

# CHAPTER ONE INTRODUCTION

## A. Research Background

With the implementation of governance reforms in the form of regional autonomy in every county and city in Indonesia, then each region is expected to be ready in facing the implementation of regional autonomy by the central government as responsible for the implementation of the reform. Implementation of Regional Autonomy implemented with the support of personnel, equipment, and adequate financing. In the Constitution of Republic of Indonesia number 32 of 2004 explained that Regional autonomy is the devolution of government power from central government to autonomous regions to organize and manage the system of government in the Republic of Indonesia.

The implementation of regional autonomy aims to relieve the central government of burdens and unnecessary handling of domestic affairs; the central government is expected to be able to concentrate on the formulation of national macro policies that are strategic. On the other hand, the autonomous region will undergo a significant process of empowerment. It is used as a basis for regional autonomy policy (Harris in Aryanti and Indarti, tt).

Autonomous regions have the authority and responsibility to community life based on the principles of openness, participation and accountability to the public. The principle in question is more aware of local needs and services for the region, with the hope of autonomy granted to spur regional economic growth and welfare. In the Autonomous Regions, the provisions of Article 2 of the constitution no 33

of 2004 explains that the source of financing of the regions in the implementation of the decentralization comes from: 1) the local revenue, 2) the balance funds, and 3) other legitimate income (Tobing, 2015). By implementing this decentralization, local governments are expected to optimize the reception area as well as be more independent in managing finances and reduce reliance on the central government.

One indicator to measure the level of local capacity to implement regional autonomy is the Local Revenue (PAD). Regional Autonomy itself can have a positive impact for the district / city that has the potential of natural resources, but not so with the district / city are poor in natural resources, which is one of the problems facing the government district / city in general is limited funding originating from the region itself (PAD), so that the process of regional autonomy has not been able to run as it should (Aziz in Datu K., 2012).

Granting autonomy to the regions is one alternative in efforts to increase the real role and independence of the region as well as an increase in the prosperity of the people in a fair and equitable. Then the regional development carried out in a planned, comprehensive, integrated, effective, independent and sustainable can realize the life that is parallel to the other more developed regions as well as the aggregate of improved well-being of the nation and the state fair and equitable.

The local government has a necessary role in exploring and developing the potential of the region as a source of revenue that can determine the success of a region in carrying out the implementation of local development, community service and even autonomy. To that end, local governments are expected to move quickly to explore and develop the area as a potential source of funds in regional

development, especially in the development of potential revenue (PAD). The existence of regional autonomy policy, in the hope local governments can optimize the management of financial resources originating from the area local revenue. The development potential of the region's autonomy through the Local Revenue is visible from the development potential and role of the community through taxes and levies. In this current era of decentralization, the function and role of taxes as one feels very important state revenue in the form of self-reliance, independence either in planning or in the management of financial resources of the area (Aryanti and Indarti, tt).

Soleh and Rochmansyah (in Atmaja, 2011) states that the context of autonomy and decentralization is still dominated on the aid and assistance from the government, either in the form of General Allocation Fund (DAU), Funds (DBH), while the proportion of income (PAD) is relatively small, because of the presence of the General Allocation Fund (DAU) became dependency. So with the holding of fiscal decentralization, local governments are expected to optimize the reception area, so that local governments can be independent in the area of financial management and reduce dependence on the central government, both in terms of financing, construction, and management of the area.

Instead, the success of economic development and the performance of a region can be seen from several indicators, in particular of macro indicators. Macro indicators which can be analyzed and which would be material in this study is the Gross Regional Domestic Product (GRDP) which is the sum of gross value added generated an operating unit of economic activity in the region in a given period.

Regional economic growth associated with the progressive increase in the production of goods and services, as measured by the amount of the economic conditions of a region in a given period.

