ANALYSIS ON LOCAL GOVERNMENT PERFORMANCE

THESIS

A thesis submitted in partial fulfillment of the requirement for the degree of Magister Sains

by

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ANALYSIS ON LOCAL GOVERNMENT PERFORMANCE

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I hereby sincerely state that the thesis titled “ANALYSIS ON LOCAL GOVERNMENT PERFORMANCE” is my real masterpiece. The things out of my masterpiece in this thesis are signed by citation and referred to in the bibliography.

Surakarta, May 28, 2010

Dini Wulansari
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Regards,

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<td>Anggaran Pendapatan Belanja Negara</td>
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ABSTRACT

ANALYSIS ON LOCAL GOVERNMENT PERFORMANCE

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This research aimed to identify variables that influenced local government independence ratio. It tried to identify whether local tax, local retribution, economic growth and revenue sharing has an influence toward the local government independence ratio.

This study had a total population of 473 local governments in Indonesia, comprising 33 provinces and 440 cities/regencies during the period of 2005-2007. The data was obtained from secondary data taken from the Internet. Based on the purposive sampling method, 30 provinces were selected as samples. Previously, this research planned to use the whole 33 provinces in Indonesia as samples. However, in 2005, there were only 30 provinces that had complete data on their financial statements, so this research later only used the 30 provinces as the samples from 2005-2007 period. Provinces that had no complete data were: Banten, North Sulawesi, and North Maluku.

The analysis showed that local tax and local retribution had significant influences on the local government independence ratio. Meanwhile, another finding showed that economic growth and revenue sharing had no influences on the local government independence ratio.

Key words: local tax, retribution, economic growth, revenue sharing, independence ratio
ABSTRAKSI

ANALYSIS ON LOCAL GOVERNMENT PERFORMANCE

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Penelitian ini bertujuan untuk mengidentifikasi variabel-variabel apa sajakah yang berpengaruh terhadap rasio kemandirian pemerintah daerah. Penelitian ini berusaha untuk mengetahui apakah variabel pajak daerah, retribusi daerah, pertumbuhan ekonomi, dan dana bagi hasil berpengaruh terhadap rasio kemandirian pemerintah daerah.


Hasil penelitian menunjukkan bahwa pajak daerah dan retribusi daerah memiliki pengaruh yang signifikan terhadap rasio kemandirian pemerintah daerah. Sedangkan variabel pertumbuhan ekonomi dan variabel dana bagi hasil tidak berpengaruh terhadap rasio kemandirian pemerintah daerah.

Kata kunci: pajak daerah, retribusi daerah, pertumbuhan ekonomi, dana bagi hasil, rasio kemandirian.
CHAPTER I
INTRODUCTION

A. Research Background

Public sector reforms are occurring throughout the world in an effort to improve the efficiency, effectiveness, responsiveness and accountability of the public service (Pilcher 2005). Local government reform, as a subset of the overall reform process, has been implemented in an attempt to increase transparency of those agencies empowered with providing essential services to communities.

One of the reformation spirits is the implementation of financial responsibility by local government, and also the assessment of local government financial performance to find out the achievement of local government in conduct local autonomy. Accountability is one of the main focuses in achieving the good governance in Indonesia (Sadjiarto 2000). Accountability to both central government and the local community is measured by financial and non-financial performance measures. Performance measures also have a significant role in managerial or internal control, in ensuring that organizations are managed in the best interests of all stakeholders. Performance measurement is thus important for both external and internal accountability (Kloot 1999). Performance measurement can improve performance, and organization should certainly use them (Halachmi 2002).
In the area of government institutions, performance measurements which developed in systematic and continual manner, aim to create a more useful, productive, clean, and responsible government to conduct their duty (LAN 2003). Through these performance measurements, base for reasonable decision making might be developed and be accountable so that the strong information support will create the accuracy of decision making (Bastian 2006). Thereby, coming up expectation that performance information system implementation may help to improve the government performance in transparently establish their public service goal and objective, efficiency, and affectivity; resource allocation and decision making; and to create public responsibility and organizational communication improvement (Mardiasmo 2004).

Regional autonomy applicable in Indonesia under Law 22/1999 (revised into Law 32 year 2004 and then Law 12 year 2008) on Local Government, strictly separates between the function of Local Government (Executive) with the functions of the Regional Parliament - DPRD (Legislative). On the division of these functions, the legislature elects and dismisses the head region. This shows that among the legislative and executive, agency relationships do occur (Halim & Abdullah, 2006). In governance, legislation is a form of implicit contract between the executive, legislative, and public (Darwanto and Yustikasari 2007).

Many relationship involve the delegation of decision making from one party (the principal) to another party (the agent) – this referred to as an agency
relationship (Deegan 2004). Jensen and Meckling defined the agency relationship (1976 in Deegan 2004) as: A contract under which one or more principals (engage) another person (the agent) to perform some service on their behalf which involves delegating some decision-making authority to the agent.

In the agency relationship between executive and legislative, executive act as the agent while legislative are the principals (Halim & Abdullah 2006). Agency theory analyzed contractual formation between two or more individual, groups or organization. One parties (principal) made certain contracts, whether implicit or explicit, with other parties (agent), expects that agent will act / conduct certain duty as the principals wished (Darwanto and Yustikasari 2007). To implement certain contracts, measurements are needed as performance benchmark, where usually recognize as performance measurement. In the area of government institutions, performance measurement which developed in systematic and continual manner, aimed to create a more useful, productive, clean, and responsible government to conduct their duty (LAN 2003). There are many ways to measure government performances, one of them is by using independence ratio. Local government independence ratio shows local government ability in finance their governing activity, infrastructure development, and public service. Moreover, this independence ratio is believed formed from local tax, local retribution, economic growth, and revenue sharing.

Every year, the local government mayor conduct financial responsibility reports toward regional parliament (Dewan Perwakilan Rakyat Daerah-DPRD),
so that the citizen and legislative committee can assess the government’s performance whether the government operates their job in an economic, efficient and effective ways. To get precise measurement, proper benchmark is needed. It is important to identify what variables that influenced the measurement tool.

In relation with the previous matter, it would be so relevant if a research developed in this matter to find out about local government performance. The research focused on financial independence ratio as measurement for the local government performance, especially on the aspects that affecting them.

This research conducted to find out what variables that able to support the form of local government independence ratio as reflection of local government independence. Haryanto (2006) had used some variables in his study to find out what variables which support the form of fiscal capacity, which used as reflection of local government independence. He classified some variables as: local tax, local retribution, economic growth, and revenue sharing. This study use the same variables as Haryanto’s study since this study also focus on to find out the variables which form local government independence. However, this study use local government independence ratio instead of fiscal capacity as reflection of local government independence.

B. Problem Statement
Based on described background above, than appear such question in this research: What variable(s) affect the creation of local government independence? Furthermore we may formulate this question in to some points below:

1. Does local tax influence the local government independence ratio?
2. Does local retribution influence the local government independence ratio?
3. Does economic growth influence the local government independence ratio?
4. Does revenue sharing influence the local government independence ratio?

C. Research Objectives

The objectives of this research are described below:

1. To identify whether local tax has influence in the local government Independence Ratio.
2. To identify whether local retribution has influence in the local government Independence Ratio.
3. To identify whether economic growth has influence in the local government Independence Ratio.
4. To identify whether revenue sharing has influence in the local government Independence Ratio.

D. Research Advantages

The researcher wishes that the result of this research can give contribution to all academicians in the development of public sector accounting
literature. Hopefully the result of the research can be used as reference to the next research.

The research is expected to give contribution to:

1. Provide input to the government in conduct policy making, in the era of autonomy.
2. Provide feedback about whether the real variables affect the local government independence.

CHAPTER II
LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

E. Literature Review

Recent phenomena in Indonesia public sector growth is the corroboration of accountability demand toward public sector organization, both central and local government organization. Accountability may decipherable as a form of obligation to give responsible on the success or failure in the implementation of organization mission to reach stated goal and objective, by means of periodically responsible media (Stanbury 2003 in Mardiasmo 2006). Accountability also might decipherable as the relationship between power and entities control
parties and the parties which have formal power toward those power controlled parties (Sadjiarto 2000).

Performance measurements promote accountability to stakeholders, particularly in government organizations. There is a great deal of literature on performance measurements in government, and governments around the world have made large investments to develop performance measurement systems frequently related to notions of accountability. So far, the results of these investments seem mediocre at best (Pollitt 1995 and Atkinson et al. 1997 in Kloot 1999). A crucial feature of performance measurement arrangements are the coupling of performance informations to decision making. Decisions can be of two types; planning or accountability and control. Planning decisions are about future action, while accountability and control decisions settle on the consequences of past performance (Dooren et all 2008).

Accountability is an obligation to answer for the execution of one’s assigned responsibilities. In simpler terms, accountability is reporting. People account, or report, to other people. Therefore, it is useful to consider accountability in context of the relationships between the people or organizations involved. Effective accountability means that those managing public resources depend on sound information, not speculation, when determining the effectiveness of Government’s programs. This information can take many forms, from the simple to the complex. The test of what is needed is what is useful to decision makers (Auditor General Alberta 1997).
Accountability to both central government and the local community are measured by financial and non-financial performance measures. Performance measures also have a significant role in managerial or internal control, in ensuring that organizations are managed in the best interests of all stakeholders. Performance measurements are thus important for both external and internal accountability.

