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FINANCIAL CENTRAL AND REGIONAL RELATIONS WITHIN THE GOVERNMENT ENFORCEMENT IN INDONESIA

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Abstract: *Indonesia is a unitary state as asserted in the Article 1 paragraph (1) of the Constitution of the Republic of Indonesia 1945. As a consequence of this, Indonesia dividing its territory into several regions. This study aims to analyze the form of regulation on financial relations among the central and regional governments, especially those that regulate balance funds to accelerate the equitable distribution of development. Types of normative research with legislative, conceptual, and philosophical approaches were used as the research method. In conclusion, the formulation of balancing funds between the central and regional governments prevailed so far has not yet reflected a sense of justice so that it can obstruct the occurrence of even distribution among regions.*

Keywords: *Finances; Government; Indonesia*

INTRODUCTION

As consequence of the unitary state according to Article 1 paragraph (1) of the Constitution Year 1945 of the Republic of Indonesia, Indonesia divided its territory into regions as existed in Article 18 paragraph (1) of the Constitution Year 1945 of the Republic of Indonesia, as follows: "The Unitary State of the Republic of Indonesia was divided into provincial regions and the provincial regions also divided into regencies and cities, where each province, district, and city has regional government regulated by law". Indonesia as a unitary state enforces a regional government system based on decentralization and regional autonomy policies. At the beginning of the reformation in 1997 until 1999, the Indonesian state had the opportunity to apply and change the form of the state and government system with others, nevertheless, it was not done with consideration:

1. Preparation towards the Indonesian federation was still not possible. The choice of broad autonomy is a very strategic preference to take care of a nation-state that has been long established and maintained;
2. Centralization proved to fail to overcome the national crisis that occurred in 1997;
3. Reinforcement of the political democracy;
4. Justice (Rasidin 2010, 47).

Noticing these reasons, the choice of decentralization and regional autonomy policies in a unitary state is the best preference:

1. Decentralization as the surrender of authority and power;
2. Decentralization as the delegation of power and authority;
3. Decentralization as division, dissemination, dispersing and giving power and authority;
4. Decentralization as a means for the division and formation of government regions (Gadjong 2007, 79).

Decentralization as a government system denotes division, dissemination, dispersion, granting of power and authority as what delivered by Hofman who gave the term administrative decentralization as a step in spreading the authority to carry out government affairs, where it was centralized or focused on the central government in the past (2007, 83). Meanwhile, Aldelfer believes that decentralization is the establishment of autonomy regions with certain powers and fields of activity organized based on their initiative and administrative considerations (John 1989, 176). According to Law Number 23 the Year 2014 concerning Regional Government, decentralization is the surrender of government affairs by the central government to autonomy regions based on the principle of autonomy. It is further explained as the basic principle of implementing regional government based on regional autonomy.

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Based on this description, it can be seen that decentralization does not have a single definition, there must be harmonization between political, administrative and financial decentralization. Political decentralization gives authority for regions to make decisions and carry out a policy, whereas administrative decentralization guides how to implement the transfer of authority and function. Financial decentralization relates to the monetary relationship between the central government and regions that regulates regional authority to explore sources of income, both in the form of Regional Original Revenue and those originating from balancing funds and regional authority in its management.

Financial relations between the center and the regions are related to the division of authority among the central and regional governments in the field of financial management as a consequence of the decentralization and regional autonomy policies. This financial relationship is closely related to the principle of governance, as the background for the emergence of financial relations.

As stipulated in Article 5 paragraph (4) Law Number 23 the Year 2014 concerning Regional Government, the implementation of government affairs in regions was carried out based on the principles of decentralization, deconcentration and co-administration tasks. These three principles are the basic foundation in the administration of the region, hence the pattern of central and regional financial relations is also characterized by the relationship of the functions of the regional center based on these three principles.

The deconcentration principle obliges the central government to calculate its costs through the State Budget and Expenditures, the principle of co-administration costs is budgeted by those who assign, it can be both the State Budget and Regional Budget depending on the assignment, whereas for matters that have been submitted to the area was calculated through the Regional Budget. Therefore, there is an assurance that no governmental affairs submitted to the regions that cannot be carried out by reasons of charges. Financial balance among the central and regional governments is a comprehensive system in the framework on funding implementation of the decentralization principles, deconcentration, and co-administration. Thus, the regulation on financial balance does not only cover aspects of regional income but also regulates the management aspects and responsibilities.

