefficient of determination amounted to 49.26% and 45.48%, this indicates almost 50% of the behavior of HDI determined by regional independencies. Meanwhile, other factor is about 50% and it is not included in the model, the other variables such as: investment and economic growth.

CONCLUTION AND RECOMMENDATION

Regional fiscal independence in the province of South Sumatra, including in the classification is very less and less. Region classified as less regional independencies is the Palembang, where the ratio of revenue to total revenue, as well as financing of greater than 10%, while the 14 regions were categories very less (<10%). When viewed from the pattern of central and local government relations, all regions has categories to instructive relationship.

Klassen Typology shows there are some regions that become major priority. Region that included in main priority (low fiscal ability and low HDI) is Ogan Ilir, OKI, OKUT, Banyuasin, and Empat Lawang. While the area is a main priority (low autonomy and high poverty) is Ogan Ilir, OKI, Musi Banyuasin, and Empat Lawang. Simple regression results indicate a negative influence between regional fiscal independence and poverty, and a positive influence between regional fiscal independence and the Human Development Index.

The local government should consider DAU as a starting point for regional independencies on budget as an early step to become autonomous region. With such allocation the local government is expected to actively explore the source of PAD and starting to reduce dependency on DAU. Budget allocation should be focused on improving people's welfare (HDI improvement and poverty reduction).

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Appendix 1.

Table 4. Estimation results of Panel Data with Fixed Effects Model
Dependent Variable: Poverty Rate

Regional fiscal independencies (PAD/Revenue) to Poverty	
Equation	P= 18,6661 - 0,26402 RI (0,272) (0,256)
t-statistic	14,68 -1,03 ----------→ not significant
R	0,4673
R-squared	0,218342
Durbin-Watson	0,733117
Regional fiscal independencies (PAD/Expenditure) to Poverty	
Equation	P= 18,6443 -0,260426RI (1,273) (0,0258)
t-statistic	14,64 -1,01 ----------→ not significant
R	0,4668
R-squared	0,217871
Durbin-Watson	0,737264

Table 5. Estimated revenue Panel Data with Fixed Effects Model
Dependent Variable: Human Development Index

Regional fiscal independencies (PAD/Revenue) to HDI	
Equation	HDI = 68,0495 + 0,507914 RI (0,376) (0,076)
t-statistic	180,56 6,69 ----------→ significant at $\alpha = 1\%$
R	0,7019
R-squared	0,492608
Durbin-Watson	0,835254
Regional fiscal independencies (PAD/Expenditure) to HDI	
Equation	HDI= 68,1797 + 0,480279 RI (0,391) (0,079)
t-statistic	174,38 6,058 ----------→ significant at $\alpha = 5\%$
R	0,6744
R-squared	0,454864
Durbin-Watson	0,872990