1. Government performance measurement

Public sector reforms are occurring throughout the world in an effort to improve the efficiency, effectiveness, responsiveness and accountability of the public service. Local government reform, as a subset of the overall reform process, has been implemented in an attempt to increase transparency of those agencies empowered with providing essential services to our communities (Pilcher 2005).

American Accounting Association (1970) in Mardiasmo (2006) stated that the purpose of accounting on public sector organizations, is to give required information for the purpose of implementing an operation and resources allocation in precise, efficient, and economics matter, and provide information to report its management implementation and report public fund operation result and use. In other way, public sector accounting relates with the information supply to control management and accountability. Performance measurements have close relationship with accountability. To place on a solid footing on
accountability mechanism, we need: a performance management with performance indicators and targets, performance report, and reward and punishment mechanism. Good performance indicators have characteristics such as: relevant, unambiguous, cost-effective, and simple; and also act as signal or alarm which showed that there were problems which need management action and continue investigation.

From an internal control perspective, performance measurement systems are designed to monitor the implementation of an organization’s plans and determine when the plans are unsuccessful and how to improve them. They used to put attention on the organization’s objectives, to measure and report performance and to understand how process performance affects organizational learning. Identified operational problems, which can be solved by adjust existed processes, and indicated more fundamental problems, which require an adjustment to the strategies of the organization, are further uses of performance measurements. Performance measurement also promotes accountability to stakeholders, particularly in government organizations. There are great deals of literature on performance measurement in government, and governments around the world have made large investments to develop performance measurement systems, frequently related to notions of accountability. So far, the results of these investments seem mediocre at best (Kloot 1999).

Wayne C. Parker (1996:3) in Sadjiarto (2000) mention that there are five benefits on the government entities performance measurements, they are:
1. Performance measurements enhance the value of decision making.

Oftentimes the decision made by the government conducted in limited data, with many politics considerations, and also pressures from many concerned parties. These processes of performance measurement developments will enable the government to determine mission and establish the purpose of certain result achievement. Different performance measurement method may measure a program from some different view. Beside that, the existences of performance measurement made the legislative able to put attention on reached result, give proper evaluation on budget implementation, and doing discussion on new programs proposals.

2. Performance measurement increase internal accountability

The existence of performance measurements will automatically create accountability in all government line, from lowest until highest line. In these matter suggested to use standard measure system such as management by objectives to measure outputs and outcomes.

3. Performance measurement increase public accountability

Although for some parties the reports of government performance evaluation were feel scary enough, the report publication very important in the successful of good performance measurement system. The communities involvement toward government decision making are increased and program result quality also get higher attention.
4. Performance measurement support the strategic planning and decision making.

Strategic planning and objective process will decrease without the existence of certain ability to measure a program performance and progress. Without these measurements, the success of a program will never be objectively measured.

5. Performance measurements enable an entity to determine the use of resources effectively.

Nowadays the communities are getting critical in measure government main programs due to the raise of taxes liable to them. Implemented evaluation is tend to the assessment whether government able to provide the best service for the communities. In this matter, the government also has opportunities to hand over some public services to private sectors, with main purpose to provide the best services.

The differences between most public sector and private sector activities are that the mechanism for the distribution of goods and services do not follow the market model, and profit is not a measure of performance. Financial information represented in an operating statement and balance sheet does not indicate the extent to which these government entities have achieved their objectives.
In the private sector, objectives are measured essentially in terms of profit, market share and return on equity and assets, and are mostly reported in financial terms. They constitute the benchmark against which a business was measured. In the public sector, financial reports are also prepared. However, given that the objectives for government programs frequently are stated in non-financial terms and the nature and complex array of government activities, conventional financial reporting mechanisms may not easily capture performance measurement (Guthrie and English 1997).

There are many ways to measure government accountability, one of them is by using financial ratio. Furthermore, there are some financial ratio that might use to measure the local government accountability, they are financial independence ratio, effectiveness ratio, efficiency ratio, compatibility ratio, growth ratio (shift analysis), local government revenue and expenditure proportion ratio (share analysis) (Halim 2007). This study will only focus on independence ratio.

Local government independence ratio shows local government ability in finance their own governing activity, infrastructure development, and public service.

This ratio can be formulated as below (Halim 2002):

\[
\text{Independence Ratio (IR)} = \frac{\text{Own Government Revenue}}{\text{Central Government Grant and loan}} \times 100\%
\]
Based on above formula we will find that Independence ratio describes how far the local government dependency toward external funding sources. The higher the ratio means that local government dependency level toward external parties (especially central government) is lower, vice versa. This ratio also describes community participation level in their regional development. The higher the ratio means that the higher community participation in pay tax and retribution, which part of own revenue (PAD) component.

2. Indonesian Fiscal Decentralization

Before addressing decentralization, it helps to notice the structure of sub national governments in the country. Indonesia has multi-levels sub-national administration. Directly under the central government is the provinces including two ad hoc sub-national institutional arrangements, namely Special Regions (Daerah Istimewa, or DI) and the Capital (Jakarta). The lower level under province is regional governments of kota (municipallities) and kabupaten (distric). The distinction is mainly based on the region’s nature. Kota is refer to an urban area, while kabupaten to rural one. Both Kota and Kabupaten comprise sub-regional level of administration i.e. kecamatan, which further consists of desa or kelurahan. Again, the distinction is solely based on rural (desa) or urban (kelurahan) characteristic of the region (Harmadi and Iswandono 2007).

Indonesian local government is entering a new era along with the implementation of fiscal decentralization. Power decentralization in the frame of
local government performance enhancement to maximize local resources is expected to force the development of each local government so that community wealth will be increased. Related policy is regulated in UU No. 22 year 1999 about Local Government and UU No 25 year 1999 about Financial counter balance between Central and Local Government, when these policy than corrected with the implementation of UU No.32 year 2004 and UU No. 33 year 2004 (complemented with UU no 12 year 2008 and UU No.28 year 2009). The implementations of these policies give local government an opportunity to maximize their local potency and increase their financial performance in order to be an independent local government.

The philosophy of local government autonomy is to implement independence in every aspect of their life, which measured by own local revenue (Pendapatan Asli Daerah –PAD) element. With the authority found from the implementation of autonomy, it is expected that all regional in Indonesia able to finance their own governmental activity and construction with their own local revenue (PAD).

Based on Undang-Undang (UU) No. 22 year 1999 on local government, local government in the level of regency have wide authority in execute all government affairs. Section 4 Government Regulation (PP) No.105 year 2000 on the Management and Responsibility of Local Government Finance, stated that the management of local government finance should be conducted in orderly, obedient to valid law, efficient, effective, transparent, and be responsible, based
on fair and proper principles. Local government as executor party in conducting government matter, development, and public services is obliged to deliver their financial responsibility report to be valued whether they succeed or not in implement their duties. One of many tool to assess the local government performance in manage their finance is by using financial ratio analysis toward Local Government Budget (APBD).

The centerpiece for the new fiscal decentralization institutions in Indonesia is the new system of transfers comprising revenue sharing of natural resources, personal income tax and property taxes, the DAU (Dana Alokasi Umum), a large unconditional grant intended to fund sub-national governments in an equalizing manner, and the DAK (Dana Alokasi Khusus), a set of yet to-be-developed conditional grants (Brodjonegoro and Vasquez 2002).

3. Local government own revenue (Pendapatan Asli Daerah-PAD)

Based on UU No. 33 year 2004, local government revenue to implement decentralization consists of local government earning and defrayal.

a. Local government earning consists of:

(1) Local own revenue (PAD), developed based on:

i) Local tax

ii) Local retribution

iii) Separated fund from the management of government assets

iv) Others legal PAD earnings
(2) Counter balance budget (*dana perimbangan*)

(3) Others revenues

b. Local government defrayal consists of:

   (1) SiLPA (*sisa lebih perhitungan anggaran Daerah*)

   (2) Earning from government loan

   (3) Back up fund

   (4) Separated fund from the sale of local government assets

Managing Local Revenue

The success of local revenue generation is closed related to the management of local revenue in the region. Basically, there are five major categories of local tax policies that could be implemented by local government (Mahi 2002). Those categories include:

a. Enlarging local revenue base

   One of the ways to improve revenue performance is by enlarging local revenue base. There are four types of action that should have been taken by local authorities in order to achieve that. They are:

   (1). Identifying new or potential taxpayers and ratepayers.

   (2). Improving object databases.

   (3). Improving valuation (reassessment of tax objects).

   (4). Calculating the revenue capacity for each type of levy.

b. Tax Collection Requirements
Three aspects are considered important to enhance revenue collection process: (1) optimum rate structure; (2) appropriate rules and regulations – in the form of good regulations (PERDA); (3) human resource capacity.

c. Increasing control to reduce leakage

To reduce revenue leakage, local government may perform some or all of the following actions:

(1). Surprise audit to complement self-assessment procedure

(2). Improving the control process

(3). Efforts to enforce a strict and heavy penalty for non-compliance

(4). Administrative discipline to financial staffs that may have contributed to leakage in local revenues.

(5). Efforts to link tax payment with services provided by local government.

d. Improving administrative efficiency to reduce collection costs

Improvement in revenue performance is also critically dependent upon the ability of local authorities to minimize the cost of collecting revenues. Here are four possible actions could be taken by local government to improve their administrative efficiency:

(1). Improving the existing tax administration procedures through administrative simplification.

