Analysis of the Effectiveness of Regional Income And the Impact on Poverty Alleviation

Busra [1], Yulianisah [2], Nanang Prihatin [3], Muhammad Nasir [4], Zamzami [5], Diana[6], Oelma Arfannur Azizi[7]

{busra@pnl.ac.id[1], yulianisah@pnl.ac.id[2], Nanang@pnl.ac.id[3], mhdnasirdaudy@pnl.ac.id[4], zamzami@pnl.ac.id[5], diana@pnl.ac.id[6] oelma@pnl.ac.id[7]}

Lecturer in Commerce Department at Politeknik Negeri Lhokseumawe[1,2,3,4,6,7], Lecturer inElectrical Department at Politeknik Negeri Lhokseumawe[5]

Abstract. Delegation an authority from central government to local government is exists budget allocation For provision publics goods which has implications to increasing funding local government. However in in practice, decentralization often to bring various problems in the region . it is Still height dependency local government to central government in the aspect of finance . Aims of this study, first to measure the level of effectiveness of receiving local original income, in this study local original income is all income received other than transfers from the central government, that are local taxes, retribution, results from separated regional wealth management, other income and ZIS. Second, measuring the independence of the region, that is the level of dependence of the region on the center in terms of fiscal. Regional independence is meant by the ability of the region to finance its financial needs using regional original income, without having a high dependence on PDB. Third, estimating the impact on regional poverty reduction, which is approached by the human development index. By using an analysis of the effectiveness of the components of original income as well as regression analysis, its was found that the level of affectivity of regional original income was generally categorized as 'fairly effective', with an average effectiveness of 82 percent. To measure the level of regional government financial dependency was used dependency index and was found the value of 0.089, its in the "instructive" category, there are a central government is more dominant than regional original income. Meanwhile, using the regression test, it was found that locally-generated revenue had a significant impact on reducing poverty in Lhokseumawe. However, the impact is relatively small, namely 0.07 percent. An increase in local revenue by one percent only reduces poverty by 0.07 percent. It is important for local governments to increase local revenue to accelerate the reduction of poverty rates in Lhokseumawe.

Keywords*: Fiscal, Dependency Ratio, Regional Original Income, Poverty*

1 Introduction

One of the contexts of the delegation of authority from the central government to the regional governments is the allocation for the provision of public goods which has implications for regional original income, increasing local government funding for development in each region. The local government obtains regional balancing funds consisting of profit-sharing funds (DBH), general allocation funds , special allocation funds including Special Autonomy Funds received by the Aceh Provincial government. The fund has increased fivefold in real terms since

ABEC 2023, September 21, Bengkalis, Indonesia

DOI 10.4108/eai.21-9-2023.2343010

decentralization began. Thus the local government has ample opportunities to accelerate regional development, as well as reduce poverty (1) .

The Lhokseumawe government as one of the districts in Aceh has received an autonomy fund since 2008 in the form of special autonomy funds. One of the aims of providing autonomy funds is to help regional governments increase their Original Regional Revenue funds, so that they can reduce regional dependence and the regions are able to financing from original regional income. The provision of autonomy funds aims to provide wider fiscal space for regional original income to optimize the potential of the region. Optimizing regional potential will open up space for regions to increase the prosperity of their communities.

However, in practice, decentralization often gives rise to various problems in the regions. A serious problem is the high dependence to the central government in terms of financial aspects. As a result, local governments lose their freedom of action in making important decisions. Demands for financing development activities are increasing, resulting in regional dependence on original regional income and fiscal space also becoming greater. The same problem is also experienced by Lhokseumawe City.

The level of regional government dependence on local original income and external financing sources shows the level of the region's independence ratio. The regional independence ratio is shown by the amount of regional original income compared to regional income originating from the center Based on data sourced from the reports by the Ministry of Finance and Bappeda Lhokseumawe, its independence ratio is still relatively low, the average regional independence of Lhokseumawe until 2018 is at 6 percent. Even though there was an increase in original regional income in 2015 and 2016 reaching 9 percent, the ratio of regional financial independence has decreased again (2). The low revenue from Lhokseumawe original income reflects the lack of optimal income generation from existing potential sources. Therefore, it is interesting to see the effectiveness of regional financial management and the level of regional independence and the impact on reducing poverty rates.

