

# Fiscal Decentralization In District Of Karawang, Indonesia

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**Abstract:** This study examines whether the implementation of fiscal decentralization in District of Karawang can enhance the local government revenue over the period 2009 – 2018. We use dependency ratio, effectiveness ratio, and the degree of decentralization as metrics of fiscal decentralization. Our study found that Karawang had a better level of development of financial independence over time. However, local government of Karawang did not consider the potential revenues of regions. Thus, they were not able to set higher targets on regional revenues. In addition, the regency of Karawang was classified as not being able to carry out fiscal decentralization properly.

**Index Terms:** Fiscal Decentralization, Revenue, Economic Development, Karawang

## 1. INTRODUCTION

Since the onset of the economic crisis in mid-1997, the development of economy in Indonesia has stalled due to the incapability of the central government to finance the infrastructure projects, particularly through taxes and retribution sectors. The impact of economic crisis has brought a massive negative impact on the local governments' economies. However, each region is given the authorization to manage its own development with the aims to overcome the crisis and reduce the social upheavals. This authority should be in line with the development plans of the central government. In principle, regional development is an integral part of national development. It is expected to generate a better performance that constitutes a higher degree of institutional quality for the sake of local society. The implementation of regional development is also intended to increase the effectiveness and efficiency of the government that leads to the greater levels of delivery in public goods and services. In this context, regency or city government in Indonesia acts as an implementer, while the provincial government serves as the coordinator. The capacity of local government on economic development is largely determined by the roles of local government in relation to the coordination with the upper level of government (i.e. central and provincial), their citizens and entrepreneurs. For instance, Sugiyanto et al. prove that the specific allocation fund does matter for local economic development if local governments in Central of Java region, together with provincial and central government, implement a better quality of institution [1]. In another study, Sugiyanto et al. find that fiscal decentralization, measured by fiscal dependency and discretion ratio, can reduce conflict in Indonesia if all levels of government apply a better level of democracy, social capital, as well as law and order [2]. Based on the above illuminations, a micro level of study on fiscal decentralization is considered as an important aspect as the macro one. Therefore, in this research, we want to investigate whether fiscal decentralization can truly increase the local revenue in District of Karawang.

## 2 CONCEPTUAL FRAMEWORKS

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Rondinelli states that there are three (3) types of decentralization, namely: (1). Political decentralization; (2). Administrative decentralization; and (3). Fiscal decentralization [3]. The latter aspect (i.e. fiscal) aims to improve the financial performance through rational decisions in generating the efficient and effective revenues, expenditures, and borrowing. Davey reveals that there are several requirements to make a successful implementation in fiscal decentralization [4]. First, the fiscal system must provide power distribution among various levels of government on the collection and expenditure of public resources. Although inter-governmental could not be generalized on the amount granted, the financial system should guarantee that the devolution of discretion of financial resources is consistent with the transfer of responsibilities. Second, the system should provide an adequate amount of government size (e.g. routine and development expenditures) to support public services. Third, the system should distribute government spending equally among the regions. Fourth, the taxes and levies imposed by local governments must be in line with the redistribution scheme. Overall, local governments can carry out decentralization functions effectively if they have sufficient financial revenues. These revenues can be derived either from local-owned sources or from intergovernmental fiscal transfers set by the central government. There are many empirical studies that investigate the effect of fiscal decentralization on various aspects of development. In terms of educational outcomes, fiscal decentralization can enhance the literacy rates and average years of schooling, as well as reduce the drop-out rates for primary and secondary school in Indonesia [5]. The same case applies in Bolivia [6] and in Colombia [7]. While the effects of fiscal decentralization on health outcomes are rather ambiguous. For instance, decentralization raises local public health expenditure in the Philippines [8] and improve some health indicators in Mexico [9]. While it is negatively correlated with health inequality in Italy [10]. There are also mixed empirical evidences in the fiscal decentralization – growth – inequality – poverty nexus. The negative effect of decentralization on growth, inequality and poverty has been revealed by some scholars [11] [12] [13]. On the other hand, some find the opposite results [14] [15] [16].

## 3 MATERIAL AND METHODS

Karawang is chosen as a case study due to several reasons, as follows: First, it has a strategic position between Jakarta as the capital of the country and Bandung as the capital of West Java province. Second, coupled with the rapid development in

the industrial and housing sector, Karawang is one of the areas that has become the largest investment land in West Java with the employment rates reach at 20 percent and the contribution to GRDP is estimated at 40 percent. Last, from 2009 to 2018, there was a dramatic increase in the original regional revenue where it spurred at 700 percent To describe the portrait of fiscal decentralization in Karawang, we use a time series dataset based on Karawang Regency's Statistics Agency (BPS). The data covers the Karawang's Regional Budget of Revenue from the fiscal year of 2009 to 2018. We then analyze this data according to dependency ratio, effectiveness ratio, and level of decentralization.

#### 4 RESULTS

The ratio of fiscal autonomy shows the ability of local governments in self-financing the government activities, development, and services to the people who have paid taxes and levies. The higher the ratio of independence, the lower the level of regional dependence on external assistance (especially for the central and provincial governments). It also illustrates the level of community participation in paying regional taxes and levies which are the main components of local revenue. The higher the community pays local taxes and fees, the higher the level of people's welfare will be. Table 1 shows that from 2009 to 2018, the average level of financial capability of Karawang Regency is low. This means that the intervention of the central government has begun to decrease, because the regions are considered more capable of implementing regional autonomy, but not yet maximized.

