CHAPTER I

INTRODUCTION

A. Research Background

D. I. Yogyakarta is one of Province in Indonesia which has good in the structuring of Province including city and all complete with infrastructure and facility which give good services for all society who live around D. I. Yogyakarta Province. Good condition one of Province it may caused by the good management which come from Governor and all Government which has responsibility to develop D. I. Yogyakarta Province. Beside that, good in the structuring of Province comes from the condition of Regional income in the central or in each Regency and City.

According to FASB (Financial Accounting Standards Board) Income shall be the inflows or other increases in the value of the assets of a business unit or the cessation of its debts or a combination thereof in a period as a result of the delivery or production of goods, the delivery of services, or the carrying out of other activities which constitute the main or continuing central operations of the enterprise. If we make quotes from the definition of income above and make relation between income of nations so the means of income in this article is all thing which has intrinsic value capable to stop debt in one period as a result of production of goods or services or another activity capable to increase standard value of nation in one of area.

Economic growth is an increase in the production of goods and services over a specific period. To be accurate, the measurement must remove the effects of inflation beside that economic growth creates more profit for businesses. The gross Domestic product is the best way to measure economic growth itself. That is happen because it takes
into the account of country's economic output and it includes all of goods and services that business and products in each country for sale, (Amadeo 2018).

All of nation or country around the world consider the goal of economic growth is a way to develop country and also it becomes the prime of an economic source. Increase in income also become benchmark in economic growth in each country. The financing in one of country does not come instantly but it comes from the effort of Government to get income from many sides such as income which come from each area or province around each country or come from foreign debt and also from the cooperation value.

Indonesia as the developing country has their own way to get income and fullfil the needs of Government and society. The needs of Government are to increase the general facilities, economic infrastructure, educational infrastructure, consolation infrastructure and many others. Meanwhile, the needs of Society are to get better in standard of living such as they get good job, decent place to live, include the needs of daily life such as food and clothing.

In reality, each province in Indonesia has their own income to fulfill the household needs because if each province only relies on income from central Government it will not enough to fulfill local's need. The one of characteristic region capable to run the regional autonomy is the ability in regional finance, it means that region has the capability to dig sources of finance and use the value to finance all of the activity including Government expenditure with the aim of prospering the society. Copy from the quote of Mr. Imam Yuliadi in his journal about economic aspect toward regional autonomy policy. There are some sources of financial autonomy that used to pay Government's activity such as local original revenue (PAD), balances fund, regional loan and another receipt of valid. Meanwhile, the source of Local Original Revenue come from local tax, retribution tax,
regional company result, and another source of income which come from the region it self and also valid according to the limitation of applicable law, (Yuliadi April 2001).

According to the BPS (Central Bureau of Statistic) Local Original Revenue (PAD) is revenue that will be held based on local regulations in accordance with the legislation for the purposes of financing their activities. Local Original Revenue become the one of source income in each region which has influence to the economy growth. Based on Law Number 33 of 2004 Concerning Financial Balance between Central Government and Local Government Article 27 The amount of General Allocation Fund (DAU) shall be determined at least 26% (twenty six percent) of Net Domestic Revenue set in the APBN. General Allocation Fund for an area allocated on the basis of fiscal gap and basic allocation. The fiscal gap is the fiscal requirement minus the fiscal capacity of the region. Based on law number 33 of 2004 concerning financial balance between the central government and local government in article 28, referred as the regional fiscal need is a regional funding requirement to perform basic public service functions, whereas the Regional Fiscal Capacity is a source of regional funding derived from PAD and Profit sharing fund.

In this research there are some factors which are used to compare to know the influence and fluctuation of growth of PAD which is base on the income in each variable such as local tax, retribution tax (local levy), and another income which is come from the result of local resources such as net export and tourism sector. Besides that, the result of natural resources which can process by society who live there and also help the government to process and sell goods and services to the consumer include export to the outside.

