

Analysis of Financial Policy Impact at Regional Budget and Revenue toward the Development in South Sulawesi Province

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I. Introduction

Regional autonomy and fiscal decentralization is a dynamic process. More than eleven years, the implementation of regional autonomy and fiscal decentralization have been applied, as a concrete manifestation of the commitment of regional autonomy and fiscal decentralization and relevant to the political will of the government for implementing reformation and democratization. The government has issued Law No. 32 of 2004 concerning Regional Government and Law No. 33 of 2004 concerning Financial Balance between the Central and Local Governments, as the improvement of the Law No. 22 of 1999 and Law No. 25 of 1999. The substitution of these law can not be separated to the three packages of Finance Act, namely Law No. 17 of 2003 concerning State Finance, Law No. 1 of 2004 concerning State Treasury, and Law No. 15 of 2004 concerning Management Inspection of State Financial Responsibility.

Regional autonomy provides authority to the regions in order to manage and regulate all government affairs out of the Central Government affairs. The Regional government has the authority to make a policy in order to provide services, improvement of participation, initiatives and community empowerment aimed at improving the welfare of society.

The implementation of regional autonomy should be oriented to the improvement of social welfare by considering the interests and aspirations of community. In addition, the implementation of regional autonomy should also ensure harmonious relationship among regions, and the harmonious relationship between the Local and Central Governments, so that able to maintain and protect the territorial integrity of the country and upholding the Unitary State of the Republic of Indonesia in order to achieve national goals.

Essentially, the government carry three main functions, namely distribution, stabilization and allocation functions. The distribution and stabilization functions are more effectively and appropriately carried out by the Central Government. While the allocation function carried out by local government which are more aware of the needs, conditions, and circumstances of local communities. These functions must be implemented properly through coordination, synchronization, and synergy among the government levels.

Decentralization of fiscal is intended to support the financing for giving affairs to the local region as a logical consequence of regional autonomy. Fiscal decentralization has principle of money follows function which implies that the funding follows the government functions as duty and responsibilities of each of the government level. Decentralization of fiscal is done proportionally, democratic, fair, and transparent by giving attention to the potential, conditions and needs of the region. Fiscal decentralization is an important and strategic policy. The good implementation of fiscal decentralization could support the implementation of regional autonomy achieving and preserving the integrity of the state and nation. The government sustainably and continuously are making improvements and enhancement toward the implementation of the fiscal decentralization policy. One of them is the New Design of Transfer Distribution to Regions, which is began running in 2008 fiscal year. The impact of changes in this new pattern is: [a] accelerate the completion of the Regional Regulation concerning the Regional Budget and Revenue; [b] encourage the implementation of the treasury single account system by transferring all fund through a bank account designated by the region; [c] accelerate the implementation of regional development by festering the availability of funds; [d] reduce the budget surplus at the end of the year by implementing activity in the early of the year; [e] accelerate the availability of the realization data for transfer; [f] increases the accountability of the preparation of the LRA Transfer to the regions; and [g] improve the accuracy of regional financial information systems (RFIS).

One component of the fiscal decentralization policy is transfer to the regions. The amount of funds transferred to the regions through the Transfer to the Regions system in every year are very large, on average reaches approximately one third of state budget revenues and expenditure. The high funds transferred to the regions requires a good governance, clean government, and professionalism in the management of budget, as a part of the State Financial Management.

In line with the higher authority of local government through local autonomy and a greater funds transferred to the regions through fiscal decentralization, hence the greater role and responsibilities of the regions to participate in order to overcome the problems nationally, such as the global crisis that we are facing at this time. The central and local governments must together, hand in hand, contribute to overcoming the

economic crisis. The fiscal stimulus package launched by the central government should to be fully supported by the regional government.

The aims and objectives of the preparation of the book of the Influence Analysis of South Sulawesi budget revenue and expenditure toward the development is to describe the financial condition of the region, especially in the provincial budget revenue and expenditure in order to support economic growth convenient to the development strategy proposed by the Government of South Sulawesi Province in 2008 – 2013.

The discussion is focused to the observation of economic conditions and South Sulawesi budget revenue and expenditure known as the I budget revenue and expenditure category. The data used is taken from the Central Bureau of Statistics of South Sulawesi province, Financial Management Board and Regional Asset, and Regional Planning and Development Board of South Sulawesi province.

The data were collected by using the documentation techniques with doing searching the publications that have been published, such as Region in Figures, Gross Regional Domestic Product, Regional Financial Report and others.