The total population is also an indicator of economic growth of a country or region. The high number of the population is highly correlated with the increase in the amount of labor that is considered positive in stimulating economic growth, the more the population will increase the productivity of an area, But all of it, depending on the local government and the economic system in managing human resources in the area.

Coupled with a visible indicator of government spending in the public service improvement and prosperity of the region, the regional government and parliament is expected to produce a budget that truly meets the needs of local communities in accordance with the potential of each. To see whether the area has been prepared financially to meet local autonomy, namely by looking at the sources of budget revenues it is able to close the state budget. As well as the budget allocation for development expenditure on projects that directly touch productive economic sectors, so as to improve the community economy (Datu K, 2012).

Local Revenue is the essential partner in the implementation of Development, because the funds used are owned by the local government itself. So the government has the authority to manage the fund. The local government is also responsible for managing the funds derived from local revenues, obtained from

the local communities who have the right to get back the funds in the form of development in the area.

In Act No. 33 of 2004 article 2 explained that the financial balance between the government and the local government is a subsystem of state finances as a consequence of the division of tasks between the government and local governments. The central government is also in charge of maintaining fiscal balance in the region, by providing matching funds. In Act No. 33 of 2004 Article 3 explains that the Balance Fund aims to reduce the fiscal gap between the government and local authorities and inter-regional governments. Balance Fund includes DBH, DAU and the Special Allocation Fund.

Prakosa (in Atmaja, 2011) said that, with the transfer of funds from the central government, local government is a source of funding for the implementation of the authority. But in reality, the transfer of these funds is the main funding source of local governments to finance their spending. The purpose of this transfer is to reduce (if not possibly eliminate) the fiscal gap between the government and ensure the achievement of the minimum standard of public services across the country. Supposed shortage of funds transfer is expected to be taken on its own funding sources are Local Revenue (PAD). Variables that can be controlled are the variables and institutional policies set by local governments, including the initial conditions of a region, increased expansion and intensification acceptance of Local Revenue (PAD), the procurement of new development, the search for new sources of revenue, regulatory changes and tariff adjustments. While the variables, that cannot be controlled are the macro variables to be studied by the

author, such as, population, government spending and Gross Regional Domestic Product (GRDP). Riau is a Developing Province in Sumatra that has a lot of potential in all aspects such trade aspect, management of industry, agriculture and tourism. All of these aspects can support economic growth in Riau. There are 12 areas. The twelfth Districts / cities in Riau can increase the income of the area, which later twelfth the area can be independent by utilizing the aspects mentioned above in each district / city. So that local governments could no longer rely on the revenues from the central government and the results can be directly felt by the local community. The increasing acceptance of Riau Province in the five-year period (2010-2014) can be seen in the table below. The level of acceptance in Riau, make them as the top three Provinces in Sumatra with the largest number of admissions. Thus, the authors assume that the amount of revenue can be increased more for the implementation of economic development in Riau Province. And it also will affect Local Government to boost revenues of the Districts/Cities in Riau Province.