(2). Efforts to calculate collection efficiency for each type of revenue.
(3). Efforts to reduce cost of collection.

(4). Efforts to eliminate the identified factors in the field that has contributed to suboptimal revenue.

e. Revenue capacity improvement through better planning

There often a situation whereby “Dispenda”, “Bappeda”, and “Bagian Keuangan” do not work together in order to improve the existing revenue planning system. In fact, in such a crisis it is important for them to ensure a good revenue planning strategy. In the absence of coordinated and systematic planning, it is difficult to expect local revenue to increase.

4. Local taxes

According to UU No 28 Year 2009, local tax is obligatory contribution toward local government, indebted by personal individual or organization, that have forcibly characteristics based on law, with no direct reward, which used for local government needs to gain community prosperity.

Local taxes consist of:

a. Taxes on province level, they are:

(1) Vehicle tax
(2) Vehicle ownership transfer tax
(3) Vehicle fuel tax
(4) Surface water tax
(5) Cigarette tax
b. Taxes of district/municipalities level, they are:

(1) Hotel tax
(2) Restaurant tax
(3) Advertisement tax
(4) Public lightning tax
(5) Non-metal and stone minerals tax
(6) Parking tax
(7) Ground water tax
(8) Tax on swallow net
(9) Land and Building Tax
(10) Land and Building Acquisition Tax

5. Local retributions

Local retribution is local government duty as payment for service or certain given permission, that personally allocable and/or given by local government for personal or organization need (UU No 28 Year 2009).

Retribution objects consist of (UU No 28 Year 2009):

a. General Services Retribution

The object of general services retribution is services provided or given by local government for the purpose of public objective and use, benefited to personal or organization need.

General Services Retribution consists of:
(1) Health services retribution

(2) Cleaning services retribution

(3) Retribution to exchange the expense of *Kartu Tanda Penduduk* (KTP or ID card) and *Akta Catatan Sipil* (official document)

(4) Funeral and incineration services retribution

(5) Sidewalk parking services retribution

(6) Market services retribution

(7) Vehicle testing services retribution

(8) Fire extinguisher inspection retribution

(9) Retribution to exchange the expense of map printing

(10) Supplying and/or suction water closet retribution

(11) Liquid waste processing retribution

(12) Standardization/ re-standardization (*tera ulang*) services retribution

(13) Education services retribution

(14) Communication tower control retribution

b. Corporate Services

The object of corporate services retribution is commercial services provided by local government, which include:

(1) Services which use the benefit of local government un-maximized asset.

(2) Services provided by local government as long as these services have not provided sufficiently by private sector.
Corporate Services Retribution consists of:

(1) The consumption of local government asset retribution
(2) Wholesaler market and/or stores retribution
(3) Auction area retribution
(4) Terminal retribution
(5) Specific parking area retribution
(6) Hotel/motel/villa retribution
(7) Slaughtering house retribution
(8) Harbor services retribution
(9) Recreation and sport place retribution
(10) Water crossing retribution
(11) Local production sale retribution

c. Certain License

The object of certain license retribution is certain permission services by local government to personal or organizational need, intended to regulate and control the activity on space exploitation, natural resources use, commodity, infrastructure, or certain facilities to protect public interest and to protect environment continuity.

Certain license retribution consists of:

(1) Permission on building development retribution
(2) Location permission to sell alcohol beverages retribution
(3) Disturbance permission retribution
(4) Route permission retribution

(5) Fishery business permission retribution

6. Economy Growth

One important economy indicator to measure the performance of a particular area in economic growth is Produk Domestik Regional Bruto (PDRB or Gross Domestic Regional Product – GDRP – in English term). PDRB is an important indicator in one area which able to indicate the net production of goods/services, which in the next step might use as basis for area development planning and evaluation.

Economy growth affected by some important factors as below (Arsyad 1999):

a. Capital accumulation

Capital accumulation including all new investment in the form of: land, fiscal equipments and human resources. Capital accumulation would happened if there is part of shares from revenue spent invested to increase the output in the future. Capital accumulation will increase both new and existed resources.

b. Population growth

Population growth and things related with the increasing number of labor force are considered as positive factors in stimulate economy growth, but the
ability to stimulate economy growth depend on prevail economy system ability in absorb and employ the available manpower productively.

c. Technology progress

According to economics, technology progress is the most important factor in economy growth. In its simplest form, technology progress caused by modified old and new way in conduct traditional works.

There are six characteristics of economy growth process, as below (Kuznets in Todaro 1999):

(i) high development of output per capita and community growth level,
(ii) high development of productivity factor, especially on manpower productivity,
(iii) high level of economy structural transformation,
(iv) high level of social and ideology transformation,
(v) there do exist a trend for developing or developed regions, which try to expanse their area for marketing and raw material resources purpose,
(vi) there exists an economic growth limitation, which only involve one third of world community.

7. Revenue sharing

Revenue Sharing (Dana Bagi Hasil-DBH) is specific budget come from APBN (Anggaran Pendapatan Belanja Negara) revenue, which allocated to local government based on certain percentage number, to finance local government needs in implement decentralization (UU No.33 Year 2004). Budget Sharing (Dana Bagi Hasil-DBH) itself come from tax and natural resources.

Revenue sharing on a derivation basis is helping with general funding of sub-national governments and thus it is being used as a way to address vertical imbalances in Indonesia. Revenue sharing is also being used to address the
important political issue of redressing perceived past injustices toward natural
resource-endowed regions. But revenue sharing can also be a source of
problems. The most serious is that of increasing fiscal disparities (Brodjonegoro
and Vasquez 2002). However, this is a problem that can be addressed through
equalization transfers.

Revenue sharing (DBH) from the revenue of PBB and BPHTB as
mentioned in chapter 11 UU 33 year 2004, divided for province level,
district/municipalities level, and central government. Revenue sharing (DBH)
from 90% revenue of PBB for local government, divided with details as bellow:

a. 16,2% (sixteen point two percent) for pertinent province area.

b. 64,8% (sixty four point eight percent) for pertinent district/municipalities
   area.

c. 9% (nine percent) for collection fee.

While 10% of central government part of shares from PBB revenue, split to all
district/municipalities based on present budgetary year of PBB revenue
realization, with details as below:

a. 65% (sixty five percents) equally split to all district/municipalities

b. 35% (thirty five percents) gave to district/municipalities which previous
   year revenue realizations of PBB reach/exceed the revenue planning.

Eighty percents (80%) DBH from BPHTB revenue splits with details as
below:

a. 16% (sixteen two percent) for pertinent province area
b. 64% (sixty four percent) split to all BPHTB producer districts/municipalities.

While 20% (twenty percents) of governments part of shares from BPHTB revenue, equally split to all district/municipalities.

F. Hypothesis Development

1. The relation between local tax and retribution toward independence ratio

Local revenue (PAD) consists of Local Tax, Local retribution, revenue from local government owned company, and other legal local revenue, as expressly stated in Article 79 letter a of Law Number 22 Year 1999 on Local Government. Even though consist of four different sources, until now only Local Tax and retribution which give significant contribution toward the total of local government revenue (PAD), while other sources have not (Haryanto 2006).

Local tax is a form of local government revenue that includes as PAD components. Local tax is a compulsory contribution made by the individual or entity toward the local government without balanced direct benefits, which may be imposed under the applicable legislation, which is used to finance the implementation of local government and regional development.
Another important source of PAD is local retribution. Local retribution is a levy income conducted by a local government in lieu of services rendered to the parties who require, both individuals and institutions. The percentage of local retribution component is usually larger than the percentage of local tax component.

The differentiation between retribution and local tax is that retribution collections are based on the contra given by local governments, which are not determined limitedly as local taxes. The main thing that limits the imposition of retribution by local governments is the availability of a service by local governments. Local government will always be able to collect retribution as long as they able to provide the services and is allowed by the higher levels of government.

Regional taxes and retribution are one source of financing that is owned by local governments and included in local revenue (PAD). Local own revenue (PAD) can be defined as revenue earned by local government level, were gained by the local government from their own economic resources in their area. Theoretically, the PAD is a real contribution given by the local community to support the autonomous status given to him.

Haryanto (2006) stated that Local Taxes variables significantly and positively affect PAD (Local Own revenue). A research conducted by Astabrata (2002) also stated similar finding that there is a positive and significant influence between the PHR (restaurant hotel tax - part of local tax) with PAD from year 1985 to 2000.
Riduansyah (2001) stated that the contribution of local retribution revenue toward Bogor municipalities’ own revenue (PAD) on budget year 1993/1994-2000 is quite significant with average contribution of 47.58% per year and average growth of 5.08% per year.

From these local tax and retribution sectors, expected that they will form strong PAD structures for each of local autonomy. Specifically, this strong PAD structure act as main benchmark in the successful implementation of local government autonomy, to support the existence of local government independence.

**Regional financial independence (fiscal autonomy) is local government’ ability to fund their own governance activities, development, and services to the community who paid taxes and retribution.**

Independence ratio describes the dependence of local government toward external funding sources. The higher the ratio of independence implies that the level of local dependence on external assistance (especially the central and provincial government) was getting low, and vice versa. Independence ratio also indicates the level of community participation in local development. The higher the ratio of independence, the higher of community participation on pay taxes and retributions, which are components of the PAD. The higher the society to pay taxes and retributions, it illustrate the higher level of community welfare.