In Act Number 32 of 2004 on Government the region is explain that the source of regional income consists of (a) Local Original Income such as (i) local taxes, (ii) local
retributions, (iii) the results of regional-owned enterprises, and the result of separated regional wealth management, and (iv) other legitimate Local Original Revenue, (b) balancing funds, (c) regional loans, (d) other native regional revenues. Regional capability in implementing the autonomy is highly determined or depend on the source of Local Original Revenue (PAD). Local governments are required to be self-sustaining by managing their potentials, so the effort to obtain the right source of funds is a must. New breakthroughs in obtaining funds to finance local government spending should be done, one of the way which comes from the tourism sector.

Source: Pemda DIY

**Figure 1.1**

The table above shows the Government success to increase the amount of Regional Income from 2011-2015. If observed based on the proportion of its income, for the local Original Revenue Local government takes the biggest role compared to the Balancing Fund and Other Legitimate Income. In 2011, the Original Revenue accounted for 54.03% of Regional Income, which was followed by the Fund Balance (45.01%) and Other Legitimate Income (0.69%). Although the value of PAD continues to increase from
2012 to 2015, the portion decreases from 54.03% after 2011 and steady in the range of 46% - 47%. Other Proportions Legal Income has increased significantly and the opposite Balancing Funds tend to decrease. This change in proportion is caused by the coming into effect of Law Number 13 the Year 2013 on Regional Privileges Yogyakarta specialties that make the central government allocate funds privileges begin in 2013. Privileged funds are included in other posts legal revenue.

There are statement from Farida Aryani (2018) as central financial officer which come to DIY Province to meet and discuss about analysis Local Original Revenue. She said that, “Each province must increase the amount of local original revenue because the budget which come from APBN is limited and decrease from the budget before and it will become one of problem if Government can not fulfill all of the regional’s needs. Beside that, Central Government expect all of Regional Government more try to dig potential economics which comes from many sources such as develop natural resources.

The condition of Local Original Revenue in Yogyakarta city gives real impact to the economic growth in Yogyakarta city especially for Government to do the regional autonomy. The graph below shows the growth of Local Original Revenue in Yogyakarta City. From the graph, as can be seen the amount of Local Original Revenue always increase year by year calculate since 1994 – 2013. The increasing of Local Original Revenue also following by increasing income and expenditure because the needs of the region in each year also increase. For example to complete the general facilities such as a park, business center, tourism place and many others.
The one of a quote from Mrs. Lilies Setiartitie in her writing stated that, General condition about the role of Local Original Revenue (PAD) to finance the regional's expenditure to create regional independent. if the economic growth in one of region increase it means the condition of the economy in that area become better, which is visible from the result of goods and services also increase. So the opposite, increasing in GRDP without increasing in economic growth it means a bad condition in the economic system, (Setiartiti November 2002- April 2003).

Every single province or region has their own way to increase the amount of Local Original Revenue (PAD) it base on capability which can develop in each area. In D. I. Yogyakarta specifically the contribution from tourism place, hotel, and transportation tax have big amount to increase the Local Original Revenue (PAD). For the ability each regency in D. I. Yogyakarta can be seen from the nature potential that they have. Because
if the Government choose to increase the amount of PAD by increasing tariff and the tax of earth and building it will burdensome for little society. That happens in Kulonprogo, the government prefer to dig the natural resource which have potential to develop in that area.

Meanwhile, in Gunung Kidul the way that choosen by government to increase the amount of PAD for the next year by develop tourism place which has potential to invite many visitors from domestic and abroad to increase their own income. Than in Bantul, the government prefers to optimize the amount of local tax and local levies to maximum the amount of PAD, because in Bantul there are lot of hotels, restaurants, trades, tourisms. The condition in Sleman will be same with Bantul because the government in Sleman choose to increase the PAD by optimizing the amount of local tax and local levies. It's also happening in Yogyakarta city because in a city there are a lot of hotels, tourism place, business center and etc so Government maximizes the amount of PAD from local tax and local levies. The capability of each regency to optimize the amount of PAD able to decrease the dependence of income from the central government.