**Table 1.1**  
Recapitulation of *Local Government Revenues* in Sumatra's Province  
Years 2010-2014

Provinces	The Acceptations			Provinces	The Acceptations		
	Year	Revenue	Financing		Year	Revenue	Financing
ACEH	2010	6967815	1842989	JAMBI	2010	1640186	201205
	2011	7610320	1306726		2011	2078807	353260
	2012	9180143	1508841		2012	2654694	632401
	2013	10671827	1968699		2013	2886305	690767
	2014	11164408	2203620		2014	2981991	283338
	<b>Total</b>	<b>45594513</b>	<b>8830875</b>		<b>Total</b>	<b>12241983</b>	<b>2160971</b>
SUMUT	2010	3885636	346533	SUMSEL	2010	3224160	315251
	2011	4958482	404885		2011	3963985	390315
	2012	7201840	720865		2012	5223884	477176
	2013	7397986	14108		2013	5468140	521335
	2014	8488644	37657		2014	7136876	280690
	<b>Total</b>	<b>31932588</b>	<b>1524048</b>		<b>Total</b>	<b>25017045</b>	<b>1984767</b>
SUMBAR	2010	1920971	673887	BABEL	2010	848025	264130
	2011	2071161	335221		2011	1193497	240433
	2012	2922582	361250		2012	1384938	242123
	2013	3147839	276751		2013	1529111	285022
	2014	3497297	225000		2014	1755460	260399
	<b>Total</b>	<b>13559850</b>	<b>1872109</b>		<b>Total</b>	<b>6711031</b>	<b>1292107</b>
RIAU	2010	4346845	114588	BENGKULU	2010	1000861	10570
	2011	5440441	421520		2011	1166982	39679
	2012	6847315	1906680		2012	1562525	197340
	2013	6994646	1978313		2013	1696370	241356
	2014	7126649	1150102		2014	1805516	103661
	<b>Total</b>	<b>30755896</b>	<b>5571203</b>		<b>Total</b>	<b>7232254</b>	<b>592606</b>
KEPRI	2010	1853590	242174	LAMPUNG	2010	2091684	79029
	2011	1876879	375005		2011	2527991	161182
	2012	2473412	290738		2012	3742004	117690
	2013	2843718	514289		2013	3901951	23711
	2014	2970687	524313		2014	4298707	25998
	<b>Total</b>	<b>12018286</b>	<b>1946519</b>		<b>Total</b>	<b>16562337</b>	<b>407610</b>

Source: BPS.go.id, Processed

Instead, the amount of Local Revenue (PAD) in Riau province also continues to increase. Local Revenue (PAD) was taken from the taxes, levies, local-owned company results and management as well as other legitimate of Local Revenue (PAD) from each Districts/ Cities in Riau. Riau Province was included in the top three provinces in Sumatra, which get the largest revenues among seven other provinces. So, the Total Revenue during five years is Rp. 30.755.896. And Aceh Province is the province with the largest revenue in Sumatra, with total revenues

reaching Rp. 45.594.513. In this case, Riau Province has increased revenues from year to year, the same as the two provinces with the largest amount of revenue other.

**Table 1.2**  
*Local Revenue for Districts/Cities in Riau Province*  
Years 2010-2014

Year	<i>Local Revenue</i> (Thousand Rupiah)	% Increase in <i>Local Revenue</i>
2010	14.141.304.930	
2011	17.978.024.807	27,13 %
2012	20.438.476.616	13,69 %
2013	20.549.268.122	0,54 %
2014	22.578.910.909	9,92 %

*Source: BPS Riau Province, Processed*

So, we can in this table that Local Revenue has increased every year. In 2011 has increased by 27.13%. In 2012 has increased by 13.69%. 2013 increased by 0.54% and in 2014 increased by 9.92%.

And Author interested to analyze the effect of macro variables to Local Revenue (PAD) in the province of Riau. The reason is the author examines in the district / city Riau province because there are 12 districts / cities in Riau Province, where the population is scattered in almost all districts / cities, with an income of each region varies. Thus, the government can manage and optimize the area fairly and equally, both in terms of development, public welfare, and other facilities that support the advancement of the region. Local governments also do not need to rely on funding from the central government.



**Table 1.3**  
*Total Population in Riau Province in 2010-2014*

Year	<i>Total Population</i>	<i>% Increase in Total Population</i>
2010	5.538.367	
2011	5.726.241	3,28 %
2012	5.879.109	2,67 %
2013	6.033.268	2,62 %
2014	6.188.442	2,57 %

*Source: BPS Riau Province, processed*

In this table it can be seen that the number of people in Riau province has increased every year. In 2011 the total population increased by 3.28% in 2012 increased again to 2.67% in 2013 and 2014 still increased by 2.62% and 2.57%.