**The local government independence ratio (Halim 2007) is indicated by the size of the own local revenue (PAD) compared with regional income derived**
from other sources, such as central government support or from borrowing. Since independence ratio is partly developed based on PAD value, therefore the first and second hypotheses are formulated as follows:

Hypothesis 1 (H1) = Local Taxes influence the local government independence ratio.

Hypothesis 2 (H2) = Local Retributions influence the local government independence ratio.

2. The relation between economic growth and independence ratio

Gross Domestic Product (GDP- Produk Domestik Bruto) is one of the macro-economic indicators which are generally used to measure economic performance in a country. While for the district, provincial, and regency / city level, usually used the Gross Regional Domestic Product (GRDP- Produk Domestik Regional Bruto). Theoretically can be explained that the GDP is part of GRDP, and thus the changes that occur at the regional level will affect the GDP or vice versa.

PDRB is reflection of certain area potency and economy activities, which measure based on total output of gross production in certain area (UU No.33 Year 2004). GRDP may reflect the ability of a region to manage its natural resources.
Therefore, the amount of GDP generated by each province relies heavily on natural resources and production factors of a particular area. The limitations in the provision of these factors cause the varied amounts of GDP between regions.

One major purpose of fiscal decentralization is the implementation of local government independence. Local government expected to be able to gain local financial revenue, especially from local own revenue (PAD) (Sidik 2002 in Adi 2006). The increase of PAD actually is as result of economy growth. Local area with positive economy growth will have high possibility in PAD rise (Adi 2006). PAD growth should be sensitive to Gross Domestic Regional Revenue (Pendapatan Domestik Regional Bruto – PDRB) growth. Bappenas research (2003) show that PAD elasticity analysis toward PDRB conduct in province level show there are 12 province (41,37%) have elasticity value $\geq 1$ (higher than one). This result showed that every change in PDRB explaining economy growth will give positive and significant impact toward PAD change.

Economy growth (in the context of local area) can be calculated with the formula below (Kuncoro 2004; in Adi 2006):

$$ \text{Level of Economy Growth} = \frac{(\text{PDRB}_t - \text{PDRB}_{t-1})}{\text{PDRB}_{t-1}} \times 100\% $$

*Explanation:*

PDRB\(_t\) = Produk Domestik Regional Bruto on year \(t\)

PDRB\(_{t-1}\) = Produk Domestik Regional Bruto a year before year \(t\)
Industrial sectors, especially services, need to be optimized. Taxes and retribution (as the largest component of the PAD) is highly related to the activities of the industrial sector. Taxes and retribution is actually the excess / more optimal value of this industry sector (Kadjatmiko and Mahi in Sidik et all, 2002). In other words, the domestic growth of this sector can be used to estimate the magnitude of PAD (tax and retribution) that will be accepted.

Generally, GDP per capita can be assumed to be a good indicator of revenue raising capacity (Blöchliger and Charbit 2008). Adi research (2006) find that economy growth have significant impact toward PAD growth.

Local government independence ratio shows local government ability in finance their own govern and development activities. Local financial independence ratio explained by the comparison between local own revenue (PAD) toward local revenues that come from other sources, such as central government grant or from loan (Widodo 2005). Since independence ratio is partly developed based on PAD value, therefore the third hypothesis is formulated as follows:

Hypothesis 3 (H3) = PDRB influence the local government independence ratio.

3. The relation between revenue sharing and independence ratio

Chapter 5 Law numbers 33 year 2004 explain that Local government resources come from Local Own Revenue (Pendapatan Asli Daerah-PAD), Counter
balance Budget (*Dana Perimbangan*), and other legal resources. While chapter 10 Law number 33 year 2004 explain that Counter balance Budget consist of Revenue Sharing (*Dana Bagi Hasil*-DBH), General Allocation Budget (*Dana Alokasi Umum*-DAU), and Specific Allocation Budget (*Dana Alokasi Khusus*-DAK). Budget/Revenue Sharing (*Dana Bagi Hasil*-DBH) itself come from tax and natural resources. Budget sharing (DBH) which come from tax resources consist of Land and Building Tax (*Pajak Bumi dan Bangunan*-PBB), Land and Building Acquisition Tax (*Bea Perolehan Hak atas Tanah dan Bangunan*-BPHTB), Salary Tax (*Pajak Penghasilan*-PPh) chapter 25 dan chapter 29 for individual local taxpayer and PPh chapter 21.

The transfer of funds has not been stable and has not been on time either (Brodjonegoro and Vasquez 2002). Budget sharing is local government rights toward state revenue resources, which produced from their own local government area, which percentage sharing stated by law (Romdhony 2006). Although budget/ revenue sharing are fund which come from central government, but the amount is directly depend on each local government capacity. So that we may say that budget sharing value have direct effect on local government independence level. This finding is similar with Haryanto (2006) research, which find that tax sharing (*Bagi Hasil Pajak*-BHP), which part of budget sharing, have significant effect toward local government fiscal capacity, where fiscal capacity is explained by PAD value. Independence ratio (Halim 2002) used in this research is develop based on PAD value, so that from the finding above, we may develop research hypothesis as below:
Hypothesis 4 (H4) : Revenue Sharing influences the local government independence ratio

G. Conceptual Scheme

Based on the previous hypothesis, conceptual scheme was developed as below:

![Conceptual Scheme Diagram]

**Figure 1**
**Conceptual Scheme**

The conceptual scheme figure above (Figure 1) described the relationship between independent variables (local taxes, local retributions, GRDP, and revenue sharing) toward the dependent variable (Independence Ratio).

Regional taxes and retributions are some source of financing owned by local governments and included in local revenue (PAD). Local own revenue (PAD) can be defined as revenue earned by local government level, gained by the local government from their own economic resources in their area. Theoretically, the PAD is a real contribution given by the local community to support the autonomous status given to
him. From these local taxes and retributions sectors, expected that they will form strong PAD structures for each of local autonomy. Specifically, this strong PAD structures act as main benchmark in the successful implementation of local government autonomy, to support the existence of local government independence.

PDRB are reflection of certain area potency and economy activities, which measure based on total output of gross production in certain area (UU No.33 Year 2004). One major purpose of fiscal decentralization is the implementation of local government independence. Local government expected to be able to gain local financial revenue, especially from local own revenue (PAD) (Sidik 2002 in Adi 2006). The increase of PAD actually is as result of economy growth. Local area with positive economy growth will have high possibility in PAD rise (Adi 2006).

Budget sharing is local government rights toward state revenue resources, which produced from their own local government area, which percentage sharing stated by law (Romdhony 2006). Although budget/ revenue sharing is fund which come from central government, but the amounts are directly depend on each local government capacity. So that we may say that budget sharing value have direct affect on local government independence level.

Independence ratio describes the dependence of local government toward external funding sources. The higher the ratio of independence implies that the level of local dependence on external assistance (especially the central and provincial government) was lower, and vice versa. Independence ratio also indicates the level of community participation in local development. The higher ratio of independence, the
higher community participation on pay taxes and retributions, which are components of the PAD.

The local government independence ratio (Halim 2007) is indicated by the size of the own local revenue (PAD) compared with regional income derived from other sources, such as central government support or from borrowing. Since independence ratio is partly developed based on PAD value, therefore we may say that local taxes, local retributions, GRDP and revenue sharing influence the independence ratio.

Hypothesis testing were done by using multiple regression analysis, aimed to predict the strength of how the influence of independent variables (local taxes, local retributions, GRDP, and revenue sharing) toward the dependent variable (Independence Ratio).

CHAPTER III
RESEARCH METHOD

A. Research Method
This research was developed by hypotheses testing approach. Studies that engage in hypotheses testing usually explain the nature of certain relationships, or establish the differences among groups or the independence of two or more factors in a situation (Sekaran 2000). This research is an empirical research to test the effect of chosen variables toward local government independence ratio.

The chosen variables are local taxes, local retributions, PDRB, and revenue sharing, which believed in first stage as proxy variables that able to reflect the local government independence.

The data taken consisted of secondary data published and provided within Badan Pemeriksa Keuangan Republik Indonesia (BPK RI), Balai Pusat Statistik (BPS), Direktorat Jenderal Perimbangan Keuangan (DJPK), and local government website. Financial statements were taken from www.bpk.go.id, number of local government were taken from BPS website, and the data of PDRB were taken from Direktorat Jenderal Perimbangan Keuangan website, which is www.djpk.depkeu.go.id.

The researcher focuses on the provinces financial statement of year 2005 – 2007. This research can be classified as a data pooling research because the data taken was combination of throughout time (three years period) data and cross-section data for several research objects.

B. Population and Sample

The population is all local governments in Indonesia. Indonesia has 33 provinces and 440 regencies/cities (Bappenas 2007). This research used
purposive sampling technique for sample collection. The researcher took 30 provinces as sample. The provinces data taken as sample for the representation of provinces, districts, and municipalities.

C. Data Collection

Data used in this study were secondary ones which were taken from internet. The data included in financial statements were taken in www.bpk.go.id, numbers of local government in Indonesia were taken from www.bps.go.id, and the data of PDRB were taken from www.djpk.depkeu.go.id. The secondary data taken included:

   i. PAD (own government revenue) data.
   ii. Central Government Grant and loan (DAU, DAK, other legal revenues, and central government loan and grant) data.
   iii. Local tax data.
   iv. Local retribution data.
   v. Revenue sharing data.

