

## Analysis of Fiscal Dependence of Local Governments in Papua Province in the Special Autonomic Era

Muhammad Dimiyati Sudja<sup>1</sup>, Kumba Digidowiseiso<sup>2</sup>, Dewi Susilawati<sup>3</sup>, Indah Dian<sup>4</sup>

<sup>1,3,4</sup>Faculty of Social Science and Political Science, Universitas Nasional,, Jakarta

<sup>2</sup>Faculty of Economics and Business, Universitas Nasional, Jakarta

[kumba.digdo@civitas.unas.ac.id](mailto:kumba.digdo@civitas.unas.ac.id)

### Abstract

*Regional autonomy in Indonesia has an impact on regional politics and finance. Regions that were initially limited by financial receipts from the center now have the opportunity to meet their needs independently. This is known as fiscal decentralization which has been implemented in various regions, including in Papua. The method used in this research is literature study. This method is used in order to answer the research objective, namely to explore the implementation of fiscal decentralization in Indonesia, Papua. The results obtained, it is known that although fiscal decentralization has been carried out in the long term, there are still regions that are unable to carry it out. As a result, these regions are still dependent on funding from the center. In Papua, for example, this is due to the large amount of regional expenditure compared to regional income. Programs made by the regions require a lot of costs compared to the income they have, so the central government needs to provide financial support. Another reason is that BUMD has not been able to provide a maximum role in generating PAD. This is because BUMD is not able to compete with its competitors. As a result, the PAD generated is not optimal and some even cause losses. To overcome this, one of the steps that can be taken is to maximize the role of Regional Owned Enterprises so that they are able to increase regional income and release regional dependence from the center. This is because BUMD is not able to compete with its competitors. As a result, the PAD generated is not optimal and some even cause losses. To overcome this, one of the steps that can be taken is to maximize the role of Regional Owned Enterprises so that they are able to increase regional income and release regional dependence from the center. This is because BUMD is not able to compete with its competitors. As a result, the PAD generated is not optimal and some even cause losses. To overcome this, one of the steps that can be taken is to maximize the role of Regional Owned Enterprises so that they are able to increase regional income and release regional dependence from the center.*

### Keywords

fiscal decentralization; fiscal independence; Papua



## I. Introduction

The fiscal relationship between the central government and local governments is an important aspect. The delegation of authority from the central government to local governments must also be accompanied by the delegation of finance. This is a consequence of decentralization. Decentralization is the transfer of planning, decision-making, and administrative authority from the central government to a regional organization, regional

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administrative unit, semi-autonomous organization, local government, or non-governmental organization or non-governmental organization (Rondinelli & MacMillan, 1983). That is, decentralization is the transfer of power from the center to the regions and the central government. Thus, local governments have the right to autonomy over their own regions.

Decentralization makes local governments dependent on the central government in various aspects. One of them is the financial aspect. The transfer of finance given to the regions is also included in terms of fiscal policy. In terms of spending, fiscal decentralization is the authority of the regions to allocate spending in accordance with the full discretion of each region (Haryanto, Complete Fiscal Decentralization, 2015). This means that the regions are in dire need of financing sources for spending.

Regional governments have the authority in terms of spending financial resources to carry out various functions they have as a form of local government responsibility (Hastuti, 2018). This has come into force in Indonesia since January 1, 2001 in line with the ratification of Law No. 22/1999 on Regional Government and Law No. 25/1999 on Fiscal Balance between Central and Regional Governments. Since the two regulations came into effect, they have been revised again and again. This means that fiscal decentralization is a very complex problem for the regions and the center.

Decentralization or granting autonomous rights to these regions is basically a good effort for local governments to be more independent. This independence can be seen in regional innovations and creations in managing regional development. The granting of this autonomous right should make the region more flexible in making policies that are in accordance with the conditions of its people. Therefore, the quality of public services must also be better because it is regulated by the local government.

Behind the advantages of decentralization that regions have when they have their own autonomous rights, there is still an irony. The fiscal dependence of local governments on the central government becomes a burden for the center in terms of funding. Because, fiscal decentralization only talks about spending, not income (Hastuti, 2018). Several regions in Indonesia have not succeeded in implementing fiscal decentralization in their regions. Various difficulties were encountered, especially in areas that had just split up or areas that were far from the central government. Therefore, it is interesting to know how fiscal decentralization becomes an irony in the midst of regional dependence on central finance.