**Table 1.4**  
*Government Spending of Districts/Cities in Riau Province 2010-2014*

Year	<i>Government Spending (Thousand Rupiah)</i>	<i>% Increase in Government Spending</i>
2010	18.051.491.048	
2011	21.286.863.983	15,20 %
2012	25.427.002.061	19,45 %
2013	26.908.947.932	5,83 %
2014	27.640.093.785	2,72 %

*Source: BPS Riau Province, Processed*

In this table, it can be seen also that government spending has increased in accordance with the needs of the year 2011 to the year 2014 amounted to 15.20% (2011), 19.45% (2012) and 5.83% (2013), and 2.72 in (2014).

**Table 1.5**  
Riau Province on The Basis of *Gross Regional Domestic Product (GRDP)*  
Series 2010 at Constant Market Prices  
By Category Including Oil and Gas in 2010-2014

Year	<i>GRDP</i> (Thousand Rupiah)	% Increase in <i>GRDP</i>
2010	279.975.284,49	
2011	292.123.408,95	4,34 %
2012	299.460.259,76	2,51 %
2013	301.582.584,28	0,71 %
2014	305.044.781,67	1,15 %

*Source: BPS Riau Province, processed*

GRDP in the table can also be seen an increase every year, Riau Province in 2011 GRDP increased by 4.34%, 2.51% in 2012, the year 2013 amounted to 0.71% and in 2014 increased by 1.15%.

From the tables above it can be seen that the factors of macro variables showed an increase in each year, both of the Total Population, Government Spending and Gross Regional Domestic Product (GRDP). However, the size of Local Revenue (PAD) was influenced by economic growth. Therefore, the authors are interested in researching related to macro variables (Total Population, Government Spending and GRDP) that affect Local Revenue (PAD) in the districts/cities in Riau Province and pour results on this study entitled **"ANALYSIS OF TOTAL POPULATION, GOVERNMENT SPENDING AND REGIONAL GROSS DOMESTIC PRODUCT (GRDP) INFLUENCE TOWARDS LOCAL REVEANUE (PAD)" (Case Study in Districts/Cities in Riau Province Period of 2010 to 2014).**

## **B. Limitations Research**

The scope of this study is to analyze the influence of Total Population, Government Spending and GRDP in the districts/cities Riau Province from 2010 to 2014 period. Variables used in this research are the Total Population, Government Spending and Gross Regional Domestic Product at constant prices was obtained from the Central Statistics Agency of Riau Province.

## **C. Problem Formulation Research**

Economic potential can be seen from several macro variables include Total Population, Government Spending and GRDP. While the local financial capacity seen from the success of local governments to dig source of revenue, especially from Local Revenue (PAD).

Based on the above, the formulation of the problem in this research is how the influence of Total Population, Government Expenditure and GRDP to revenue (PAD) with the following details:

1. Is Total Population significant effect on Local Revenue (PAD) in Riau Province 2010-2014
2. Is Government Spending a significant effect on Local Revenue (PAD) in Riau Province 2010-2014
3. Is Gross Regional Domestic Product (GRDP) significant effect on Local Revenue (PAD) in Riau Province 2010-2014

**D. Research Purposes**

1. To analyze the effect of Total Population towards Local Revenue (PAD) in the districts/cities Riau Province on 2010-2014.
2. To analyze the effect of Government Spending towards Local Revenue (PAD) in the districts/cities Riau Province on 2010-2014.
3. To analyze the effect of Gross Regional Domestic Product (GRDP) towards Local Revenue in the districts/cities Riau Province on 2010-2014.

**E. Benefits of Research**

1. As a comparison and reference for professors / lecturers to explain the influence of Total Population, Government Spending and Gross Regional Domestic Product (GRDP) of the Local Revenue (PAD).
2. As a reference in future studies, as well as enrich the research on Local Revenue (PAD).
3. As consideration for the local government in analyzing the influence of Total Population, Government Spending and Gross Regional Domestic Product (GRDP) to Local Revenue (PAD) especially in Riau Province.