Decentralization can be seen in various dimensions, especially concerning fiscal aspects, changes in administration and government systems, as well as social and economic development. Decentralization is a process of transferring power in making decisions and policies regarding regional development. Decentralization is the transfer of part or all of governmental authority from the center to the regions. So that the regions that receive authority are autonomous, determine their own ways based on their own initiatives freely. In other words, decentralization is the reduction or transfer of part or all of governmental authority from the center to the regions.

Fiscal decentralization is a process of channeling budgets from the central government to regional governments to support government functions or tasks and public services in accordance with the amount of delegated government authority. According to (6), fiscal decentralization is the delegation of authority in the field of budget or revenue finance which was previously functional, both administratively and its use was regulated or implemented by the central government. Fiscal decentralization must be followed by the capabilities of regional governments. to collect taxes (taxing power) (7). Decentralization is expected to strengthen regional finances so that regions have the freedom to increase resource capabilities through increasing community capacity, thereby being able to reduce poverty.Furthermore (7) fiscal decentralization has a clear impact on reducing poverty, although in the short term decentralization does not impac, but in the long term it has a significant impact on local revenue and poverty reduction,(8).

In theory, with tax capacity, (9). Taxes have a positive impact on regional growth, In the era of autonomy, one of the most important things is the regional ability to meet fiscal needs. (10). Fiscal independence has the function of encouraging community participation, initiative and creativity in development, encouraging the optimal use of regional resources and potential and improving the allocation of productive resources through a shift in public decision-making to a lower level of government. (11)

Regional independence is measured based on the region's ability to finance their activities sourced from self-generated funds. ability to finance oneself and all other needs. The funding comes from community invitations.
The comparison of the amount of original regional income with revenue from the center is called regional independence.[9] In an effort to support regional capacity to meet fiscal needs in the decentralization era, the government classifies regional own revenues as consisting of regional taxes, regional levies, results of separated regional management, and other legitimate regional original revenues. The types of regional wealth management results are separated, such as the share of profit on equity participation in local government-owned companies, and the share of profit on equity participation in state owned company, privately owned companies or community business groups.

The condition of a region's ability to meet regional original income is determined by (12), first, The initial conditions of an area, the condition of the regional economic structure determine the amount of potential income that will be received, on the other hand, the social conditions of the community such as the community's willingness to pay taxes and levies. Second, extensification and intensification of regional revenue sources, the government's willingness to look for potential sources of revenue. Third, per capita income of the community, the higher the per capita income, the higher the community's ability to pay taxes and fees determined by the government, fourth, population growth, the higher the population, the greater the potential income that will be received by the government. Fifth, inflation that occurs in the regions, if inflation in a region is controlled then the economy will grow better, so that people's ability to pay taxes will also be better. Regional independence shows the region's ability to meet its fiscal needs, (13) explains that regional independence accelerates economic growth in South Sumatra, however this impact is not direct but requires a long time process, especially related to the impact of infrastructure financing.

2 Research Methods

2.1. Data and Methods of Analysis

The data in this research will be analyzed quantitatively. The data used is secondary data sourced from BPS and bappeda Lhokseumawe , taken for the 2018-2022. The data used are, firstly, local original income data (PAD), namely income received by the Lhokseumawe government except those sourced from central government funds, secondly, GDP data at current prices based on expenditure and thirdly, poverty data. Poverty in this research is approached with the human development index, because this value explains humans' ability to improve their standard of living and expand their choices. Research data analysis was carried out quantitatively using ratios to measure fiscal effectiveness and independence. Next, regression analysis will be used to see the impact of local income on poverty reduction.