Providing state financial resources to the regions in the context of implementing decentralization is by taking into account stability, national economic conditions and financial balance between the central and local governments. The issue is the allocation of regional financial resources is that it is mostly in the form of assistance from the central government, where only a small part of which is local revenue. This reduces the independence of nature and dependence of the regional government in the financial sector. Based on the description above, the objective of this work is to answer: How is the form of regulation of financial relations among the central and regional governments specifically regulating the balance

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funds to accelerate equitable development equitably?. This study uses a type of normative research with a statute, conceptual, philosophical, and historical approach in its method. It is also used primary, secondary, and tertiary law materials. Finally, the legal objects obtained were processed and analyzed in normative prescriptively.

ANALYSIS AND DISCUSSION

Conceptual Review

In the Constitution of the Republic of Indonesia 1945, Article 1 paragraph (1) declared that the state of Indonesia is a unitary state in the form of republic. The unitary state principle is the holder of the highest authority over all state affairs which is the central government without any representative or delegation power to local government. In a unitary state, there is a principle claims that all state affairs are not divided between the central and local government in such a way that the state affairs in the unitary state remain a unanimity and that the highest authority in a country is the central government. This was regulated in Law Number 23 the Year 2014 concerning Regional Government Article 7 paragraph (2) where the president holds final responsibility for administering government affairs carried out by the central and regional governments. The study of unitary state was divided into two systems of government, which are centralization and decentralization government. According to Riwo Kaho, the system of administering the government in a unitary state was divided into two forms, namely:

1. A unitary state with a centralization system, that is, everything in a country was directly managed by the central government, whereas the regions only have to carry it out;
2. A unitary state with a decentralization system, that is, regions are given the opportunity and power to regulate and manage their household, in this case, called autonomy regions (Kaho 1990, 3).

The two forms of government in this unitary state create different characters in the relationship between the central and regional government, related to the form, structure and power distribution or authority that exists in the state, whether the power should be divided into regions or concentrated in the central government.

Since the reformation era that ended the New Order era with Law Number 22 the Year 1999 concerning Regional Government which emphasizes undamaged autonomy in the regency and city areas with the broadest authority which is known as decentralization and regional autonomy. Decentralization is the administration principle of government which is opposed to centralization.

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Decentralization produced a local government, so that occur: "a superior government - one encompassing a large jurisdiction - assigns responsibility, authority or function to lower government unit - one encompassing a smaller jurisdiction - that is assumed to have some degree of autonomy" (Cheema and Rondidinelli 1983, 35).

Parson's political *aspect* defines decentralization as the sharing of the governmental power by a central ruling with other groups, each having authority within a specific area of a country (Hidayat and Husen 2001, 23). Meanwhile, Mawhood defines decentralization as the devolution of power from the central government to local governments (Hidayat and Husen 2001, 23). In the Law Number 23, 2014 concerning Regional Government Article 1 paragraph (8): "Decentralization is the transfer of government affairs by the central government to autonomous regions based on the principle of autonomy". The autonomy principle is the basic principle of implementing regional government based on regional autonomy. Regional autonomy is the rights, authority, and obligation of autonomous regions to regulate and manage their government affairs and interests of the local community in the system of the Unitary State of the Republic of Indonesia.

To guarantee the government implementation, the regions are provided with funding sources, both those originating from the region, in the form of regional own-source revenues and those originating from the central government, which well known as Balancing Fund. Balancing Funds are originating from the State Budget that allocates to regions for funding regional needs in the context of implementing decentralization. Balancing Fund consists of :

1. General Allocation Fund;
2. Special Allocation Fund;
3. Revenue Sharing Funds that involves part of the land and building tax receipts, fees for acquiring land and building rights, and revenues from natural resources.