2. Number of local government in Indonesia.

The data were gathered by the researcher through softcopy data basis from the internet and the document.

D. Operational Definition and Variable Measures

1. Independent variable

Independent variable according to Sekaran (2000) is one of the variables that influence variable dependent, it can influence positively and negatively. The independent variables used in this research are:

i. Local Tax

Haryanto (2006) stated that Local Taxes variables significantly and positively affect PAD (Local Own revenue). A research conducted by Astabrata (2002) also stated similar finding that there is a positive and significant influence between the PHR (restaurant hotel tax - part of local tax) with PAD from year 1985 to 2000. This study use independence ratio where one of the forming aspects was PAD, therefore the local tax was used in this research.

According to UU No 28 Year 2009, local tax is obligatory contribution toward local government, indebted by personal individual or organization, that have forcibly characteristics based on law, with no direct reward, which used for local government needs to gain community prosperity. The local tax value used in this research was taken directly from local government financial statement.
ii. Local Retribution

Riduansyah (2001) stated that the contribution of local retribution revenue toward Bogor municipalities’ own revenue (PAD) on budget year 1993/1994-2000 is quite significant with average contribution of 47.58% per year and average growth of 5.08% per year.

Local retribution is local government duty as payment for service or certain given permission, that personally allocable and/or given by local government for personal or organization need (UU No 28 Year 2009). The local retribution value used in this research was taken directly from local government financial statement.

iii. PDRB (Produk Domestik Regional Bruto – Gross Regional Domestic Product)

Local area with positive economy growth will have high possibility in PAD rise (Adi 2006). PAD growth should be sensitive to Gross Domestic Regional Revenue (Pendapatan Domestik Regional Bruto – PDRB) growth. Bappenas research (2003) show that PAD elasticity analysis toward PDRB conducted in province level show that there are 12 province (41,37%) have elasticity value $\geq 1$ (higher than one). This result showed that every change in PDRB explaining economy growth will give positive and significant impact toward PAD change.

PDRB is reflection of certain area potency and economy activities, which measure based on total output of gross production in certain area
The PDRB data were taken from Direktorat Jenderal Perimbangan Keuangan website, which is www.djpk.depkeu.go.id.

iv. Revenue sharing

Revenue sharing has significant relation toward local government fiscal capacity (Haryanto 2006). Haryanto use PAD (local own revenue) as further explanation for his understanding on fiscal capacity. This study use independence ratio where one of the forming aspects was PAD, therefore the revenue sharing is relevant to be used in this research.

Revenue Sharing (Dana Bagi Hasil-DBH) is specific budget come from APBN (Anggaran Pendapatan Belanja Negara) revenue, which allocated to local government based on certain percentage number, to finance local government needs in implement decentralization (UU No.33 Year 2004). Budget Sharing (Dana Bagi Hasil-DBH) itself come from tax and natural resources. The revenue/ budget sharing value used in this research were taken directly from local government financial statement.

2. Dependent variable

Dependent variable is variable having primary focus in research. The dependent variable used in this research is Local Government Independence Ratio. Local government independence ratio is ratio that shows local
government ability in finance their own governing activity, infrastructure
development, and public service (Halim 2007).

\[
\text{Independence Ratio (IR)} = \frac{\text{Own Government Revenue}}{\text{Central Government Grant and loan}} \times 100\%
\]

Based on above formula we will find that Independence ratio describes how far the local government dependency toward external funding sources. The higher the ratio means that local government dependency level toward external parties (especially central government) is lower, vice versa. This ratio also describes community participation level in their regional development. The higher the ratio means that the higher community participation in pay tax and retribution, which part of own revenue (PAD) component.

E. Analysis Technique

This research will use multivariate regression analysis. Multivariate regression analysis is used when there are two or more dependent variables exist in the model. The testing conducted by using program aid of SPSS 15. Data analysis conducted with some step as below:

a. Descriptive Analysis

Descriptive statistics consists of the measurements of mean, median, standard deviation, maximum, and minimum value of each data sample. This analysis uses to give a clear picture of concerning distribution of the data sample.
b. Classic Assumption test, consist of:

1) Normality test

The purpose of normality test was to know whether or not residual has a normal distribution in the regression model (Ghozali 2005). One of statistical test that can be used to detect normality is One-Sample Kolmogorov-Smirnrov (Ghozali 2005). Criteria of normality are using p-value with the significance level of 5%. The data will normally distributed if the p-value is > 0,05 (Jogiyanto 2005).

2) Multicollinierity test

The goal of multicollinierity test is to test whether the regression model have correlation between the independent variables. Good regression model must not have correlation between the independent variables. Multicollinierity in a model may seen from some points (Nugroho 2005):

i) If Variance Inflation Factor (VIF) value do not higher than 10 and Tolerance value do not less than 0,1, we may say that the model is free from multicollinierity.

ii) If coefficient correlation value between each independent variable less than 0,70, than we may say that the model is free from multicollinierity.
iii) If coefficient determinant value, whether R² or R-Square above 0.60, but there no independent variables had an effect on dependent variables, than we may say that the model have multicollinierity.

3) Heteroskedasticity test

Heterodicity shows that variable variation is not same to all observation. If the dots are randomly spread above and below zero point on Y line, it means that that the heterodicity does not happen in the model. Then, the regression model is available to be used in predicting independent variables. The Scatter plot graph will show that if the dots randomly spread above and below zero point of the Y line, heteroskedasticity does not happen in regression model (Ghozali 2006).

c. Hypothesis testing: Multiple Regression Test

The hypothesis testing in this research uses multiple regression tests. Data analysis used program: SPSS 15. Hypothesis testing done after the model used is free from classic assumption collision, in order to interpret the correct result.

The regression equation is:

\[ Y = a + b_1LT + b_2LR + b_3EG + b_4RS + e \]

While:

- \( Y \) = Independence Ratio
- \( LT \) = Local Tax
Regression analysis basically is a study of dependency of dependent variable to one or more independent variables. This study aimed at estimating or predicting mean of population or mean of dependent variable based on independent variable value.

(1) F-value

F test was used to test the significance of all independent variables. The F test used significance level of 5%.

(2) Determination Coefficient

Determination coefficient was attempted to know the precise level that the most suitable in regression analysis. The level was showed by Determination Coefficient ($R^2$) from 0 – 1. The bigger $R^2$ means the bigger dependent variable variation proportion which can be explained by other independent variable variation. $R^2= 1$ explains that independent variable influence perfectly towards dependent variable. If $R^2= 0$, tells that independent variable does not influence the dependent variables.
(3) t-value

This test functions to determine the significance level of each of independent variables. t test in this research used the significance level of 5%.

CHAPTER IV
DATA ANALYSIS AND DISCUSSION

A. Introduction

Research samples were taken from financial statements of local government and data of PDRB (*Produk Domestik Regional Bruto* – Gross Regional Domestic Product) for each province local government. The samples were taken by using a purposive sampling through internet. The researcher examined the data by using SPSS (Statistical Product and Service Solution) for windows 15.00 program. The samples were taken from 30 provinces in Indonesia.

The variables used in this research were: Local government independence ratio, local tax, local retribution, PDRB growth (*Produk Domestik Regional Bruto* – Gross Regional Domestic Product), and revenue sharing.

The financial statements were taken from audited financial statement issued by BPK from year 2005 – 2007. Data availability forced the researcher to
limit the data. Therefore, the researcher only used financial statement from 2005 – 2007.

Analysis tool used in this research was multiple regression analysis in SPSS for windows 15.00. The four proposed hypothesis were tested by using multiple regression analysis. The first, it tested whether local tax influenced independence ratio. The second, it examined whether local retribution influenced independence ratio. Third, it evaluated whether PDRB influence independence ratio. Last, it tested whether revenue sharing influence independence ratio.

The analysis had to see the F value to evaluate the overall effects of the independent variables. F value gave explanation towards the model of the test. Based on F value, the researcher had confidence that the model was significant or not significant.

Other analysis can be seen from t value and R² value. The t value gave information that each of independent variable had effect towards the dependent variable or not. R² showed how big the independent variables could explain dependent variable.

B. Data Description

Data description includes the selection of samples and descriptive statistics analysis.

1. Population and Sample Selection
This study used secondary data from audited financial statement issued by BPK in www.bpk.go.id. The population of this study was all 473 local governments in Indonesia, consists of 33 provinces and 440 regencies/cities. The samples were taken by using a purposive sampling. The researcher took the 30 provinces in Indonesia as sample.

The samples consist of 30 provinces in Indonesia: 6 provinces in Java-Bali islands, and 24 provinces outside Java-Bali islands.

This information is presented in the table below:

Table 1
Sample Location

<table>
<thead>
<tr>
<th>Location</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
<td>%</td>
<td>Number</td>
</tr>
<tr>
<td>Java-Bali islands</td>
<td>6</td>
<td>20.00%</td>
<td>6</td>
</tr>
<tr>
<td>Non Java-Bali</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>islands</td>
<td>24</td>
<td>80.00%</td>
<td>24</td>
</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>100.00%</td>
<td>30</td>
</tr>
</tbody>
</table>

Actually, the researcher would use the combination of province, district, and municipalities’ data, but due to the difficulties in data accessibility, which is the difficulties to access the data of PDRB district and municipalities, than the
researcher only focus on the province data. Afterwards, due to year 2005 where there are only 30 provinces which have complete data on their financial statements, the researcher than only uses 30 provinces as sample from year 2005-2007. The provinces which have no complete data are: Banten, North Sulawesi, and North Maluku.