2.2 Regional Original Income Effectiveness Ratio

The effectiveness ratio aims to measure the efforts made by local governments in collecting local revenue (tax effort). This ratio compares the receipt of original regional income in the current year (realization) with the planned revenue made by the original regional income for the current year (target). The effectiveness ratio uses a formula

$$Rasio\ Effectivitness\ = \frac{Realiszation\ od\ \ PADit}{Tar2ettin2\ \ o3\ \ PAD_{it}} x100 \qquad (1)$$

The effectiveness ratio ranges from 0 to 1. The higher the effectiveness value of original regional income indicates that the efforts to collect original regional income carried out by the Regional Government are also higher, and vice versa.

2. 3 Regional Independence Ratio

That is the level of regional ability to financing expenditure from regional original revenue funds, or measures the level of regional government dependence toward central financing. One component in measuring the independence ratio is central government funding, which is transfer funds in the form of transfer funds, inter-regional transfer funds, grants from the central government and other legitimate income.

$$Regional\ Independence\ Ratio = \frac{Total\ \ PADit}{central\ \ 2overnment\ \ assistance_{it}} x100 \qquad (2)$$

2.4 Regression Analysis

Its used to predicted the effect of regional original income to poverty reduction. Poverty reduction is approached by the value of the human development index (HDI).

The model used is $HDI = C + \ \alpha PAD + \varepsilon$ (4)

$$Log\_HDI = C + \alpha\ Log\_PAD + \varepsilon \qquad (5)$$

3 Result and Discussion

3.1 Effectiveness of regional financial management

Regional government financial performance is the level of achievement of a local original income work result in the regional financial sector which is determined through policies and statutory regulations during a certain budget period. The Lhokseumawe Revenue and Expenditure Budget is prepared using a performance approach aimed at meet the needs and

interests of the community optimally, taking into account the balance between financing government administration, development implementation and community services. Thus the preparation of the budget is carried out based on efficiency, effectiveness and accountable.
Lhokseumawe City's income includes all cash receipts that increase current fund equity, which is the right of its in one fiscal year which does not need to be paid back . That income is grouped into several components, namely: Regional original income; Balance Fund; Miscellaneous Legitimate Income. Regional financial management to be effective if the planned financial revenues from regional original income for the current year meet the planned targets. Financial management effectiveness categories such as regional original income in table 1 below.

Table 1. Effectiveness ratio categories

Ability Finance	**Ratio Independence (%)**
Very Effective	> 1
Effective	> 0 , 9 0 - 1
Effective enough	> 0.80 – 0 . 9 0
Not enough Effective	> 0.60 – 0 . 8 0
No Effective	≤ 0 . 6 0

Measurement of the effectiveness of local financial management in the Lhokseumawe was carried out from 2018 to 2022. Several components forming regional original income that were measured were Regional Retribution Revenue, regional taxes resulting from separated regional wealth management, other legal revenues and ZIS. The measurement is carried out by comparing the planned revenue with the realization of local original income for the current year. During 2018 to 2022, the effectiveness ratio for regional financial management on average is in the category of 'effective enough', with an effectiveness value of 0.85 or an effectiveness value of 85 percent.

Table 2. Lhokseumawe Regional Financial Management Effectiveness Ratio 2018-2022

YEAR	**RATIO**						
	Retribution	Locally-generated revenue	Tax	HPKD	Others are valid	Transfer	ZIS
2018	0.696652	1,020.3	1.1601	0.980945	0.9244	0.91649	1.06043
2019	0.795913	0,806.0	0.8305	0.851444	0.7717	0.959388	0.86248
2020	0.761561	0,936.5	0.9980	0.832288	0.9032	0.95683	0.86877
2021	0.7115	0,679,9	0.6172	0.802713	0.7494	0.983645	0.77977
2022	0.756383	0,772,8	0.7849	0.836555	0.7414	0.974664	0.78698
Average	0.744402	0.8431	0.8781	0.860789	0.8180	0.958203	0.87169

Its means that only 85 percent of the plan to receive local own-source revenue is realized. When viewed from each component of regional original revenue, from 2018 to 2022 the level of effectiveness will fluctuate. Realization of regional retribution revenue is quite low compared to the value of the effectiveness of other components, about 70 percent. Its means that the acceptance of effective retribution is only 70 percent and is categorized as ‘less effective’. The low realization of levy receipts is suspected to be due to poor local levy management, where potential retribution has not been properly recorded. Regional tax management from 2018-2022 is quite effective. However, it fluctuates and tends to decrease from year to year. Meanwhile, the receipts that are quite close to the budget plan are the Zakat, Infaq and Sadaqah components.

