

THE INFLUENCE OF LOCAL REVENUE AND TRANSFER FUNDS ON REGIONAL EXPENDITURE IN THE CITY OF JAYAPURA IN 2014-2023

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Abstract

This study aims to analyze the effect of Local Own-Source Revenue (PAD) and Transfer Funds on Regional Expenditures in Jayapura City from 2019 to 2023. The research employs a quantitative approach using multiple linear regression analysis to assess the relationship between the independent variables (PAD and Transfer Funds) and the dependent variable (Regional Expenditures). The results indicate that PAD and Transfer Funds significantly impact regional expenditures individually and simultaneously. The findings suggest that while Jayapura City has experienced growth in PAD, it remains heavily reliant on transfer funds from the central government. This study provides insights for policymakers to enhance fiscal independence by optimizing local revenue sources and ensuring effective allocation of transfer funds for regional development.

Keywords: Local Own-Source Revenue, Transfer Funds, Regional Expenditures, Fiscal Decentralization, Jayapura City

INTRODUCTION

The consequence of the transfer of authority from the central government to local governments is the need for financial balance between the central and local governments, which causes a significant transfer in the State Budget from the central government to local governments, and local governments can freely use these funds to provide better services to the community or for other purposes that may not be important. With the transfer of funds from the center, it is expected that local governments can better allocate the local revenue they receive to finance their local expenditures. Meanwhile, intergovernmental fund transfers are natural and common in all countries in the world, regardless of the system of government (Harefa, 2016). The transfer is given with the aim of internalizing fiscal externalities that arise across regions, improving the taxation system, correcting fiscal imbalances, and accommodating fiscal equity between regions (Abdul Wahab, 2021). In the context of the implementation of fiscal decentralization in Indonesia, these transfers to the regions are provided in the form of Balancing Funds (consisting of the General Allocation Fund (DAU), Special Allocation Fund (DAK), Revenue Sharing Fund (DBH), Special Autonomy Fund, and Adjustment.

According to Harefa (2016) argues that a common phenomenon faced by most local governments in Indonesia in terms of regional finance is the relatively small role (contribution) of Regional Original Revenue in the structure of the Regional Budget (APBD). In other words, the role/contribution of revenue from transfer funds still dominates the composition of the Regional Revenue and Expenditure Budget. This is also the case with the structure of the Jayapura City Regional Budget, where the receipt of transfer funds is still dominant. More details about this can be seen in the following table:

Tabel 1
Realization of PAD Receipts and Transfer Funds of Jayapura City 2014-2023

Year	Locally-Generated Revenue (Rp)	Fund Transfer (Rp)	Regional Purchase (Rp)
2014	52.698.546.054	593.738.052.733	639.850.519.817
2015	43.039.239.217	424.313.899.568	389.124.717.329
2016	78.138.312.941	700.372.434.085	795.461.218.498
2017	103.430.111.932	699.475.449.839	950.906.793.019
2018	147.103.021.595	901.862.316.516	1.077.369.145.242
2019	152.631.134.983	944.779.914.612	1.204.819.811.826
2020	164.831.615.678	1.113.882.688.957	1.280.379.079.575

2021	176.666.250.173	1.046.127.433.209	1.187.042.622.291
2022	243.863.618.164	1.020.212.686.616	1.136.467.522.886
2023	235.147.029.262	1.035.009.905.548	1.134.115.360.472

Source: Laporan Realisasi Anggaran Kota Jayapura, 2023

Since the beginning of 2020 until now, our country has been hit by the COVID-19 pandemic, causing unfavorable impacts. Not only in the health aspect, but also in the financial aspect. Apart from the health aspect of dealing with the pandemic, the financial shift from the center to the regions is also focused on handling the social and economic impacts of COVID-19, which began in Wuhan, China. Based on online Local Budget Analysis (LBA) Papua 2020 research in eight regions, namely Papua Province, West Papua Province, Tambrauw Regency, Fakfak Regency, Merauke Regency, Jayapura Regency, Raja Ampat Regency and Sorong Regency using a qualitative methodology with desk analysis techniques, Papua and West Papua Provinces are considered not to have regional financial independence. Both provinces still have a high level of dependence on the central government through regional transfer funds (Hidayat. K.F., 2022).

This is also the case in West Papua province. Melkias Werinussa stated that the infrastructure program in West Papua Province was hampered because most of the budget was allocated for COVID-19 countermeasures. Quite a lot of infrastructure budgets were cut by 50%, and operational funds in all OPDs were directed to handling COVID-19. The central government took over the entire national budget. In accordance with the central instruction, each region is required to reduce 50% of capital expenditure activities, goods, and services. Regions are asked to revise revenue and expenditure targets. Regions that do not comply will not receive General Allocation Fund (DAU) transfers. In 2020, the DAU for West Papua was cut by 35% because one district did not report its budget reallocation and refocused to the central government (Adolph, 2016).