Table 1.1
Percentage Local Original Revenue to The Realisation of Regional Government's Income in Province D. I. Yogyakarta (2007-2011)

<table>
<thead>
<tr>
<th>Regional Government</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Province D. I. Yogyakarta</td>
<td>37,41</td>
<td>41,73</td>
<td>50,16</td>
<td>53,86</td>
<td>54,02</td>
</tr>
<tr>
<td>Kulonprogo Regency</td>
<td>7,44</td>
<td>7,27</td>
<td>6,6</td>
<td>7,63</td>
<td>6,79</td>
</tr>
<tr>
<td>Bantul Regency</td>
<td>7,86</td>
<td>6,82</td>
<td>10,05</td>
<td>8,27</td>
<td>10,92</td>
</tr>
<tr>
<td>Gunung Kidul Regency</td>
<td>4,79</td>
<td>4,78</td>
<td>5,4</td>
<td>5,33</td>
<td>5,64</td>
</tr>
<tr>
<td>Sleman Regency</td>
<td>14,63</td>
<td>14,86</td>
<td>15,78</td>
<td>14,88</td>
<td>17,29</td>
</tr>
<tr>
<td>Yogyakarta City</td>
<td>18,54</td>
<td>18,39</td>
<td>21,53</td>
<td>22</td>
<td>24,05</td>
</tr>
</tbody>
</table>

Source: Statistic of Regional Finance Year 2011-2012 (BPS Yogya)

From the table above shows the amount of percentage Local Original Revenue (PAD) to the realisation of the regional government's income in Province DIY including five regency/city calculate from the year 2007 – 2011. During five years the government's
effort to increase the percentage of PAD to the government's income give a good result. Especially for Province DIY which shows the significant growth in each year until 2011 and the percentage reach to 54.02%, it means the amount of Local Original Revenue more than half of budget regional's income. Besides that, Yogyakarta City, Sleman Regency, and Gunung Kidul Regency also show the increasing percentage in year to year it means the growth of Local Original Revenue show the good result for that Region. Meanwhile, Bantul Regency and Kulonprogo show the kind of growth fluctuate which is not show the growth continuously.

The table below explains about the amount of local original revenue and government expenditure during 2010 - 2011 in D. I. Yogyakarta which consists from four regencies and city are Kulonprogo, Bantul, Gunung Kidul, Sleman and Yogyakarta City. Each regency has potential to fulfill the regional needs include the source of regional income.

**Table.1.2**  
The comparison between Local Original Revenue and Government Expenditure

<table>
<thead>
<tr>
<th>Information</th>
<th>Year 2010</th>
<th>Year 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LOR</td>
<td>GE</td>
</tr>
<tr>
<td>NO</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>Kulonprogo</td>
<td>48,190,801,571</td>
</tr>
<tr>
<td>2</td>
<td>Bantul</td>
<td>81,636,666,000</td>
</tr>
<tr>
<td>3</td>
<td>Gunung Kidul</td>
<td>42,521,521,211</td>
</tr>
<tr>
<td>4</td>
<td>Sleman</td>
<td>163,632,984,321</td>
</tr>
<tr>
<td>5</td>
<td>Yogyakarta City</td>
<td>179,423</td>
</tr>
<tr>
<td>TOTAL</td>
<td>254,345,486,526</td>
<td>1,379,202,331,528</td>
</tr>
</tbody>
</table>

*Source: BPS DIY*

From the table above we know that each regency in D. I. Yogyakarta has Local Original Revenue (PAD) which taken from the source of regional income such as local tax, retribution or another source of valid income. Than Government Expenditure (GE) also calculate from all of the expenditure that realized by Government both of direct or indirect expenditure. From the total value above the Local Original Revenue cannot fulfill
all of Government Expenditure. Look at the amount of PAD in 2010 around RP 254,345,486,526 meanwhile the amount of GE in 2010 around RP 1,379,202,331,528 it means the result experiencing inequality (-) around RP1,124,856,845,002 and it must be fulfill by another source of valid income.