The discussion includes data in the period 2007 to 2011. In analyzing the effect (impact), the ratio method was used. The available data mainly financial data in current year or at current prices, so that in order to fulfill the needs, adaptation should be done in this analysis,

For employment expenses was deflated by index sub-sectors of general government, meanwhile for capital expenditure was deflated by using construction index. Furthermore, the question of development in this analysis is the economic growth.

The analysis is defined as a method or technique to reduce a problem in case the financing of South Sulawesi government. Besides that to know and discover the causes factors, the results obtained, and policy direction in future so the providing budget can give maximum results. These method or techniques can be expressed through a statistical, economics, econometrics and social culture approaches. These approaches take advantage of each model and formula generally known in the scientific disciplines. Each approach will be giving different emphases, so the results could also provide the same or different output. Moreover, the difference will not be significant statistically as long as the methods and models used still refers to the standard raw science. Analysis can also use descriptive and quantitative approaches. Both of these analyzes provide the same direction but different levels of accuracy. Descriptive analysis provides a positive direction or improvement and the other side the negative direction or decrease. Meanwhile, quantitative analysis besides to provide directions also provide level in the scale of numbers and absolute. This analysis provides firm conclusions in the form of massive amount of analysis and the target in the future. In terms of presentation, the quantitative analysis can be supplemented with the amount of the percentage and drawings in the form of pictures and circle graphs or milestone. This supporting information is easier for external parties to know the results of the analysis and conclusion obtained.

Functional analysis is a way to determine the relationships between variables affecting a research object. The variables declared in the function are the factors that have influence and expressed as mathematical variables. Furthermore, the relationship between the variables stated in the form of mathematical relationships which refers to common relationship. The general relationship may be based on the underlying assumption or to view and take some kind of models that have been perpetrated in other analysis and other places.

II. Development Finance

Finance in an activity is absolutely done in order to carry out the activity and also to improve the expansion activity. Operational costs is used as a routine cost, meanwhile the cost of the expansion activity is used as the investment cost. The greater the cost of routine in passing represents a great organization. Likewise, the greater the cost of expansion showed a boost to the economy of the future is getting stronger.

In economic theory finance is a sacrifice, both conducted in an economic enterprise and in a household enterprises or government institutions. The differences are as follows:

- a. Finance in economic activity is a sacrifice to achieve an economic result. This financing will create a new product in the form of goods or services. For example in agriculture business, financing is all the sacrifice were issued by the enterprise regarding to produce agricultural products such as rice, maize, fish timber, and so forth. Likewise, the business of health services such as hospitals. The whole financing of the hospital is a routine sacrifice to finance hospital activities in regard to the provision of medical services to the community. In regard to the revenue, the impact of financing within a business unit will give new income for the workers. For example in agricultural sector, the wages of workers in this business is also revenue for the workers themselves. Likewise, finance in the form of wages for medical staff, doctors, nurses, paramedics and other workers, including the administrative staff was also incomes for all the workers in the hospital.
- b. Financing in household activities is also a sacrifice, but it was considered as a destination for consumption which does not produce a new product. The result of this funding is to provide well-being for the members

of his household. It means that the higher financing for household is also higher for the welfare level of the household.

- c. The relationship between the two points mentioned above, namely a and b points give a cycles. In the beginning, the financing will impact creates a goods and services. Products and services are then purchased and used by household for the welfare of the household members. On the other hand, the financing will generate revenue in economical business, and the workers in this business will receive income. Furthermore, the household income is then used to buy goods product and services produced by the economicbusiness. This relationship produces a sustainable economic cycle so that the economy of a nation and a region growing from one year to the next.

III. Expansion Finance

The expansion finance in economic literatur is an expense that is intended to increase the capacity of the business. The addition of this business capacity in rill terms will increase our assets, where in macroeconomic addition of asset remains a part of the investment. Investments in private economic business fields include the purchase of new machines, construction of office buildings and improvement facility and infrastructure. Through this method, it is expected production capacity can be increased, for example, one million tons of production can be produced prior to the addition of new assets, and after the addition of the new property, production can be achieved until to one million one hundred thousand tons . This example shows that there is a 10 percent increase in new capacity during the period.