**Table 1. Ratio of Independence 2009 - 2018**

Fiscal Year	Ratio (%)	Financial Competency	Relationship Pattern
2009	11,1	Very Low	Instructive
2010	14,89	Very Low	Instructive
2011	23,03	Very Low	Instructive
2012	36,53	Low	Consultative
2013	32,54	Low	Consultative
2014	39,72	Low	Consultative
2015	41,08	Low	Consultative
2016	39,07	Low	Consultative
2017	50,91	Average	Consultative
2018	38,74	Low	Consultative

Source: Authors' calculation

Moving to Table 2, analysis of regional financial independence (RFI) is used to determine the direction of development of regional financial independence. If the percentage is more than 100 percent, then there has been a development of independence. The greater the percentage of RFI trends, the better the direction of the development of financial independence in the district / city. Conversely, if the percentage is less than 100 percent, there will be a decrease in the financial independence of the district. In this context, Karawang had a better level of development of financial independence over time.

**Table 2. Independence Trend 2009 - 2018**

Fiscal Year	RFI Ratio	RFI Trend
2009	11,1	100
2010	14,89	134,14
2011	23,03	207,48
2012	36,53	329,1
2013	32,54	293,15
2014	39,72	357,84
2015	41,08	370,1

2016	39,07	351,98
2017	50,91	458,65
2018	38,74	349

Source: Authors' calculation

From Table 3, the Effectiveness of Regional Revenues is the level of achievement of the implementation of activities or achievements as measured in percent units. The effectiveness of the management of regional own-source revenue can be known by comparing the realization of regional own-source revenue with the original revenue target. Overall, the realization of regional income when compared with the target was always above 100 percent between 2009 and 2015. Then, in the last three years, it was above 80 percent. In accordance with the evaluation criteria, the level of effectiveness is considered to be in the category of 'very effective'. It means that the regency of Karawang has realistically planned its regional revenues.

**Table 3. Regional Revenues Effectiveness Ratio 2008 - 2018**

Fiscal Year	Ratio	Effectivity
2009	109,08	Highly Effective
2010	120,53	Highly Effective
2011	129,45	Highly Effective
2012	145,23	Highly Effective
2013	115,29	Highly Effective
2014	108,69	Highly Effective
2015	111,82	Highly Effective
2016	99,92	Effective
2017	94,12	Effective
2018	86,71	Effective

Sources: Authors' calculation

Based on Table 4, trends analysis in the effectiveness of regional revenues is used to determine the direction of the development of the effectiveness in the regional revenues. The greater the percentage of the trend, the better the direction of the development of the effectiveness in the Regency / City regional revenues. Conversely, if the percentage is less than 100 percent, then there is a decrease in the effectiveness of the Regency / City regional revenues. Overall, local government of Karawang did not consider the potential revenues of regions. Thus, they were not able to set higher targets on regional revenues.

**Table 4. Regional Revenues Effectiveness Trend 2009-2018**

Fiscal Year	Ratio	Trend
2009	109,08	100
2010	120,53	110,5
2011	129,45	118,67
2012	145,23	133,14
2013	115,29	105,69
2014	108,69	99,64
2015	111,82	102,51
2016	99,92	91,6
2017	94,12	86,29
2018	86,71	79,49

Source: Authors' calculation

In Table 5, the level of decentralization is measured using the ratio of local-owned revenues to total regional revenue. Overall, the regency of Karawang was classified as not being able to carry out fiscal decentralization properly.

**Table 5. Degree of Decentralization Ratio 2009-2018**

Fiscal Year	Degree	Ratio (%)	Criteria
2009	0,09987	9,98	Very Low
2010	0,12958	12,95	Low

2011	0,18722	18,72	Low
2012	0,26760	26,76	Low
2013	0,24549	24,54	Average
2014	0,28426	28,42	Average
2015	0,29115	29,11	Average
2016	0,28093	28,09	Average
2017	0,33736	33,73	Sufficient
2018	0,27924	27,92	Average

Source: Authors' calculation

In Table 5, the trend analysis of the degree of decentralization is used to determine the direction of development of the degree of decentralization. The greater the percentage of the trend, the better the direction of the development of decentralization in the Regency / City. Conversely, if the percentage is less than 100 percent, then there is a decrease in the degree of decentralization in Regency / City. Overall, in the past ten years, there was a good development in the trend of the degree of decentralization in Karawang.

**Table 6. Degree of Decentralization Trend 2009-2018**

Fiscal Year	Ratio (%)	Trend
2009	9,98	100
2010	12,95	129,76
2011	18,72	187,57
2012	26,76	268,14
2013	24,54	245,89
2014	28,42	284,77
2015	29,11	291,68
2016	28,09	281,46
2017	33,73	337,98
2018	27,92	279,76

Source: Authors' calculation

## 5 CONCLUDING REMARKS

Based on the analysis of the 2009-2018 fiscal year, we conclude that the level of financial independence in Karawang lies within the criteria of consultative that shows that the role of the central government has begun to diminish. However, district of Karawang is not optimal to carry out fiscal decentralization as there is no full authority of local government in managing their revenues. Nevertheless, Karawang has been able to manage its revenues in an effective manner. Yet, the effectiveness in the management of revenues could not encourage Karawang to become more independent. This research has several limitations and hence our study leaves for future research, as follows: (1). Future studies are expected to expand the measurement indicators by adding other metrics of fiscal decentralization; (2). Future studies need to increase the period of observation; (3). The next research is expected to be able to widen the object of analysis to all districts or cities in West Java.

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