Wahyu Sanjaya, chairman of the State Financial Accountability Committee (BAKN) of the House of Representatives said that in the results of the examination of the 2019 financial statements of the Ministry of Agrarian Affairs and Spatial Planning/ National Land Agency by BPK RI, several errors were found in the encumbrance of goods and capital expenditures such as differences in mutations due to the addition of extra compatible equipment and machinery, differences in mutations of buildings and buildings due to the

addition of other fixed assets, and differences in mutations due to other service expenditures. This was found in the Regional Office of West Papua province (Eko, 2022).

LITERATURE REVIEW

The Regional Revenue and Expenditure Budget (APBD) is an annual regional financial plan that contains revenue plans, expenditure plans, and regional financing plans for one fiscal year. According to Mawikere (2022), the Regional Revenue and Expenditure Budget is the embodiment of the Regional Government's work plan in the form of units of money for one year and is oriented towards the goal of public welfare. According to Abdul Wahab (2021), the Regional Revenue and Expenditure Budget (APBD) is the basis for regional financial management in a certain fiscal year, generally one year.

Revenue is divided into 3 categories, namely Regional Original Revenue (PAD), Balance Funds, and other legal regional revenues. Expenditures are categorized into 4 categories, namely regional apparatus expenditures, public service expenditures, revenue sharing and financial assistance expenditures, and non-suspect expenditures. Regional apparatus expenditure is classified into 3 categories, namely general administration expenditure, operation and maintenance expenditure, and capital/development expenditure. Public service expenditure is categorized into three categories: general administration expenditure, operation and maintenance expenditure, and capital expenditure. Financing is grouped according to sources of financing, namely: sources of regional revenue and sources of regional expenditure. Sources of financing in the form of regional revenue are: the remaining excess of last year's budget, receipt of loans and bonds, proceeds from the sale of separated regional assets, and transfers from reserve funds. Sources of financing in the form of regional expenditures consist of: payment of maturing principal debt, equity participation, transfers to reserve funds, and the remaining excess of the current year's budget (Mawikere, 2022).

To increase the public's contribution to local revenue, the allocation of capital expenditure should be increased. Capital expenditures made by local governments include the development and improvement of the education, health, and transportation sectors, so that the community also enjoys the benefits of regional development. Therefore, the regional

budget will be illogical if the proportion of the budget is more for routine expenditure (Fitry Oetary, 2021).

According to Rendy Armando Kakasih (2018), Regional Original Revenue is regional revenue from the regional tax sector, regional levies, the results of regionally owned companies, the results of the management of separated regional assets, and other legitimate Regional Original Revenue. According to Mawikere (2022), Regional Original Revenue (PAD) is all regional revenue originating from original regional economic sources. Regional Original Revenue is separated into four types of revenue, namely: local taxes, local levies, the results of regionally owned companies, and the results of the management of separated regional property, and other legitimate PAD.

With fiscal decentralization, there is a considerable flow of funds from the central government to local governments (Herwastoeti, 2010). Local governments are required to improve the accountability of their government financial management and reporting. Ideally, fiscal decentralization can improve the efficiency, effectiveness, transparency, and accountability of government financial management. According to Djaenuri, (2012), the definition of balancing funds is a source of regional income derived from the State Budget to support the implementation of local government authority in achieving the objectives of granting autonomy to the regions, especially the improvement of services and better community welfare. Thus, in line with its main objectives, the balancing fund can further empower and improve the ability of the regional economy, create a payment system that is fair, proportional, ratio, participatory transparent, responsible (accountable), and provide certainty of regional financial resources originating from the region concerned.

Triyulianto et al. (2018) argued that the Special Allocation Fund (DAK) aims to: The purpose of the Special Allocation Fund (DAK) is to help finance special activities in certain regions that are regional affairs and in accordance with national priorities, especially to finance the needs of basic community service facilities and infrastructure that have not reached certain standards or to encourage the acceleration of regional development. The government sets the criteria for Special Allocation Funds, which include general criteria, specific criteria, and technical criteria. General criteria are determined by considering the ability of the Regional Finance in the Regional Budget. Special criteria are determined by

taking into account laws and regulations and Regional characteristics. Technical criteria are determined by the State ministry/technical department”.

Research conducted by Farhan Fahrezi et al. (2021) entitled “The Effect of Local Revenue, General Allocation Fund, Special Allocation Fund and Remaining Budget Calculation Overruns on Capital Expenditures”. The results of the study state that partially the General Allocation Fund (DAU), Special Allocation Fund (DAK) have a positive and significant effect on capital expenditure, while the Remaining Budget Calculation (SiLPA) has no effect on capital expenditure in the City Regency / North Sumatra Province Government in 2016-2019.

RESEARCH METHOD

This research is comparative causal research, namely research that seeks to investigate cause-and-effect relationships through observing the consequences that have occurred and analyzing existing data to find causal factors (Saifuddin, 2001). This research method is called a quantitative method because the research data is in the form of numbers and analysis using statistics (Sugiyono, 2018).