In the government field, both central and local governments, all the addition of new capacityare not done in a transparent manner. For example, the cost of adding capacity in a transparent manner is the construction of new government office buildings or the purchase of four and two wheeled vehicles and also the addition of new capacity as part of government investment. It also includes fixes that are in large numbers and increase productivity. These additions obviously will increase the productivity of the government, especially for government employees. Hopefully, by the new transport, the government employees could improve services to the public directly. Likewise, the construction of offices and hospitals as well as government schools. The development is expected to improve the capacity of patient care and ambulatory, and the capacity of learning for the students. However, for the construction of roads and bridges, including the water building, adding roads are directly used by the public, and just a little used by the government employees. Moreover, the expansion of the government's efforts in the fields of facilities and infrastructure are also provides to the capacity of the national economy, not just to the government but mostly for the people. The cost of this capacity is an investment cost for the government, and it is proposed to the community welfare, so this investment is referred to as a social investment.

Cash and Accrual Finance

The term of financing viewed from the money flow is distinguished in the form of money cash or cash and non-cash. This distinction arising from the accounting system used in the recording of financial information. Theoretically, the distinction of this system can be appliedif these systems are running consistently. For example, if the system is used in the reporting of information is a cash system, then in each period this system should have been used continuously. When the next period is changed to accrual system, then change of system is not consistent and it was not accepted as the correct data reporting.

a. Cash System/Cash Flow

The cash system is recording financial report based on revenues and expenditures in the form of cash. A revenue is considered as part of income if the money is considered a sign of the sale have been received by an economic business, but if the money has not been received, it has not recorded as income. Similarly, if there are costs should be spent but not yet paid to the other parties, it has not been included in the cost.

b. Accrual system

The accrual system is a system which states thatan income is incase an economic business unit had already agreed on a price and has been sold to other parties. If the money has not been received, then it is still considered as income by the business unit. Likewise, in the field of the cost, when it uses the goods or services of other parties in order to finance the business, the use of goods or services has been considered a cost, although the money has not been paid to the other party.

The Role of Production Factors

The factors of production in a region is very decisive in economic development. According to definition, the factors of production are: labor, capital, expertise, and land. Furthermore in the field of micro scale, production factors also include natural resources. The five factors of production are various widely in the

area. There are region which have a lot of energy factors, but it is very limited in the ownership of capital and natural resources. In general, the region has the most resources of manpower, but these resources have limited skills. Therefore, when the resources of manpower are converted to the ability of expertise can provide a high varieties degree. Usually, human resources in urban areas are better than rural areas.

In the development of regional economy, the ownership of the production factors is a key factor. If there are very limited factors, the factors of management or skillare very decisive. The skill factor will change the shortage of production factor into the adequacy of these factors. For example, when the capital factor is very limited in the region,the leader should have skill and capability to overcome the deficiencies.

Regional Economic And Financial Condition

The regional economy is one focus of the public in view of the government's business performance during the period, and focus of the target as well as planning for the regional economic planners. Economic development is usually oriented on the growth and equity aspects. This growth is often referred to as the performance of the economy, while equity showing the structure of income. However, due to data revenue structure technically difficult to obtain, so the revenue structure can be approached from the point of economic structure.

Gross Regional Domestic Product of South Sulawesi

The economic progress of the area indicated by the regional revenue statistics. Regional income statistics include regional revenue and gross regional domestic product or the GRDP. The regional Central Bureau of Statistics in every year always to publish the data of the GRDP. This data is displayed in two types pricesnamely GRDP at current prices and GRDP at constant prices. To measure the economic growth of South Sulawesi,it was used the GRDP based on constant prices. In accordance with the national agreement, the GRDP at constant prices is GDP at 2000 prices.

GRDP of South Sulawesi shows the magnitude of all value of the product and the final goods and services produced by the economic units in the administrative area of South Sulawesi. These products and services ranging from food agricultural products such as rice, maize, cassava, vegetables and fruits; farm productssuch astea, coffee, tobacco, and rubber; fishery products such as fish and seafood; livestock productssuch as goat, buffalo, chickens and other livestock; mining products such as coal, oil and nickel; as well as stone quarrying products such as clay and sand. Furthermore, the industrial products include processed foods, soft and hard drinks, cigarettes, textiles, cement, automobiles, heavy equipment and musical instruments. The products of gas electricityand water business covers the amount of kilowatt electrical energy generated, and the amount of water treated and discharged and the amount of gas supplied to the public. Products of building business including the amount of building facilities and infrastructure, such as length of roads, bridges, water dams, airports and marine terminals; residential buildings including houses, and social facilities such as mosque, churches, hospitals and schools. The product of tradingincluding the services of collecting, storing and distributing merchandise from the producers to the consumers; The product of hotel is servicesto the consumers during stay; and products of the restaurant is serving food and service at the restaurant. Product of transportation is service for transporting passengers and goods either by rail, public transport buses and small size vehicles, as well as by airplanes and ships. The product of communication is the number of pulses that is used consumer and mail delivery service by Pos. Product of financial are delivery services of money from savers to investors of the economy including foreign currency exchange services to your currency and vice versa. The financial products including insurance services such as life insurance and goods lost or damaged. The product of government services isvalue of government official services to the public and social services are the services of social institutions to the society such as the increase of faith and piety, education services in order to increase the expertise of human resources and health services such as the provision of treatment and therapy in the community. Entertainment services is services done by businesses entertainment and other services are the individual services toward community including housekeeper services. All these products are produced by economic units in South Sulawesi and also used by the local communities in within one year. Most of these products and services are used for the consumption in one year, while the rest is used as an investment or exchanged in the form of international export and import trade or by inter-island.