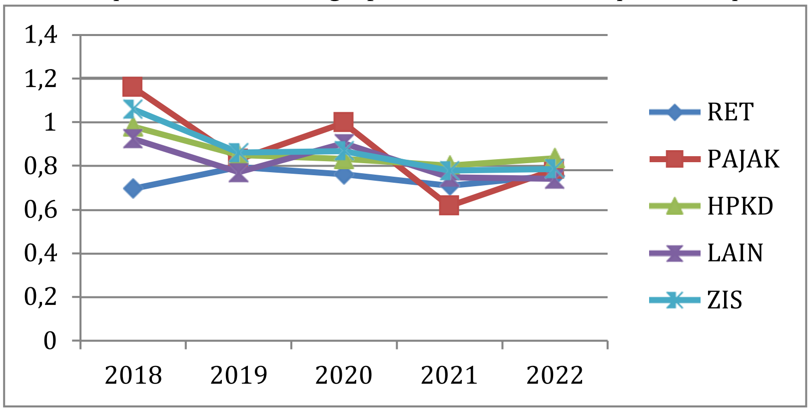

Figure 1. The effectiveness ratio of regional financial management in the city of Lhokseumawe 2018-2022

3.2 Lhokseumawe City Regional Independence Ratio

Ratio of finance Independence show level ability that area to finance own activity government. Ratio independence finance area showed by regional original income compared to with income originating from source external (PDB) including : Sharing fromTax , Sharing from natural resourcess , general Fund Allocation And special Fund Allocation, Emergency Fund And Loans.

Table 3. Pattern Connection And Level Ability Area

Ability	**Independence (%)**	**Pattern Connection**
Low Very	0 - 25	Instructive
Low	> 25 – 50	Consultative
Currently	> 50 - 75	participatory
Tall	> 75 - 100	Delegative

The regional financial independence ratio compares the income received from transfers with original regional income. In nominal terms, the comparison between Lhokseumawe’s original regional income and funds originating from central government transfers is very small. From Figure 2, the average regional independence ratio for Lhokseumawe 2018-2022 under 25 percent or 0.089 percent exacly. Judging from the pattern of regional and central financial relations, Lhokseumawe including category an ‘instructive relationship’ pattern, its mean the role of the central government is more dominant than local government. The instructive relationship pattern shows that the Lhokseumawe government's financing is still largely dependent on the central government's.

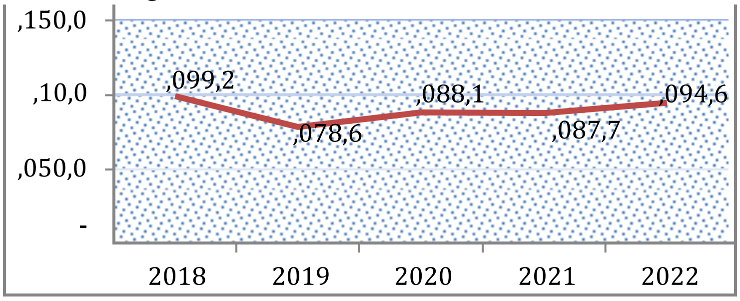

Figure 2. Lhokseumawe city regional level of independence 2018-2022

3.3 The Impact of Regional Original Income on Poverty Reduction.

Poverty is a condition where people's needs are not met by the minimum income. Poverty experienced by people in an area is often caused by misstep in the regional revenue management (1). Testing using regression for 2012-2022 obtained significant results for local original income with a degree of freedom at 5 percent.

