

THE INFLUENCE OF LOCAL OWN-SOURCE REVENUE (PAD) ON THE FINANCIAL INDEPENDENCE OF REGENCIES/CITIES THROUGHOUT SUMATRA ISLAND

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Abstract

This study examines the influence of Local Own-source Revenue (PAD) and gross regional domestic product on regional financial independence in regencies/cities on Sumatra Island in 2020. This study uses secondary data in the form of budget realization reports published at the Directorate General of Fiscal Balance. The sample in this study consists of 154 regencies/cities throughout Sumatra Island. The data analysis method used is multiple linear regression using Eviews 12. The results partially indicate that Local Own-source Revenue (PAD) and gross regional domestic product have a positive and significant effect on regional financial independence in districts/cities on the island of Sumatra year 2020.

Keywords: *Local Own-source Revenue (PAD), Gross Regional Domestic Product (PDRB), and Regional Financial Independence.*

INTRODUCTION

Regional autonomy is the rights, authorities, and obligations of the regions to regulate and manage their government affairs and the local community under statutory regulations. It is an opportunity for local governments to prove their ability to carry out the authority that belongs to the regions. Tolosang (2018: 80) explained that regional financial independence in the era of regional autonomy is influenced by many factors, such as Local Own-source Revenue (PAD).

Regional financial independence is part of regional financial administration, which is responsible for regional autonomy implementation. It is one of the primary areas in regional autonomy implementation because finance is an indicator used to measure the level of regional ability in autonomy implementation. Kusuma (2020) claims that the more regional needs can be financed by Regional Original Revenue (PAD), the higher the quality level of regional autonomy so that it is more independent in managing its regional finances.

Law Number 32 of 2004 itself has regulated a government system that emphasizes the active role of district/city governments in implementing development and regional affairs. In addition, the law reveals that in carrying out its authority in regional autonomy, regional governments have the right to receive funds transfers or balance funds from the central government. Regional financial independence itself is an ability possessed by a region to finance its respective regions without waiting for assistance from the central government. According to Baldrice (2017: 87), regional financial independence is the ability of local governments to finance their own governmental activities, development, and services to people who have paid taxes and fees as a source of income needed by an area.

Based on the Local Own-source Revenue (PAD) data, there are several districts/cities from 10 provinces throughout Sumatra Island that have experienced a decrease in the level of Regional Original Income (PAD), of which out of a total of 154 districts/cities on Sumatra Island, the results show that as many as 77 regencies/cities throughout Sumatra Island experienced a decrease in the amount of Local Own-source Revenue (PAD), consisting of Aceh Province as many (8 regencies/cities out of 23 regencies/cities), North Sumatra Province (18 regencies/cities out of a total of 33 districts/cities), West Sumatra Province (7 regencies/cities), Riau Province (8 regencies/cities), Jambi Province (5 regencies/cities), South Sumatra Province (10 regencies/cities), Bengkulu Province (5 regencies/cities), Lampung Province (4 regencies/cities) and Bangka Belitung Province (6 regencies/cities) and Riau Islands each with (6 regencies/cities). The most decreased Local Own-source Revenue (PAD) was Bintan Regency from the Riau Archipelago Province, which was -55.46%.

Regional financial independence is an indicator that shows the ability of regions to determine or manage their finances without assistance from the center. Baldrice (2017) explains that regional financial independence is

the ability of local governments to self-finance government activities, development, and services to the people who have paid taxes and fees as a source of income needed by the region.

Local Own-source Revenue (PAD), one of the factors, can increase the financial independence of a region. It is because the higher the need for an area that can be financed using Local Own-source Revenue (PAD), the further increase the independence of a region in meeting its needs without any assistance from the central government. According to Santoso (2019: 20), Local Own Revenue (PAD) is a source of regional financial receipts besides other receipts such as balancing funds, regional loans, and so on. A previous study conducted by Rivandi and Anggraini (2022) concerning the effect of Local Own-source Revenue (PAD) and capital expenditure on regional financial independence in regencies/cities in West Sumatra Province finds that Local Own-source Revenue (PAD) positively and significantly influences regional financial independence.

Another factor that can affect the level of regional financial independence is the gross regional domestic product, in which the higher the gross regional domestic product produced by people in an area will influence higher Local Own-source Revenue in terms of regional tax revenues and causes higher income. Local Own-source Revenue (PAD) is one indicator of increasing the financial independence of a region. According to Rahmawati (2017: 10), gross regional domestic product is the total output derived from all economic sectors. In a previous study by Lumbanraja (2021) concerning the effect of general allocation funds, profit-sharing funds, and gross regional domestic product, he found that gross regional domestic product positively and significantly influences the financial independence of a region.