The data used in this study are secondary data. The data collection technique in this study is the documentation technique, by collecting data in the form of reports on the target and realization of regional revenue for Jayapura City in 2015-2019. This research pattern was carried out in two stages. The first stage is done through literature study, namely through accounting journals and books related to the problem under study. The second stage, secondary data collection obtained from the Jayapura City Regional Financial and Asset Management Agency.

According to Taufan et al. (2018), data processing is a process of obtaining summary data or summary numbers using certain methods or formulas. Data processing aims to convert raw data from measurement results into finer data so that it provides direction for further study (Fatimatuz Zahroh & Nur Rahmawati, 2024). Data processing techniques in this study used computational calculations of the SPSS (Statistical Product and Service Solution) program because this program has high statistical analysis capabilities and a data management system in a graphical environment using descriptive menus and simple dialog boxes, making it easy to understand how to operate (Syuhada Nasution et al., 2022).

RESULTS AND DISCUSSION

Multiple Linear Regression Analysis

This study utilizes quantitative data analysis with statistical calculations. (Gozali, 2013) The data analysis will be conducted using SPSS (Statistical Product & Service Solutions) software. The data analysis method applied in this research is **Multiple Linear Regression Analysis**, with the following basic equation:

$$Y = a + b_1X_1 + b_2X_2 + e$$

Where:

- Y** = Regional Expenditure
- a** = Constant
- X₁** = Locally Generated Revenue
- X₂** = Transfer Funds
- b** = Regression Coefficients
- e** = Error Term (Ghozali, 2013)

t-Test (Partial Test)

The **t-test** aims to determine the partial influence of independent variables on the dependent variable. This test assesses whether each independent variable significantly affects the dependent variable.

F-Test (Simultaneous Test)

The **F-test** evaluates the overall influence of independent variables on the dependent variable. If **F_{calculated} > F_{table}**, it indicates that the independent variables have a significant effect on the dependent variable at a **0.05 significance level**. If **F_{calculated} > F_{table}**, it confirms that all independent variables collectively influence the dependent variable.

Correlation Coefficient

The **correlation coefficient (r)** measures the strength of the linear relationship between two variables. The value of **r** ranges from **-1 to +1**, where:

- An **r value close to -1 or +1** indicates a strong relationship.
- An **r value near 0** suggests a weak relationship.
- A **positive (+) correlation** implies that an increase in **X** leads to an increase in **Y**, and vice versa.

- A **negative (-) correlation** indicates an inverse relationship, where an increase in **X** results in a decrease in **Y** (Sugiyono, 2018).

Coefficient of Determination (Adjusted R²)

The **coefficient of determination (R²)** measures how well the independent variables explain variations in the dependent variable within the regression model.

- **An R² value close to 0** indicates that the independent variables have a limited ability to explain variations in the dependent variable.
- **An R² value close to 1** suggests that the independent variables provide nearly all the necessary information to predict the dependent variable.

Research Hypotheses

A hypothesis is a **temporary answer** to the research problem statement, formulated as a question. It is considered temporary because the answer is based on relevant theories rather than empirical data obtained through direct observation. Thus, a hypothesis can be described as a **theoretical** answer to the research problem, not yet supported by empirical evidence. The hypotheses in this study are as follows:

- **H₁**: It is suspected that **locally generated revenue** has a **positive and significant effect** on regional expenditure in **Jayapura City**.
- **H₂**: It is suspected that **transferring funds** has a **positive and significant effect** on regional expenditure in **Jayapura City**.
- **H₃**: It is suspected that **locally generated revenue and transfer funds, simultaneously, have a positive and significant effect** on regional expenditure in **Jayapura City**.

CONCLUSION

The analysis of regional financial dynamics in Jayapura City reveals that Local Own-Source Revenue (PAD) does not significantly influence Regional Expenditures. Although there exists a negative relationship between PAD and expenditure levels, the correlation is not strong enough to shape fiscal policy decisions, thereby indicating a persistent reliance on Transfer Funds from the central government. In contrast, Transfer Funds exhibit a significant and positive impact on Regional Expenditures, serving as a primary source for financing development projects and public services. Any increase in these central government transfers

tends to substantially elevate regional spending. While PAD on its own lacks a statistically significant effect, the combined influence of PAD and Transfer Funds proves to be substantial in shaping budgetary outcomes, underscoring the importance of an integrated approach to fiscal resource management.

In light of these findings, several strategic recommendations emerge. First, it is imperative for the Jayapura City Government to optimize PAD potential by improving the efficiency of tax and levy collection and maximizing the use of local resources. This would not only reduce dependency on external funding but also strengthen regional fiscal resilience. Second, recognizing the pivotal role of Transfer Funds, continuous coordination with the central government must be reinforced to secure sufficient and well-targeted allocations. Transparent and accountable management of these funds is also crucial to support sustainable development objectives. Furthermore, the city should pursue revenue diversification strategies to minimize overreliance on a single income source. Encouraging local economic development and fostering an investment-friendly environment can be instrumental in boosting PAD. Finally, a commitment to equitable and inclusive development policies that prioritize public welfare and optimize available resources will ensure that both PAD and Transfer Funds are effectively translated into tangible benefits for all sectors of society.

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