The goods and services that are widely used as the consumption in the region of South Sulawesi are food, rice, clothing, and services, including motor vehicles and cars. Meanwhile, goods are widely used as an investment are heavy equipment, buildings, machinery and transport tools. Furthermore, goods and services that are exchanged in international trade for export and inter-island trading are agricultural commodities such as rice, coffee, cocoa, and cashew; industrial goods such as processed foods, wood furniture, soft drink, rubber products, air and ocean freight, insurance and others. The economic development of South Sulawesi province is more increasing every year based on the GRDP (in current prices). In 2011, the economic value of South Sulawesi has achieved 137,389.88 billion rupiahs, or an increase of 16.57%.

When seen during the period 2007-2011 (5 years), the average development reached 17.70% per year, namely in 2007 (13.74%); 2008 (22.91%); 2009 (27.40%), 2010 (17.88%) and 2011 (16.57%).

Table1. GRDP of Sulawesi Selatan based on Current Prices in 2007– 2011(BillionRp.)

Years	GRDP of Sulawesi Selatan (Billion Rp.)	Growth (%)
2007	69.271,92	13,74
2008	85.143,19	22,91
2009	99.954,60	17,40
2010	117.830,27	17,88
2011	137.389,88	16,57
Average	xx	17,70

Source: Bureau of Central Statistics of South Sulawesi

Economic Growth of South Sulawesi

The economic performance of a country or region can be seen from its economic growth. Meanwhile, the economic growth is measured through the calculation of GRDP at constant prices. GRDP at constant prices shows the value of goods and services every year by using only one price, i.e. the price of 2000 up to now. The sample of calculation was in 2005, the rice production in one region was 1 million tons. In 2000 year, the price of one kg of rice is Rp. 1500, then the value of the constant price of rice in 2005 reached Rp. 1.5 billion. Therefore, it is also used for calculating other commodities based on constant prices in 2000 year.

When the value of this constant prices compared annually will show real increase in each commodity and if it is calculated into each sector may describe the increase in real growth of each economic sector. Furthermore, when the value of constant prices in all economic sectors were compared with the previous year aggregate, it was obtained a real economic growth of a region. Because growth is usually expressed in terms of percentage, so that the results of the above comparison multiplied by 100 percent point, it was acquired growth in percentage units.

The economic growth is the result of efforts of all institution economic players in the region. These actors are public, private, and government. The result of economic growth in South Sulawesi from the 2007 up to 2011 years can be seen in Table 2 below.

Economic growth can be seen from the value of GDP at constant prices were successfully compared with the value of the previous year. The use of figures at constant prices is intended to avoid the effect of price changes, so changes are measured is the real growth of the economy. Beginning in the calculation of 2000, economic growth in both national and regional calculated using constant 2000 as the base year.

Tabel .2.The Economic Growth of South Sulawesi from the year 2007– 2011

Year	PDRB ADH Kontant (MilyarRp)	Pertumbuhan (Persen)
2007	6,34	41.332,43
2008	7,78	44.549,82
2009	6,23	47.326,08
2010	8,18	51.197,03
2011	7,66	55.116,92
Average	xx	7,24

Source: Bureau of Central Statistics of South Sulawesi

During the period 2007 - 2011, The economic condition of South Sulawesi relatively stable with an average growth of 7.24 percent per year. It is compared with the previous years, just reached 7.05 percent per year.