2. Descriptive Statistics

The descriptive statistics is intended to get the mean, maximum, minimum, deviation standard scores for all independent variables. The table below shows the descriptive statistics:

Table 2
Descriptive Statistics of Independent Variables

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>LocalTax</td>
<td>90</td>
<td>6000000000.00</td>
<td>7202527438.00</td>
<td>8375420139.00</td>
<td>1411855708213.00</td>
</tr>
<tr>
<td>LocalRetribution</td>
<td>86</td>
<td>85662300.04</td>
<td>6764617565.00</td>
<td>5538950628.00</td>
<td>109925056380.1</td>
</tr>
<tr>
<td>PDRBGrowth</td>
<td>89</td>
<td>.03</td>
<td>.76</td>
<td>.1671</td>
<td>.08194</td>
</tr>
<tr>
<td>RevenueSharing</td>
<td>89</td>
<td>1270066954.00</td>
<td>7133081682.00</td>
<td>5743773743.00</td>
<td>1214371382218.00</td>
</tr>
</tbody>
</table>
The table above shows that: the minimum value of local tax is 6,000,000,000.00 the maximum value of local tax is 7,202,527,438,121.02. The mean is 837,542,013,939.36 and the standard deviation is 1,411,855,708,213.94. The minimum value of local retribution is 85,662,300.04, the maximum value of local retribution is 676,461,756,556.64. The mean is 55,389,506,289.3 and the standard deviation is 109,925,056,380.14.

The minimum value of PDRB Growth is 0.03, the maximum value of PDRB is 0.76, the mean is 16.71 and the standard deviation is 0.08194. The minimum value of Revenue sharing is 12,700,669,544.34, the maximum value of revenue sharing is 7,133,081,682,876.00, the mean is 574,377,374,396.9 and the standard deviation is 1,214,371,382,218.86.

Revenue sharing has the biggest minimum value: 12,700,669,544.34 among others, while PDRB Growth has the lowest minimum value: 0.03. Local tax have the highest maximum value: 7,202,527,438,121.02 and PDRB Growth have the lowest maximum value : 0.76. The mean of Local Tax is the biggest: 837,542,013,939.36 while the mean of PDRB Growth is the least: 0.1671. Standard deviation of Local Tax is the biggest: 1,411,855,708,213.94 and the standard deviation of PDRB Growth is the least: 0.08194
3. Independence Ratio

Local government independence ratio which used as tool to see the
government independence, use the comparison of PAD (local own revenue)
toward central government grant and loan (consist of DAU, DAK, government
other legal revenue, and loan and grant from central government). The result of
independence ratio calculation for year 2005 - 2007 is as presented in the table
below:

Table 3
Independence ratio calculation

<table>
<thead>
<tr>
<th>No.</th>
<th>Province</th>
<th>IR 2005</th>
<th>IR 2006</th>
<th>IR 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Nanggroe Aceh Darussalam</td>
<td>15.85%</td>
<td>27.43%</td>
<td>53.02%</td>
</tr>
<tr>
<td>2</td>
<td>Sumatera Utara</td>
<td>400.64%</td>
<td>271.36%</td>
<td>242.60%</td>
</tr>
<tr>
<td>3</td>
<td>Sumatera Barat</td>
<td>166.54%</td>
<td>101.73%</td>
<td>91.86%</td>
</tr>
<tr>
<td>4</td>
<td>Riau</td>
<td>365.39%</td>
<td>442.30%</td>
<td>422.32%</td>
</tr>
<tr>
<td>5</td>
<td>Jambi</td>
<td>135.85%</td>
<td>102.85%</td>
<td>104.23%</td>
</tr>
<tr>
<td>6</td>
<td>Sumatera Selatan</td>
<td>233.36%</td>
<td>176.08%</td>
<td>163.97%</td>
</tr>
<tr>
<td>7</td>
<td>Bengkulu</td>
<td>49.73%</td>
<td>43.67%</td>
<td>40.66%</td>
</tr>
<tr>
<td>8</td>
<td>Lampung</td>
<td>176.83%</td>
<td>137.12%</td>
<td>129.18%</td>
</tr>
</tbody>
</table>

(Continuation from table 3)

<table>
<thead>
<tr>
<th>No.</th>
<th>Province</th>
<th>IR 2005</th>
<th>IR 2006</th>
<th>IR 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>9</td>
<td>Kepulauan Bangka Belitung</td>
<td>99.75%</td>
<td>71.88%</td>
<td>63.73%</td>
</tr>
<tr>
<td>10</td>
<td>Kepulauan Riau</td>
<td>349.61%</td>
<td>158.04%</td>
<td>89.68%</td>
</tr>
<tr>
<td>11</td>
<td>DKI Jakarta</td>
<td>861.36%</td>
<td>1011.29%</td>
<td>1086.13%</td>
</tr>
<tr>
<td>12</td>
<td>Jawa Barat</td>
<td>631.68%</td>
<td>662.55%</td>
<td>437.96%</td>
</tr>
<tr>
<td>13</td>
<td>Jawa Tengah</td>
<td>436.45%</td>
<td>294.78%</td>
<td>276.13%</td>
</tr>
<tr>
<td>14</td>
<td>DI. Yogyakarta</td>
<td>155.11%</td>
<td>107.97%</td>
<td>63.14%</td>
</tr>
<tr>
<td>No.</td>
<td>Province</td>
<td>Independence Ratio</td>
<td>External Funding</td>
<td>Community Participation</td>
</tr>
<tr>
<td>-----</td>
<td>------------------------</td>
<td>--------------------</td>
<td>------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>15</td>
<td>Jawa Timur</td>
<td>502.01%</td>
<td>439.16%</td>
<td>374.80%</td>
</tr>
<tr>
<td>16</td>
<td>Bali</td>
<td>355.86%</td>
<td>206.43%</td>
<td>187.62%</td>
</tr>
<tr>
<td>17</td>
<td>Kalimantan Barat</td>
<td>92.31%</td>
<td>63.72%</td>
<td>71.14%</td>
</tr>
<tr>
<td>18</td>
<td>Kalimantan Tengah</td>
<td>46.11%</td>
<td>39.09%</td>
<td>42.93%</td>
</tr>
<tr>
<td>19</td>
<td>Kalimantan Selatan</td>
<td>217.11%</td>
<td>154.50%</td>
<td>134.04%</td>
</tr>
<tr>
<td>20</td>
<td>Kalimantan Timur</td>
<td>33793.03%</td>
<td>465.56%</td>
<td>537.41%</td>
</tr>
<tr>
<td>21</td>
<td>Sulawesi Tengah</td>
<td>50.57%</td>
<td>142.54%</td>
<td>36.06%</td>
</tr>
<tr>
<td>22</td>
<td>Sulawesi Selatan</td>
<td>195.54%</td>
<td>144.61%</td>
<td>163.69%</td>
</tr>
<tr>
<td>23</td>
<td>Sulawesi Tenggara</td>
<td>38.65%</td>
<td>28.29%</td>
<td>30.08%</td>
</tr>
<tr>
<td>24</td>
<td>Gorontalo</td>
<td>21.86%</td>
<td>13.81%</td>
<td>16.15%</td>
</tr>
<tr>
<td>25</td>
<td>Sulawesi Barat</td>
<td>167.23%</td>
<td>13.04%</td>
<td>16.05%</td>
</tr>
<tr>
<td>26</td>
<td>Nusa Tenggara Barat</td>
<td>76.39%</td>
<td>65.58%</td>
<td>70.14%</td>
</tr>
<tr>
<td>27</td>
<td>Nusa Tenggara Timur</td>
<td>44.91%</td>
<td>36.70%</td>
<td>31.85%</td>
</tr>
<tr>
<td>28</td>
<td>Maluku</td>
<td>19.54%</td>
<td>18.55%</td>
<td>13.68%</td>
</tr>
<tr>
<td>29</td>
<td>Papua Barat</td>
<td>8.63%</td>
<td>3.37%</td>
<td>7.04%</td>
</tr>
<tr>
<td>30</td>
<td>Papua</td>
<td>8.99%</td>
<td>26.48%</td>
<td>5.44%</td>
</tr>
</tbody>
</table>

Independence ratio describes how far the local government dependency toward external funding sources. The higher the ratio means that local government dependency level toward external parties (especially central government) is lower, *vice versa*. This ratio also describes community participation level in their regional development. The higher the ratio means that the higher community participation in pay tax and retribution, which part of own revenue (PAD) component.
To ease the analysis the researcher develops descriptive statistics for independence ratio, as presented below:

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>IR2005</td>
<td>30</td>
<td>.09</td>
<td>337.93</td>
<td>13.23</td>
<td>61.35874</td>
</tr>
<tr>
<td>IR2006</td>
<td>30</td>
<td>.03</td>
<td>10.11</td>
<td>1.82</td>
<td>2.24859</td>
</tr>
<tr>
<td>IR2007</td>
<td>30</td>
<td>.05</td>
<td>10.86</td>
<td>1.67</td>
<td>2.24316</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>30</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: SPSS output

For year 2005, the minimum value is 0.09 which are Papua Barat and Papua. The maximum value is 337.93 which is Kalimantan Timur. The mean is 13.2390 and the standard deviation is 61.35874.