RESEARCH METHOD

The data analysis method used in this study is a quantitative method using multiple linear regression analysis. According to Sugiyono (2016), multiple linear regression analysis functions to determine the effect of the independent variables on the dependent variable. The method of data analysis used is Multiple linear regression analysis using Eviews 12 to analyze the data from the Budget Realization Report (LRA) published by the Directorate General of Fiscal Balance, Ministry of Finance for 2020.

The data analysis method is a method used to manage research results to obtain conclusions (Ghozali, 2016). The technique used in this study is a multiple linear regression analysis processed using Eviews 12 to know how the independent variable influences the dependent variable. Hypothesis testing by conducting statistical tests and statistical tests aims to determine whether to accept or reject the proposed hypothesis. The multiple linear regression equation in this study is as follows:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Explanation:

Y	: Financial Independence
α	: Constant
β	: Regression Coefficient
X ₁	: Local Own-source Revenue
X ₂	: Gross Regional Domestic Product
ε	: Error Term

The variables used in this study are:

a. Local Own-source Revenue (PAD)

Local Own-source Revenues (PAD) are all regional revenues derived from local economic sources (Syamni et al., 2014). The indicators are as follows:

$$PAD = HPD + HRD + HPKYD + LLPADYS$$

b. Gross Regional Domestic Product (GRDP)

Gross regional domestic products can be interpreted as the value of goods produced in a particular area not only by companies belonging to that area (Sukirno, 2016: 33). The indicators are as follows:

1. Revenue Approach
 2. Expenditure Approach
 3. Production Approach
- c. Regional Financial Independence

Regional financial independence is the ability of local governments to finance their government activities, development, and services to the people who have paid taxes and fees as a source of income needed by the region (Baldrice, 2017: 87). The indicators are

$$RKKD = \frac{PAD}{PD} \text{ as follows:}$$

The framework and hypotheses in this study are as follows:

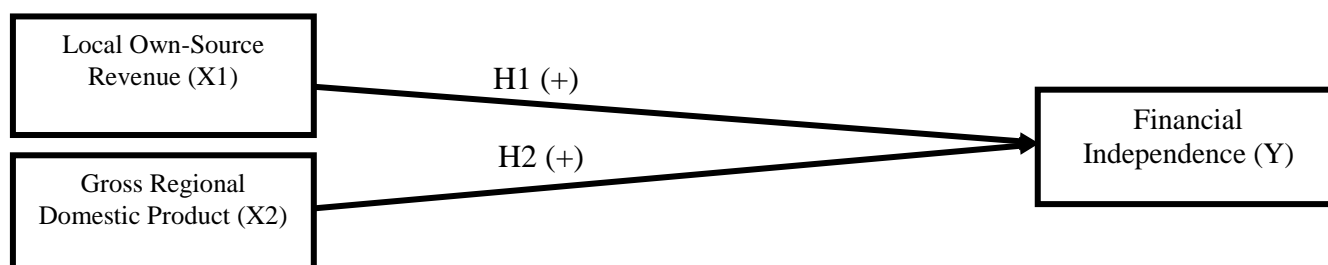


Figure 1. Conceptual Framework

The description of the conceptual framework is supported by existing theory, and the hypotheses are as follows:
H1: Local Own-source Revenue (PAD) positively and significantly affects the financial independence of regencies/cities throughout Sumatra Island in 2020.
H2: Gross regional domestic product influences the financial independence of regencies/cities throughout Sumatra Island in 2020.

RESULTS AND DISCUSSION

Hypothesis tests

Partial Tests

Table 1. Partial Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
(Constant)	1,411511	0,086803	16,26106	0,0000
PAD	0,186616	0,010992	16,97781	0,0000
PDRB	0,041512	0,008370	4,959528	0,0000
R-Squared	0,725238	Mean dependent var	0,097600	
Adjusted R-Squared	0,721599	S.D. dependent var	0,059042	
S.E. of regression	0,031153	Akaike info criterion	-4,080543	
Sum squared resid	0,146544	Schwarz criterion	-4,021382	
Log likelihood	317,2018	Hannan-Quinn criter	-4,056512	
F-statistic	199,2833	Durbin-Watson stat	1,880391	
Prob(F-statistic)	0,000000			

Based on the partial test results above, the result is that Local Own-source Revenue (PAD) has a probability value of 0.0000 or lower than the significant level used, namely 0.05 (0.0000 < 0.05), and has a t-count value of 16.97781 or higher than the t-table value of 1.97549 (16.97781 > 1.97549) and obtains a coefficient value

of 0.186616. So, it partially concludes that Local Own-source Revenue (PAD) positively and significantly affects regional financial independence. Therefore, the hypothesis states that Local Own-source Revenue (PAD) positively and significantly affects the financial independence of regencies/cities in Sumatra Island is accepted (H1 is accepted).