FORM OF REGULATIONS FOR BALANCING FUNDS

General Allocation Fund (GAF)

General Allocation Fund is originating funds from the State Budget revenues that were allocated to aim equitable distribution on financial capacity between regions to fund regional needs in the context of implementing decentralization as stated in Article 1 Paragraph (21) Law Number 33 the Year 2004 concerning Financial Balance between central and regional government. The general allocation fund is set at least 25% of the domestic revenue stipulated in the State Budget. Wherewith the provincial and district/city regions, it set at 10% and 90% of the general allocation fund that has been determined.

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If there is an exchange authority between the provincial and district/city regions, the strength to each region will be held adaptability. Then, the General Allocation Fund for certain province was determined based on the multiple amounts of the allocation fund for all provincial regions that was established in the State Budget with a portion of the relevant province. The portion of the relevant province constitutes the portion integrity of the province concerned with the total amount of all provincial regions throughout Indonesia.

Also, General Allocation Fund for certain regency/city was determined based on the multiple amounts of the allocation fund for all districts or cities, representing the integrity of the relevant regencies or cities in the total weight of all districts/ cities throughout Indonesia. Regional integrity was determined based on:

- Needs for regional autonomy
- The potential of regional autonomy

The allocation of general funds for regions was calculated by the following formula: "GAF = FG + BA" , where:

- FG= Fiscal Gap: Fiscal Needs – Fiscal Capacity
- Regional fiscal needs are the need for regional funding to carry out the basic functions of public services
- General basic services including the provision of health services, education, provision of infrastructure, tackling society from poverty and others
- Regional fiscal capacity is a source of regional funding originating from local revenue and profit sharing
- Basic Allocation (BA) was calculated based on the salary of regional civil servants including all benefits

The needs of regional funding to enforce general basic service are measured successively based on:

1. Total population
2. Landmass
3. Construction Price Index (CPI)
4. Gross Domestic Regional Product (GDRP)
5. Human Development Report (HDR)

Figuring the General Allocation Funds uses the same formula for all regions, such as developed area, developing area, undeveloped area, newly formed area and also border area especially regions outside Java and Madura, hence, this arrangement feels unfair. Concerning this, the arrangement of the General Allocation Fund that uses the same formula

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for all advanced, developed, and the undeveloped region is inappropriate since it can disserve areas outside Java and Madura. The population in Java and Madura is far more teeming than the population on the island of Kalimantan, Sulawesi, NTT, Maluku and Papua. With the same formula, regions in Java and Madura have much larger funds than the regions outside Java and Madura. As appropriate, the developed and undeveloped regions received priority and attention from the government, so that the purpose of the General Allocation Fund which is intended for equitable development and reducing gap can be realized.

Special Allocation Fund (SAF)

Special Allocation Fund (SAF) is part of the balanced fund as stipulated in Law Number 33 from the Year 2004 concerning Financial Balance between the Central and Regional Governments. It is funded originating from the State Budget revenues allocated to certain regions to aim of giving fees on special activities as the regional affairs and accordance with national priorities.

Special activities stipulated by the government accentuate activities and/ or procurement activities and/or upgrading and/or repairing physical activities and infrastructure for basic services of the community a long economic life including procurement of supporting physical facilities.Certain regions are the area that meets criteria assigned each year to obtain the Special Allocation Fund, so not all region received it. Government affairs that can be funded through Special Allocation Funds are public services, defense, security, economy, environment, housing, and public facilities, health, tourism, culture, religion, education, and social protection. Areas that can get this funds must meet several criteria, such as general criteria, specific criteria, and technical criteria, as well as the proposed program, must be a national priority program contained in the government work plan of the relevant fiscal year.

The general criteria are formulated based on regional financial capacity reflected in the general revenue of the Regional Budget after subtracting regional civil servant expenditures, while special criteria are formulated through the territorial index by the Minister of Finance by considering input from the State Minister for National Development Planning and related ministers/leaders Technical criteria are prepared based on technical indicators by the relevant minister. Estimation of the Special Allocation Fund is carried out through two stages, namely:

1. Determination of certain areas that receive special funds;
2. Determination of the amount of Special Allocation Fund for each region.

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The establishment of the Special Allocation Fund for each region based on the above exposure is prone to unfair competition among regions, especially if it is not supported by good integrity from official governments. Criteria that have been set by the government do not rule out the possibility that many regions can fulfill, on the other hand, the budget availability was limited.