## II. Research Methods

This study uses a qualitative approach with the type of literature study. Data collection technique in this research is literacy study. There are three data collection techniques, including documentation, observation, and interviews. In this study, data collection focuses on documentation in the form of books, journals, websites, and various other articles that can support research. Data analysis techniques in this study are data collection, data reduction, data verification, and making conclusions. For the validity of the data, this study used the data triangulation method. Data triangulation is a research approach that uses a combination of more than one strategy in one study to capture data/information in the field (Wirawan, 2012).

### III. Discussion

Regional autonomy in Indonesia was initially considered only to have an impact on people's political life. The government's power, which was initially centralized, is now divided into regions. Each region finally has the opportunity to regulate its own area. This helps the regions to meet their needs independently, because it is the local government that better understands the things that are needed by the community.

On the other hand, the existence of regional autonomy helps the community in managing their area without taking a long time, as in the past. Where everything has to be done through the central government, the regions only receive orders from the center and do what the center wants. Apparently, this does not only have an impact on the distribution of power in the government. However, it also has an impact on various grants of power or authority in various fields. In the implementation of government politics in the regions, it is not possible to only prioritize one aspect (economics) but it is important to pay attention to other aspects, namely environmental sustainability so that the implementation of green government is very important in supporting environmental sustainability in the political process of government in the regions (Dama, 2021). The Government of the Republic of Indonesia was formed to protect the whole of the Indonesian people (Angelia, 2020).

One of the impacts experienced is the handover in terms of finances to the regions. This also includes the delivery of parts of taxes in the regions. It also includes funding assistance known as regional transfers that are adjusted to the moneys follows function principle (Haryanto, Complete Fiscal Decentralization, 2015). This mechanism is adjusted in an effort to reduce the differences that occur in various regions as well as those between the center and the regions.

The distribution of finance or the delegation of financial authority to the region is then known as fiscal decentralization. Its presence is adjusted to several laws that the government has set. One of them is the Law on Regional Government and Fiscal Balance. But now, changes have been made until the latest regulations are contained in Law Number 33 of 2004. This Law regulates the Financial Balance between the Regional Government and the Central Government.

Presence, autonomy regions and fiscal decentralization can support regional independence from the central government. It is hoped that after a certain period of time fiscal decentralization will be able to bring Indonesia into a prosperous and sustainable condition. This must be done simultaneously, both central and local governments. So that there are no overlapping policies that will cause problems in the future. However, in reality there are regions that are still having difficulties in implementing fiscal decentralization.

Fiscal decentralization according to Litvack and Seddon is the delegation of government authorities and responsibilities from local governments or semi-independent organizations or to private parties. In the delegation of authority, the source of state revenue given to the regions can be used to carry out routine tasks, such as public facilities or investments that are safe and beneficial for the region (Elsye, 2013).

Fiscal decentralization is one of the main components of decentralization. If local governments determine policies in the public sector, the central government must provide support, in the form of subsidies or loans from the central government. Other support can be in the form of adequate financial sources, such as Regional Original Income or PAD, balancing funds or through taxes (Suprijati, Damayanti, & Irawan, 2022).

Meanwhile, according to Kuncoro, fiscal decentralization occurs due to two things, including the failure of centralized planning which results in inequality and the awareness that development cannot be controlled easily from the center (Elsye, 2013). Therefore, fiscal decentralization becomes important in third world countries, including Indonesia.

In accordance with the prevailing laws, fiscal decentralization has been established and implemented in Indonesia since 2001. Until now, it has been known that fiscal decentralization has been running for 20 years and has had various impacts on people's lives, both at the regional and central levels. Fiscal decentralization is carried out with the hope of meeting regional aspirations regarding state financial resources and reducing inequality in various regions. So as to create a prosperous society and able to meet their needs independently.

The high expectations pinned on the implementation of fiscal decentralization, apparently resulted in positive responses from various parties. Because, even though it seems rushed, it can be implemented in various regions in Indonesia. This is appreciated by various groups because the government is able to implement it in a short time. On the other hand, appreciation is given because Indonesia's vast territory makes the implementation of fiscal decentralization difficult. This is also noted by the diversity of cultures that exist in society. Because it is able to implement it and present a special policy, fiscal decentralization is even considered as one of the best practices in the world.