For year 2006, the minimum value is 0.03 which is Papua Barat. The maximum value is 10.11 which is DKI Jakarta. The mean is 1.8235 and the standard deviation is 2.24859.

For year 2007, the minimum value is 0.05 which is Papua. The maximum value is 10.86 which is DKI Jakarta. The mean is 1.6676 and the standard deviation is 2.24316.

4. Classical Assumption
Regression analysis must be started from classical assumption test. It contain three tests: normality test, multicollinearity test, and heteroskedasticity test.

a. Normality test

The purpose of normality test is to know whether or not the residual has a normal distribution in the regression model (Ghozali 2006).

<table>
<thead>
<tr>
<th>Table 5-normality Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td>Normal</td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Parameters(a,b)</td>
</tr>
<tr>
<td>Std. Deviation</td>
</tr>
<tr>
<td>Most Extreme Differences</td>
</tr>
<tr>
<td>Absolute</td>
</tr>
<tr>
<td>Positive</td>
</tr>
<tr>
<td>Negative</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
</tr>
</tbody>
</table>

Source: SPSS output

The researcher uses the analysis of statistics One-Sample Kolmogorov-Smirnov (K-S) test with the significant level 0.05. Result of K-S test show that level of value K-S is 4.210 and significant at
0.000, hence this matter shows that data of residual is not normally distributed.

The data that do not normally distribute might be transformed so that the data became normal (Ghozali 2006). To normalize the data we should know the shape of histogram graphic of data: whether moderate positive skewness, substantial positive skewness, severe positive skewness with L shape, etc. The histogram graphic of data show the shape of substantial positive skewness (Appendixes IV).

The normality tests of data that have been transformed are shown in table 8. Result of K-S test show that level of value K-S is 0.483 and significant at 0.974, hence this matter shows that data of residual normally distributed. The histogram graphic shows normal pattern distribution, which explained that the histogram graphic show the normal plot distribution, thus the regression model is fulfill the normality assumption.

<table>
<thead>
<tr>
<th>Normality Test of Transformed Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Normal Parameters(a,b)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Most Extreme Differences</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
b. Multicollinearity test

The goal of multicollinearity test is to test whether the regression model have correlation between the independent variables.
Good regression model must not have correlation between the independent variables.

### Table 7
Multicollinierity test result

<table>
<thead>
<tr>
<th>Model</th>
<th>Std. B</th>
<th>Std. Error</th>
<th>Beta</th>
<th>t</th>
<th>Sig.</th>
<th>VIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>-.049</td>
<td>.043</td>
<td>-1.158</td>
<td>.250</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ZLGLocalTax_2</td>
<td>.948</td>
<td>.081</td>
<td>1.045</td>
<td>11.696</td>
<td>.000</td>
<td>.320</td>
</tr>
<tr>
<td>ZLGLocalRetribution_2</td>
<td>-.125</td>
<td>.054</td>
<td>-.150</td>
<td>-2.298</td>
<td>.024</td>
<td>.602</td>
</tr>
<tr>
<td>ZLGPDRBGGrowth_2</td>
<td>.032</td>
<td>.047</td>
<td>.036</td>
<td>.693</td>
<td>.490</td>
<td>.973</td>
</tr>
<tr>
<td>ZLGRRevenueSharing_2</td>
<td>-.076</td>
<td>.063</td>
<td>-.092</td>
<td>-1.213</td>
<td>.229</td>
<td>.446</td>
</tr>
</tbody>
</table>

Source: SPSS output

All of variables have the VIF value less than 10 and tolerance value more than 0.1, indicating that multicollinierity does not exist in the regression model.
2) Heteroskedasticity test

Heteroskedasticity shows that variable variation is not same to all observation. If the dots are randomly spread above and below zero point on Y line, it means that that the heterodicity does not happen in the model. Then, the regression model is available to be used in predicting independent variables. The Scatter plot graph will show that if the dots randomly spread above and below zero point of the Y line, heteroskedasticity does not happen in regression model (Ghozali 2006).

Scatterplot

Figure 3
Scatterplot Graphic
The result indicates that all the dots are randomly spread. They do not form a certain shape. Scatterplot result showed that the dots disseminate at random and spreads over on above and under number zero at axis of the ordinate, this matter inferential that the heteroskedasticity is not happened in the regression model.

C. Data Analysis

The hypothesis testing could be done after all the classic assumption had been done. The data analysis was tested through SPSS. Hypothesis testing was done through multiple regressions. Multiple regression tests determination coefficient, F value, and t value. The regression analysis could be trusted if the classical assumption had been fulfilled. In the previous test, the classical assumption had been accomplished.

Regression analysis basically is a study of dependency of dependent variables to one or more independent variables. This study aims at estimating or predicting the mean of population or the mean of dependent variable based on the independent variable value (Gujarati 2007).
Regression analysis is coefficient for each of independent variables. This coefficient is gotten by predicting the dependent variable values in a certain formula. Regression coefficient is counted with an aim at minimizing the deviation between the actual value and the estimated dependent variables based on the data available (Ghozali 2006). This study tests the influence of some independent variables (metric) to one dependent variable.

The result of SPSS program has produced a significant result. The method of multiple regressions is summarized in the table below:

<table>
<thead>
<tr>
<th>Reg coeff</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>F</strong></td>
<td>78.564</td>
</tr>
<tr>
<td><strong>R</strong></td>
<td>0.896</td>
</tr>
<tr>
<td><strong>R²</strong></td>
<td>0.803</td>
</tr>
<tr>
<td><strong>Adjusted R²</strong></td>
<td>0.793</td>
</tr>
<tr>
<td><strong>Standard error</strong></td>
<td>0.37413</td>
</tr>
</tbody>
</table>

***) significant at 0.05
Determination coefficient ($R^2$) basically measures how far the ability of the model can explain the dependent variable variation. $R^2$ value indicates the ability of independent variables in explaining limited dependent variable variation. The weakness of determination coefficient is bias to some independent variables which have been counted in the model. Ghozali (2006) suggests using adjusted $R^2$ if the independent variable consists of more than one variable.

The data in the table could be used to determine the F value, $R^2$, and t value as below:

1. F Value

   The overall effects of the independent variables towards the dependent variable can be observed from F value. F value also determines whether the model of regression gives enough confidence for the researcher to conduct the study. In other word, F value determines whether independent variables influence dependent variable.

   

\[
\begin{array}{cccccc}
\text{Model} & \text{Sum of Squares} & df & \text{Mean Square} & F & \text{Sig.} \\
1 & \text{Regression} & 43.987 & 4 & 10.997 & 78.564 & .000(a) \\
 & \text{Residual} & 10.778 & 77 & & .140 \\
 & \text{Total} & 54.765 & 81 & & \\
\end{array}
\]

Source : SPSS output
The ANOVA Test or F Test shows that the F value is 78.564 with the probability 0.000, because the probability is less than 0.05 thus the regression model can be used to predict the independence ratio. The researcher can say that the Revenue sharing, PDRB, local retribution, and local tax have the influence all together toward the independence ratio.

2. \( R^2 \)

Determination Coefficient explains how strong the independent variables can explain the dependent variables. Every additional independent variable causes the increasing value of \( R^2 \), whether or not it influences significantly.

<table>
<thead>
<tr>
<th>Model</th>
<th>Adjusted R</th>
<th>R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.896(a)</td>
<td>.803</td>
<td>.793</td>
<td>.37413</td>
</tr>
</tbody>
</table>

Source : SPSS output

The value of adjusted R square is 0.793, it means that 79.3% independence ratio variance can be explained by the variance from the four independence variables: local tax, local retribution, PDRB, and tax sharing. While the residue (100% - 79.3% = 20.7%) explained by another thing outside the model.
Standard Error of estimate (SEE) is 0.37413, if the SEE value is smaller, it will make the regression model more correct to predict the independence variable.

3. T value

This test functions to determine the significance level of each of independent variables. T value in this research used the significance level of 5%.

Table 11
Individual Parameter Significance Test

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardize d Coefficients</th>
<th>Standardize d Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Std. B</td>
<td>Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-.049</td>
<td>.043</td>
<td>-1.158</td>
<td>.250</td>
</tr>
<tr>
<td>ZLGLocalTax_2</td>
<td>.948</td>
<td>.081</td>
<td>1.045</td>
<td>11.696</td>
</tr>
<tr>
<td>ZLGLocalRetribution_2</td>
<td>-.125</td>
<td>.054</td>
<td>-.150</td>
<td>-2.298</td>
</tr>
<tr>
<td>ZLGPDRBGrowth_2</td>
<td>.032</td>
<td>.047</td>
<td>.036</td>
<td>.693</td>
</tr>
<tr>
<td>ZLGRRevenueSharing_2</td>
<td>-.076</td>
<td>.063</td>
<td>-.092</td>
<td>-1.213</td>
</tr>
</tbody>
</table>

Source: SPSS output
There are two variables in the regression model that significant, it was shown when p-value (shown by sig) < 0.05. They are local tax 0.000 and local retribution 0.024. And there are two other variables in the regression model that was not significant, they are PDRB Growth 0.490 and tax sharing 0.229.

The researcher can say that the independence ratio was influenced by local tax and local retribution. The value of -0.049 shows that if the independence variable assume constant thus the mean of independence ratio -0.049. Coefficient regression of local tax is 0.948, it means that every addition of local tax for 10 times will increase the independence ratio 9.48 times. Coefficient regression of local retribution is - 0.125, it means that every addition of local retribution for 10 times will decrease the independence ratio for 1.25 times.