Revenue Sharing Funds from Receipt of Land and Building Taxes (LBT), Fees for Acquisition of Land and Building Rights (FALBR) and Receipts from Natural Resources (NR)

State revenues from Land and Building Taxes are divided by a 10% balance for the central government and 90% for the regions, state revenues from the acquisition of land and building rights ranged around 20% for central and 80% for the regions. Likewise, with state revenues from the natural resources of the forestry sector, the general mining sector and fisheries sector are divided by 20% for the central government and 80% for local governments. Meanwhile for sectors with high economic value was precisely opposite for large centers and small area, for example, state revenue from natural resources in the oil and natural gas mining sector generated from the concerned region was divided into the following balance:

1. The state income from petroleum mining comes from the region after deducting the tax component following the applicable provisions were divided into 85% for the central government and 15% for the regional government;
2. The state income from the natural gas mining comes from the regional area after deducting the tax component following the applicable provisions was divided into 70% balance for the central government and 30% for the regional government.

For details, it can be seen in the following table:

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Table 1. Central-Regional Financial Balance According to Law Number 33 the Year 2004
(Source: Concluded from Several Indonesia's Law and Regulations)

Source	Central	Regional	
Crude Oil	84,5	15,5	
		Province	3
		Regency/ City of Income	6
		Regencies/ Other City	6
		Additional Basic Education Budget	0,5
Natural Gas	69,5	30,5	
		Province	6
		Regency/ City of Income	12
		Regencies/ Other City	12
		Additional Basic Education Budget	0,5
Mining	20	80	
		Fixed fee (Lend-Rent)	
		Province	16
		Regency/ City of Income	64
		Exploration and Exploitation fee (royalty)	
		Province	16
		Regency/ City of Income	32
		Regencies/ Other City	32
Forest	20	80	
		Fees on Forest Concession Rights Province	16
		Regency / City of Income Province of Forest Resources	64
		Province	16
		Regency / City of Income Regencies/ Other Cities	32 32

Based on the arrangement of the implementation of financial balance between the central and the regional government in table 1 seems unfair. The decentralization and regional autonomy policies adopted by the government are still half-hearted. As shown in the table, the producing regions received little funds than the consumer regions. Besides that, they must bear the environmental impact.

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Furthermore, with the differences in calculating the profit sharing between one source of income and another will result in inequality of regional revenues which tends to benefit certain regions. For regions that have natural resources such as mining will feel unfair since the biggest source of income comes from the mining sector, whereas the development region that seen from human resources, government administration, social community, and infrastructure are still lacking. These areas are generally located outside Java where the Land and Building Tax (LBT) and Fees and Acquisition of Land Building Rights (FALBR) cannot be maximized on the grounds of human resources and the lack of public understanding public in paying taxes. Thus, for regions that are well-regulated in land administration and densely populated areas such as Jakarta, generally Java, a large portion of the revenue sharing from Land and Building Tax and the Fees and Acquisition for Land and Building Rights will be very profitable, including the receipt of Original Regions Income that comes from the government affairs that have been submitted and becoming the authority of the region.

CONCLUSION

The formulation of balance funds between the central and regional governments that have been effective so far has not reflected a sense of justice. This can inhibit the occurrence of even distribution between regions, so the formulation can be changed as follows: First, the formula on Revenue Sharing Fund that sourced from Natural Resources and Tax (Land and Building Tax, Fees and Acquisition of Land and Building Rights) in order to use the same percentage (%) for larger natural resource-producing regions. This is based on the fact that the regions producing Natural Resources have been exploited for too long by the central government without getting adequate compensation, even environmental damage that caused prolonged suffering. Second, The formulation for the General Allocation Fund is set at least 50% of the domestic revenue as stipulated in the State Budget (it increased up to 100% of the general fund that has been valid so far). This is based on consideration, that; a. Development inequality in central (Jakarta in particular and Java Madura in general) is too substantial; b. To get larger funds managed by the local government. Regions will be more aware of what conditions and needs are required, so that fund management can be more effective and efficient. Third, formulation of criteria for regions that can obtain Special Allocation Fund (in this case are general, special and technical criteria) to be clear and detailed, so it would not cause multiple interpretations.

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