Despite providing a formidable implementation, the fiscal decentralization implemented in Indonesia is still subject to criticism. One of the strong criticisms conveyed is that not all regions in Indonesia are able to implement fiscal independence. Fiscal independence in question is one of the indicators used to calculate the ability of local governments to finance their own activities. This means that there is no assistance from outside, including the central government (Badan Pemeriksa Keuangan Republik Indonesia, 2020). However, the reality is that local governments have not been able to do so so that the central government still has to support it with a certain amount of funding.

The causes of this problem are quite diverse, so that it has a big impact on the areas that experience it. One of the possible impacts is the existence of poverty and the lack of fulfillment of the basic needs of the community. Until the worst is the backwardness of the region compared to other regions in Indonesia. Therefore, the fiscal dependence that occurs needs special attention from the central and regional governments.

One area that is still very dependent on the presence of the central government, especially funding, is Papua. Papua is the most remote area of Indonesia with a population of 3,379,000. All of them are divided into various districts and only a few of these districts are able to be financially independent from the central government.

Papua still needs central government assistance to finance its various needs. In fact, if we look closely, Papua is an area that has abundant natural wealth, charming scenery, and endless natural resources. Papua is also "diligent" in providing income for the central government, even though this has been done for years. However, at the same time Papua is a poor region and its fiscal dependence on the central government is still very high.

Papua is an area that has abundant wealth and is known to provide large income for the country. But ironically, in the midst of his wealth there are still people who live in poverty. Based on data from the Central Statistics Agency, it is known that the percentage of poor people in Papua reaches 27.38% (Kusandar, 2022). This figure is relatively high compared to 33 other provinces, which seems to indicate that the funds provided by the central government are not sufficient to meet the needs of the community.

Papua's average income for five years from 2015 to 2019 was recorded at 6.59% per year. This is due to an increase in PAD which is quite large, reaching 22% every year. However, at the same time, the growth of regional spending only reached 2.01%, where the expenditure made was direct expenditure and continued to increase every year.

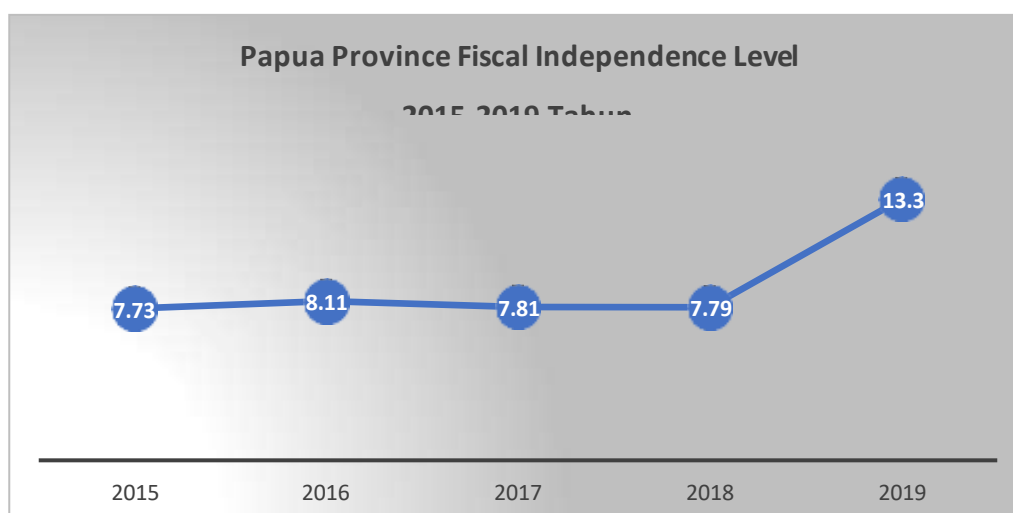
Although stated to be quite large, the PAD generated by the Papua province is nothing more than adjustment funds and special autonomy provided by the central government. In the DJPK data from the Ministry of Finance of the Republic of Indonesia in 2020, for example, it

is known that the Papuan PAD figure in 2019 reached 2,027 billion while the adjustment funds provided by the central government reached 8,674.68 billion rupiah. This means that the government has provided large amounts of funds to Papua because the expenditure needed by the government is quite large (Papua Provincial Development Planning Agency, 2020).

This condition shows that Papua's financial capacity is very low and is classified as a region that depends on finance from the center. Papua's fiscal dependence annually can reach 91.01% and is considered high. However, this condition still persists and has not changed even though the local government has tried various ways.

This data shows that the fiscal decentralization of the Papua province is still very low. This means that Papua has not been able to be financially independent and is still dependent on government grants to meet its needs. Papua, which is an area with natural resources, requires great support so that the acceleration of development can occur quickly and support the development of the quality of the local community.