Local Tax variable has positive and significant correlation toward independence ratio. This is shown by the significance level t of 0.000 which lower than the significance level used in this research of 0.05; and the correlation value of  0.876 (Appendix XII) or 87.6 %. It means that local tax variable has a very strong and positive correlation toward independence ratio.

Local retribution variable has negative and significant correlation toward independence ratio. This is shown by the significance level t of 0.024 which lower than the significance level used in this research of 0.05; and the correlation value of  0.427 (Appendix XII) or 42.7 %. It means that local
retribution variable has a strong and negative correlation toward independence ratio.

PDRB variable has positive but not significant correlation toward independence ratio. This is shown by the significance level t of 0.490 which higher than the significance level used in this research of 0.05; and the correlation value of 0.037 (Appendix XII) or 3.7%. It means that PDRB variable has a very weak and positive correlation toward independence ratio.

Revenue sharing variable has negative and not significant correlation toward independence ratio. This is shown by the significance level t of 0.229 which higher than the significance level used in this research of 0.05; and the correlation value of 0.529 (Appendix XII) or 52.9%. It means that revenue sharing variable has a strong but negative correlation toward independence ratio.

D. Discussion

The first hypothesis in this paper states that: Local Taxes influence the local government independence ratio. Based on the regression analysis above the local tax influence show with the regression coefficient 0.948 with p= 0.000. If we use significance rate 5% or 0.05 thus p= 0.000 (table 12) is less than 0.05 it means that the local tax has positive influence in the local government independence ratio. If the local tax increases, thus the local government
independence ratio will be increase too. It explained that the first hypothesis is accepted.

According to the explanation above, the hypothesis result is relevant to Haryanto (2006), which stated that Local Taxes variables significantly and positively affect PAD (Local Own revenue). The research also suitable with the research conducted by Astabrata (2002), which stated that there is a positive and significant influence between the PHR (restaurant hotel tax - part of local tax) with PAD from year 1985 to 2000.

Based on analysis, found that local tax is a potential revenue source for local government to developed since they have positive influence toward independence ratio as reflection of local government independence. To support the implementation of regional autonomy it would be necessary for the local government to pay attention to each promising field. With the enforcement of law No. 28 year 2009, local government may create new local tax as long as it in line with the applicable law and their authority.

To increase the revenue of local tax, the government should conduct some effort as: tax intensification, tax extensification (embrace new tax payer), counseling/construction, control and coordination enhancement, sanction applying, the improvement of government officer’ quality, and also the increase of coordination between institution.

The second hypothesis in this paper states that: Local Retributions influence the local government independence ratio. Based on the regression
analysis above the local retribution influence show with the regression coefficient - 0.125 with p= 0.024. If we use significance rate 5% or 0.05 thus p= 0.024 (table 12) is less than 0.05 it means that the local retribution has negative influence in the local government independence ratio. If the local retribution increases, thus the local government independence ratio will be decrease. However, it explained that the second hypothesis is accepted.

According to the explanation above, the hypothesis result is quite relevant with research conducted by Riduansyah (2001), which stated that the contribution of local retribution revenue toward Bogor municipalities’ own revenue (PAD) on budget year 1993/1994-2000 is quite significant. Riduansyah’ research find the same significantly of local retribution influence with the researcher finding, although his study stated positive influence toward own revenue (PAD), while the researcher find that local retribution has negative influence toward local government independence ratio.

The finding which explained that local retributions have significant but negative influence toward PAD should have more attention. Recently, local government together with regional parliament (DPRD) have tendency to make new local government rules (PERDA) to gain more local retribution. But from this research, we find that local retribution have negative influence, so that the local government together with parliament should really consider when they will issue new retribution so as not to decrease the level of local government
independence. To increase the local government revenues, it could be considered to find another source of revenue other than local retribution.

The third hypothesis is rejected. The p value is 0.490 and the regression coefficient of 0.032 meaning that p value is higher than significance value of 1% or 5%. It indicates that PDRB statistically does not influence local government independent ratio.

PDRB statistically does not influence local government independent ratio. This matter is probably caused by the existence of central government loan and grant. In this research, government loan and grant here means: DAU, DAK, government other legal revenue, and loan and grant from central government. Based on Bappenas (2003) and Adi (2006) research, PDRB growth has positive and significant influence toward PAD. But in this research, when PAD compared with government loan and grant, than appear an opposite conclusion. It means that government loan and grant have negative effect toward local government independence.

The fourth hypothesis is rejected. The p value is 0.229 and the regression coefficient of 0.076 meaning that p value is higher than significance value of 1% or 5%. It indicates that tax sharing statistically does not influence local government independent ratio.

Revenue sharing statistically does not influence local government independent ratio. This matter is probably caused by the pattern of revenue sharing received from central government. Although local governments which have high revenue will receive high revenue, but still revenue sharing do not
directly affecting the independence of local government. This shown that there 
exist many others factors that affecting the establishment of tax sharing. This 
finding more less suits Brodjonegoro and Vasquez (2002) finding.

The recent reforms introduced revenue sharing as an almost new 
instrument of sub-national finance in Indonesia. However, revenue 
sharing plays a significant role only for a minority of sub-national 
governments and those that benefit from revenue sharing seem to be 
powerless in predicting how much they are going to receive in funds 
during the fiscal year (Brodjonegoro and Vasquez 2002).

However, revenue gained from own revenue (PAD) compliments should be 
increased to support the defrayal of autonomy area. The higher the revenue gained 
from PAD component, it will reflect the level of independence of a certain autonomy 
area in self financing, which will provide wider space to establish their development 
priorities.
A. Conclusion

In the area of government institutions, performance measurement which developed in systematic and continual manner, aimed to create a more useful, productive, clean, and responsible government. Through these performance measurements, base for reasonable decision making might be developed and be accountable so that the strong information support will create accurate decision making. There are many ways to measure government performances, one of them is by using independence ratio. Local government independence ratio shows local government ability in finance their governing activity, infrastructure development, and public service. Later on, this research focused on financial
independence ratio as measurement for the local government performance, especially on the aspects that affecting them. This research conducted to find out what variables that able to support the form of local government independence ratio as reflection of local government independence.

This research used data of financial statement from 30 provinces in Indonesia. This research examine the influence of: local tax, local retribution, PDRB (Produk Domestik Regional Bruto – Gross Regional Domestic Product), and revenue sharing toward independence ratio.

The analysis showed that local tax and local retribution had significant influences on the local government independence ratio. Meanwhile, another finding showed that economic growth and revenue sharing had no influences on the local government independence ratio.

Based on analysis, found that local tax is a potential revenue source for local government to developed since they have positive influence toward independence ratio as reflection of local government independence. It means that local tax is one promising way to develop the local government independence, various new taxes or higher percentage of local taxes might be implemented to gain more revenue from this sector.

The finding which explained that local retributions have significant but negative influence toward PAD should have more attention. This finding put attention to the government of the important aspect of local retribution, although local
retribution is an easy way to gain revenue but the negative effect should be really considered. The government and regional parliament should really wise in publish new retribution.

B. Suggestion

There are several suggestions regarding this research, such as:

1. Local government independence is the main purpose from the implementation of autonomy. This research find that local tax have positive influence when local retribution has negative influence toward local government independence. Local government independence ratio which used as tool to see the government independence, use the comparison of PAD (local own revenue) toward central government grant and loan (consist of DAU, DAK, government other legal revenue, and loan and grant from central government).

The finding shown that local tax have positive and significant influence toward PAD means that there should be more effort to gain revenue from this sectors, more over with the finding shown that revenue sharing have no influence toward local government independence, so it will be better if some of revenue sectors (which previously act as revenue sharing) being hand over to local government. For example is Land and Building Tax (Pajak Bumi dan Bangunan-PBB) and Land and Building Acquisition Tax (Bea Perolehan Hak atas Tanah dan Bangunan-BPHTB), since almost all of these both tax revenue is returning to
local government again, and the tax collection is mostly involving the local
government officers. So it would more benefited for both parties, central and local
government, if some kind of taxes is being hand over to local government.
Another effort to increase the revenue of local taxes are: tax intensification, tax
extensification (embrace new tax payer), counseling/ construction, control and
coordination enhancement, sanction applying, the improvement of government
officer’ quality, and also the increase of coordination between institution.

The finding which explained that local retributions have significant
but negative influence toward PAD should have more attention. Recently,
local government together with regional parliament (DPRD) have tendency
to make new local government rules (PERDA) to gain more local retribution.
But from this research, we find that local retribution have negative influence,
so that the local government together with parliament should really consider
when they will issue new retribution so as not to decrease the level of local
government independence. To increase the local government revenues, it
could be considered to find another source of revenue other than local
retribution.

2. The suggestion from the researcher for another researcher that have
willingness to make the next research are:

a. The next research may add longer periods to gain more comprehensive
   findings.
b. The next research can be conducted with more samples, both in province and regencies/cities, so that the generalization of research will be better. Also the researcher may use these different characteristics as comparison.

c. Increase the research variable with another characteristics that related to PAD (government own revenue).

C. Limitation

This research has several limitations which can affect the research findings. The limitations are as follows: First, this study only uses financial statement from year 2005 to 2007 due to the data availability. Second, the researcher only focuses on province as sample due to the data readiness.

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