Gross Regional Domestic Product (GRDP) has a probability value of 0.0000 or lower than the significant level used, namely 0.05 ($0.0000 < 0.05$), and has a t-count value of 4.959528 or higher than the t-table value, namely 1.97549 ($4.959528 > 1.97549$) and has a coefficient of 0.041512. So, it partially concludes that the Gross Regional Domestic Product (GRDP) positively and significantly influences regional financial independence. Therefore, Gross Regional Domestic Product (GDP) positively and significantly influences regional financial independence in regencies/cities in Sumatra Island, and it accepts the hypothesis (H2 is accepted).

Coefficient of Determination Test

Table 2. Determination Coefficient Test Results

<i>R-Squared</i>	0,725238	<i>Mean Dependent Var</i>	0,097600
<i>Adjusted R-Square</i>	0,721599	<i>S.D Dependent Var</i>	0,059042

Based on the test results for the coefficient of determination in the table above, the coefficient of determination obtained is 0.721599. It shows that regional financial independence in regencies/cities of Sumatra Island is influenced by Regional Original Income (PAD) and Gross Regional Domestic Product (GRDP) of 72.16%. Meanwhile, the remaining 27.84% of regional financial independence in regencies/cities of Sumatra Island is influenced by other variables beyond this study.

Multiple Linear Regression Analysis

Multiple linear regression analysis is used for studies with more than one independent variable. According to Ghozali (2018), multiple linear regression analysis is used to determine the direction and how much influence the independent variables have on the dependent variable. The results of the multiple linear regression equation in this study are as follows:

$$Y = 1,411511 + 0,186616 X_1 + 0,041512X_2$$

The results of the multiple linear regression equation above reveal that the constant value is 1.411511, which means that Local Own-source Revenue (PAD) and gross regional domestic product will also be constant at 1.411511. Then Local Own-source Revenue (PAD) has a coefficient value of 0.186616. It shows that if Local Own-source Revenue (PAD) in regencies/cities on Sumatra Island increases by 1%, then the financial independence in regencies/cities on Sumatra Island will increase by 18.66%. The Gross Regional Domestic Product (GRDP) has a coefficient value of 0.041512. It shows that if the Gross Regional Domestic Product (GRDP) in regencies/cities on Sumatra Island increases by 1%, then financial independence in regencies/cities on Sumatra Island will increase by 4.15%.

Discussion

The Effect of Local Own-Source Revenue (PAD) on Regional Financial Independence

Based on the results, the results show that Regional Original Income (PAD) has a probability value that is smaller than the significant level used and has a positive coefficient. So, it concludes that Local Own-source Revenue (PAD) positively and significantly influences regional financial independence in regencies/cities on Sumatra Island.

The results of this study are in line with the research previously conducted by Malau and Parapat (2020) concerning the effect of Local Own-source Revenue (PAD) and capital expenditure on regional financial

independence, which reveals that Local Own-source Revenue (PAD) positively and significantly affect regional financial independence. Also, Rivandi and Anggraini (2022), concerning the effect of Local Own-source Revenue (PAD) and capital expenditure on regional financial independence in regencies/cities in West Sumatra Province, conclude that Local Own-source Revenue (PAD) positively and significantly affects regional financial independence.

The Effect of Gross Regional Domestic Product on Regional Financial Independence

The results indicate that the gross regional domestic product has a probability value lower than the significant level used and has a positive coefficient. So, it concludes that the gross regional domestic product positively and significantly influences regional financial independence in regencies/cities on Sumatra Island.

It is in line with the results of research previously conducted by Utami (2018) regarding the factors that influence regional financial independence in regencies/cities in the Province of South Kalimantan, which concludes that gross regional domestic product positively and significantly influences regional financial independence. In addition, Lumbanraja (2021), concerning the effect of general allocation funds, profit-sharing funds, and gross regional domestic product on the level of regional financial independence, shows that gross regional domestic product positively and significantly affects regional financial independence.

CONCLUSION

Based on the results of research on the effect of Local Own-source Revenue (PAD) and Gross Regional Domestic Product (GRDP) on Regional Financial Independence in regencies/cities in Sumatra Island in 2020, the results obtained are that Local Own-source Revenue (PAD) and Gross Regional Domestic Product (GRDP) positively and significantly influence the financial independence of regencies/cities throughout Sumatra Island.

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