This research also supported by some variables such as export, tourism sector, general allocation fund and GRDP as the comparison and to know how big each variable effect on PAD in D. I. Yogyakarta. The government is able to get income from inside or outside according to the way Government develop their own household. From outside government can perform export to another country or regions which is difficult to find the goods that they need. Actually, the activity of export-import already happens since a long time ago even in Rasulullah era. All of people especially Muslims know about the history because since young, Rasulullah become a seller and brings the goods to the outside country. The important point is since the old time the Arab land very famous with their trading activities until nowadays.

Export activities very helpful for economics growth of country or region because from the income of export the country or region capable to increase their own income. Beside that, for every single country who have a big amount of export than import, it means the economy condition of that country good and capable to compete with another country. Export value able to show the condition of the economy in each country because if export running better it means the government able to manage all of thing which can increase thew amount of economic activities.

The economic activity one of the region looks develop and advance when able to process the natural resources become one of worth thing, able to establish centers of business or merge both of them and channeling to another area. So it can sufficient for
another area which has lack amount of goods. Nowadays, the condition of export in D. I. Yogyakarta able to increase regional income and also increasing income for SMEs especially for who develop business in art and creative industry. Art and Creative Industry very viral in domestic society and overseas because both have big in the amount of demand. Absolutely, it can increase the society's productivity and regional income from export activity.

D. I. Yogyakarta Province famous as a city which is beautiful and able to invite many tourists come to Yogyakarta to enjoy all natural destination. Tourism sector become one of potential thing which can develop as the source of regional income. Actually, the development of tourism sector not only good for region but also for a country because the Government get more source of income and it comes from the amount of Foreign Exchange. Beside that, by the development of tourism place, it can open the work field for unemployment especially for society who live there and absolutely it will increase the amount worker, (Rahma 2013).

In another side, local original Revenue (PAD) influenced by the local tax which is become the prime composition of local tax and it can increase the amount of revenue it self. According to the Law Number 34 of 2004 Amendment to the Law Number 18 of 1997, the mean of Local Tax is a compulsory duty made by an individual or a body to a region without equal returns, which may be imposed under legislation to finance the administration of local government and regional development. The Income from local tax very helpful to increase the finance in that region. Because of that, all of society who live around that region obligate to pay the tax and if the society does not pay the tax to the Government, they will get punishment or fine base on applicable law in that Region. Tax payment also become one of the way to give an appreciate to the Government which
already prepare adequate facilities such as general transportation which can make society's activity become easy every day.

Besides, the Region with high intensity of economic activities in each year will contribute to Gross Regional Domestic Product (GRDP). GRDP is an important indicator to know the economic condition in a region / Province within a certain period. Economic growth that reflects the economic performance of a region, where economic growth indicates the success of development of a region this is seen from the value of GRDP, then in line with the theory of endogenous and aggregate economic growth where economic growth depends on increasing the supply of factors of production ie population, labor, and capital accumulation.

With the increasing in PAD projected as the capital accumulation means it is also in line with the theory of endogenous economic growth that states and the way to increase economic growth seen from the value of GRDP is preferred factor of production from endogen or within the region itself, so that it can be concluded that PAD of the taxes and levies as regional revenue is highly dependent on the intensity of economic activities undertaken by local government.

According to the Islamic perspective, the way Government get income to run the system and development area in one of country or region must base on Al-Qur'an and As-Sunnah and than following by Ijtihad from tabi'in or Muslims scholars. In Islamic perspective, all of the aspects of life managed in mua'amalah discussion. Islamic perspective manages the way to welfare society because it is the most important thing in the development of area and also the way Islam teaches us. According to the Islamic view State ownership including all of the wealth taken by government such as tax and all of the form of trade, industry, and agriculture which seeks by the State beyond the common
ownership, all of which are financed by the state in the interest of the state. From the purpose of state ownership above, can be apply to the regional form, it means all of thing that found in the regional it belongs to the area itself. Because of that, the government must manage all source of wealth to fulfill the regional's need.