Economic Structure

Economic performance of a region is also determined by the structure of the regional economy. If the structure of the economy is still dominated by traditional sectors, the economic performance is likely weak to increase. Conversely, if the region is dominated by the modern sector, economic performance is tend to rise strongly. In the table below indicates the economic structure of South Sulawesi province in 2007 until 2011.

The economic structure of South Sulawesi in the period 2007 until 2011 did not have significant friction. The role of the agricultural sector to the economy of South Sulawesi is still large, namely on the average 27.75% per year.

The other sectors which have also large contribution are the sectors of processing industry, trade, hotels and restaurants, and services respectively accounted per year during the same period amounted to 12.94%; 16.78% and 15.44%. Other benefits of the GRDP point is to determine the economic structure of a region based on the role of each sector toward the GRDP total.

Tabel3.Economic Structure of South Sulawesi Province in the period 2007 -2011 years (%)

Business Fields	2007	2008	2009	2010	2011
Agriculture	30,17	29,45	28,02	25,77	25,32
Mining/Quarrying	8,51	7,28	5,51	6,08	6,67
Processing industry	13,22	12,99	12,52	12,27	13,68
Electricity, Gas, and Water	1,04	0,98	0,95	0,92	0,91
Building	4,63	5,00	5,39	5,55	5,65
Trading	5,86	16,34	16,70	17,34	17,64
Transport and Communications	8,33	8,19	7,96	8,02	7,53
Financial Institutions	6,19	6,11	6,24	6,63	6,92
Services	12,06	13,66	16,71	17,42	17,37

Source: Bureau of Central Statistics of South Sulawesi

Regional Finance of South Sulawesi

The effort of the government in promoting local autonomy essentially is to push the improvement of development through the optimization of the local government performance, which in turn will encourage the growth of the regional economy towards community welfare improvement. By the reduction of the dependency of local governments to the central government, especially in terms of financing regional development, local governments are required to put more effort to explore all the potential sources of local revenue.

South Sulawesi province is a gateway of eastern Indonesia which has higher potential of natural resources, primarily agricultural, mining and tourism. By the natural potency and strategic geographical location provide an opportunity to accelerate development in this era of regional autonomy.

Regional Income

The increase of local income derived from the Local Revenue, balance funds, and other lawful income. The average increase of local revenue during the period of last five years, namely from 2007 to 2011 amounted to 14.40% per year. The highest increase occurred in 2007 year amounted to 22.25%, and the lowest in 2009 of 1.97%. The local revenue post has larger contribution than the other two income accounts, and also gives the highest average increase namely 18.56% during the same period. Meanwhile, balance funds post has contribution in the amount 10,15%.

Tabel4.Regional Revenue of South Sulawesi Province in 2007–2011 Years (Billion Rupiahs)

Description	2007	2008	2009	2010	2011
REGIONAL REVENUE	1.809.498,89	2.133.624,78	2.175.750.14	2.564.075,94	2.872.469,77
Enhancement(%)	22,25	17,91	1,97	17,85	12,03
1. Regional Revenue	992.252,46	1.236.690,40	1.242.766,17	1.545.589,71	1.782.147,37
Enhancement(%)	27,95	24,84	0,33	24,37	15,31
2. Development Funds	810.026,11	894.934,38	914.502,83	959.942,49	1.090.322,40
Enhancement(%)	19,51	10,48	2,19	4,97	13,58
3. Other Income Lawful Increase	7.220,32		18.481,14	58.543,73	-
Enhancement(%)	73,10		100,00	216,78	-

Actual Expenditures

The realization of government expenditure of South Sulawesi since the period 2007 - 2011 increased annually on average by 16.18% due to higher revenues. The highest expenditure in 2007 is equal to 31.70%, while in 2009 there was a contraction of 0.58%.

IV. Conclusion

The economic performance of South Sulawesi province in tahun 2011 stood at 7.66% as measured by the GDP and the average over the period 2007-2011 amounted to 7.24%. From the side of APBD I, Local Revenue rose an average sebesar 14,40%. The highest increase occurred in 2009, namely sebesar 22,25% and the lowest occurred in 2009 which only sebesar 1,97%. PAD average rose by 18.56%. Realized average expenditure 16.18% per year, spending an average indirect naik 22,69%, while direct spending rose an average of 10.33%.

Next is the impact of the budget on development and personnel expenditure analysis results have an impact on economic growth in general government sub-sector, an average of 0.41%, while capital expenditure has an effect on the building sector by 0.35%. Overall gross value added (NTB) is generated by the budget of South Sulawesi Sulawesi to economic growth.