Table 4. Impact of local revenue on poverty

Variable	coefficient	t- statistics	Prob
C	4.320933	542.0781	
Log_PAD	-0.078113	-1.841165	
R-squared	0.273601		

From the tabel above. Original regional income has a negative and significant impact on poverty reduction. An increase in local original income in one percent will reduce the poverty rate by 0.07 percent. Judging from the determinant values in this test, poverty reduction are only 27 percent influenced by regional original income, while the rest is influenced by other variables. The reduction in poverty rates in the Lhokseumawe due to the increase in regional income is very small, this slows down the eradication of poverty in the Lhoksemawe. If the Lhokseumawe relies on regional financing only from local revenue, reducing the poverty rate will take quite a long time

4 Conclusion

From the discussion of regional original revenues, a number of important things can be drawn. Regional financial management is said to be effective if the financial receipts planned for the current meet the planned targets. During 2018 - 2022, the ratio of the effectiveness of regional financial management on average is in the category of 'effective enough', with an effectiveness value of 0.85. The smallest effectiveness value is the regional retribution component, that is only realized by 70 percent of what was planned. The low realization of regional levies is due to the ineffective management of levies in the Lhokseumawe. Meanwhile, the level of independence of the lhokseumawe is still very low and including to the instructive category.

The low level of regional independence shows that the level of dependence from the central government is very high from a fiscal stand point. Infrastructure and other financing still predominantly comes from the central government rather than local revenue. Viewed from the side of the impact of increasing local own-source revenues on reducing poverty, that increasing regionally-owned revenues has a significant impact on reducing poverty, although the impact is very small. If local governments only rely on original regional income to solve poverty, it will take a very long time. Regional governments need to think about a strategic plan to increase regional revenue receipts by exploring revenue sources and can increase regional revenues.

References

[1] Busra B, Masbar R, Agussabti A, Nasir M. Does Government Responsibility and Social Capital Empower the Poor in Aceh, Indonesia? In: Proceedings of the 1st Aceh Global Conference (AGC 2018) [Internet]. Paris, France: Atlantis Press; 2019. p. 238–333. Available from: www.atlantis.press.com

[2] Kuncoro, Mudrajad. 2002. Spatial and Regional Analysis: Study of Agglomeration and Industrial Clusters of Indonesia. Yogyakarta: UPP AMP YKPN

[3] Gebremeskel, H.G., Tesfa, G.G., & Randall, W.J. (2004). the role of small business in economic growth and poverty alleviation in west virginia: An empirical analysis. In the American Economics Association Annual Meeting.

[4] Al-Rawashdeh, ST (2011). The Effect of Small-Scale Industry on Local Development Case Study: Karak Governorate. Canadian Social Science, 7(6), 264-271.

[5] Brata, AG (2009). Spatial concentration of the informal small and cottage industry in Indonesia. ASEAN Economic Bulletin, 215-226.

[6] How the Poor Survive From Vulnerability , A Study of Poor Households in Aceh, Indonesia : 2021;648(ICoSPOLHUM):131–6.

[7] Abdillah, K., & Mursinto, D. (2016). The effects of fiscal decentralization, economic growth and income inequality on poverty rate of Indonesia's 3 provinces. International Journal of Advanced Research, 4(2), 405-414.

[8] Gokan, T., Kuroiwa, I., & Nakajima, K. (2019). Agglomeration economies in Vietnam: A firm-level analysis. Journal of Asian Economics, 62, 52-64.

[9] Arimoto, Y., Nakajima, K., & Okazaki, T. (2014). Sources of productivity improvement in industrial clusters: The case of the prewar Japanese silk-reeling industry. Regional Science and Urban Economics, 46, 27-41

[10] Busra, B, Masbar R, Sabti A, Nasir M. Social Capital and Survival Strategies of the Poor in the Rural Community in Aceh, Indonesia. Int J Academic Research in Economic and Management Science. 2018;7(4):78–88.

[11] Collier, Paul. (2007). The Bottom Billion: Why the Poorest Countries Are Filling and What Can Be Done about It. Oxford: Oxford University Press.

[12] Saputra, B., Amzar, YV, & Prihanto, PH (2016). Analysis of the influence of regional financial independence on the economic growth of districts and cities in Jambi province. Eco-Regional: Journal of Regional Economic Development, 10(2).