According to Kan (1989) in his writing said that "Islamic economics aims the study of the human falah (well-being) achieved by organizing the resources of the earth on the basic of cooperation and participation". From that statement, economic knowledge has goals to discuss happiness of human life is accomplished by organizing natural resources for all activity in the basic work team and participation. Another definition islamic perspective have goals to make happiness in the world and hereafter.

Actually, there are a lot of researchers already analyze and discuss about this topic but always have differences in style and the way they deliver the content of study. Beside that, the different things can be seen from the variables that influence the main object of the research. Then, different in the location and also research time can be appear different ideas in the writing and in the development of the problem and the way problem can resolve according to the result analysis. So this research will give something which can make differences from another research before.

New things in this research are try to analyze how big the influence of independent variables to the growth of local original revenue (PAD) in D. I. Yogyakarta. Then, this research use data panel method as the way to regress the influence that appears from the dependent variable to the independent variable. Actually, for this research there are some reasons why this research chose, it is because of the condition of D. I. Yogyakarta support in all aspect especially for general facilities such as transportation, highway, tourism place and many others which can give pleasure especially for society
who live there and also for the newcomer. D. I. Yogyakarta becomes the one of a famous city in Indonesia also have good structuring of city which can invite many tourists from domestic and abroad area. The value of good structuring of city it is one of effect from the management's city especially goverment who capable to manage and increase the amount of local original revenue's growth. Then use it to develop the city which fully with comfort and orderliness.

B. Problem Statement

The scope of research come from the influence of each variable that used in this research such as export, hotel and restaurant tax, employement and gross regional domestic product and local original revenue. This research also analyze the impact and contribution from independent to the dependent variable as the provement of the existence of economic activity in D. I. Yogyakarta province include four Regencies and one city such as Kulonprogo, Bantul Gunungkidul, Sleman and Yogyakarta City as the area of research and observation.

C. Research Questions

1. How does the effect of export on the local original revenue in D. I. Yogyakarta Province ?
2. How does the effect of hotel and restaurant tax on the local original revenue in D. I. Yogyakarta Province ?
3. How does the effect of employement on the local original revenue in D. I. Yogyakarta Province ?
4. How does the effect of GRDP on the local original revenue in D. I. Yogyakarta Province?

D. Research’s Objectives

1. To know the effect of export on the local original revenue in D. I. Yogyakarta Province?
2. To know the effect of hotel and restaurant tax on the local original revenue in D. I. Yogyakarta Province?
3. To know the effect of employment on the local original revenue in D. I. Yogyakarta Province?
4. To know the effect of GRDP on the local original revenue in D. I. Yogyakarta Province?

E. Benefit of The Research

According to the background and the formulation problem also goals in this research, the benefit of writing this research are:

1. **For Author**

   To improve the writings skill such as paper or report and also it can train us to find the Problem complete with the way to resolve the problem.

2. **For Civitas Academic of Universitas Muhammadiyah Yogyakarta**

   Hopely the result of this research able to help another researcher which come from Universitas Muhammadiyah’s student or another student which come from another college and whoever want to analyze the influence or problem of export, hotel and restaurant tax, employment and GRDP Or as the reference research which has same way in methodology and etc. Beside that hope this research able to increase the
knowledge especially for Economic and Business Faculty Muhammadiyah Yogyakarta.

3. **For Government**

   This research value can be a reference for Government when Government wants to make or update the policy by comparing the result which fluctuates in each year.

4. **For Society**

   This research can be the source of information to open our mind and increase the knowledge about the condition one of a region in Indonesia especially D. I. Yogyakarta. Especially the information about how big the effect of net export, hotel and restaurant tax, employment and GRDP on the local original revenue.