In the last five years, to be precise in 2015-2019, the fiscal decentralization that has occurred in Papua is still very minimal. The development of fiscal decentralization is moving up, but the progress made is not too big. Where, in 2019 there was a movement of more than 10% after previously only being below 10%.



**Figure 1.** Papua Province Fiscal Independence Level in 2015-2019  
Source: Papua Provincial Development Planning Agency (2020)

This data shows that Papua has a high dependence on centrally provided finance. This cannot be separated from the amount of expenditure made by the regions, but the PAD provided is still very minimal. Thus, the center must support it with special funds to meet regional needs. Reflecting on this, the government argues that even though Papua's natural wealth is abundant, it is not yet able to fund regional operations or needs. This is because the state revenue received from Eastern Indonesia is very low from the government's program allocation. The explanation was given by Sri Mulyani, that State revenues from Papua are inadequate even though Freeport and other companies have paid taxes (Faqir, 2021).

It was recorded that since six years ago, the income paid by the regions was not greater than that given by the state. For example, Papua provides state revenues of up to 5 trillion, but the government provides support of up to 33 trillion. These funds are allocated for various needs, including for special autonomy purposes. In the following year, 2016, the government provided financial support of up to 39 trillion, while the income provided only reached 4.6 trillion.

This reason was also given by the government to take sides with certain provinces. Partisanship is carried out with a certain formula that is tailored to the needs and potential of each. The reason for this specificity was conveyed by the government, so that whatever is obtained by the state, these funds are transferred back to the regions.

Reflecting on this, the author concludes that the first reason for Papua's dependence on the central government is the large amount of regional spending. Regions have many programs even though they have insufficient funds. However, this cannot be denied again with regional conditions that still require a lot of support from the central government.

The next reason that causes fiscal dependence on the center is the instability that occurs in society. The instability in question is the variety of turmoil that occurs in society, due to the separatist movement. The separatist movement that wants independence has made foreign companies reluctant to enter Papua. Because he views Papua as an unsafe place and no solution has yet been found to crush the separatist movement.

As a result, investors are reluctant to come to Papua and think that Papua will not be profitable for their business. This problem can widen the income of the community, thus affecting the regional economy. If this problem is allowed to drag on, then the community will find it difficult to develop their lives. Mainly in meeting the needs of the community, including education and health. This is what can cause backwardness and poverty to occur in the Papuan community for a long time.

This problem also has an impact on the income generated by the region. The author views it as a structural impact where an action produces a domino effect on people's lives. Reflecting on this condition, there is another reason for Papua's dependence on central finance, namely the very minimal local revenue.

In 2018, areas in Papua such as Deiyai, Waropen, Tambrau, Maybrat, Puncak, to Mamberamo Papua became the areas with the lowest PAD (Valenta, 2019). In Deiyai Papua, for example, the value of PAD generated reaches 1.3 billion while the funds needed to meet needs are quite large. Because the number of poor people who need to be met reaches 43.5%.

The PAD figure is a picture of the financial independence of a region. This is because the PAD owned will be used to fund regional expenditures. However, when the PAD generated is minimal, the central government will provide financial support to meet regional needs. In fact, as an autonomous region, the region is required to develop its regional potential through various sources, including local taxes and levies.

Unfortunately, the great authority given to the regions does not always have a positive impact. Papua in 2021 is included in the three provinces with the lowest PAD. This is assessed by the value of PAD which is below 20% of the total regional revenue budget. This means that more than 80% of operational and development expenditures carried out by the regions are financed by the central government. Papua is number two of the three provinces with the lowest PAD with an achievement of 13.84% (Kompas.id, 2022).

Reflecting on this condition, the government needs to support Papua with various methods to meet its needs. One of the methods used by the government is to support it through the General Allocation Fund or DAU and the Special Allocation Fund or DAK. However, the central government does not give it for free, but with certain formulas, especially to support local governments in developing their regions.

Another thing that causes Papua's fiscal dependence on the center is the minimal role of regional companies as a source of income (Nugraha, 2019). In Law no. 17 of 2003 concerning State Finances, regional companies play a role in making profits to fund regional development. In Papua, many Regional Owned Enterprises or BUMDs have suffered losses. Reported by Antaranews, it is known that there are several BUMDs that do not provide benefits to the region. This BUMD is even considered not to contribute to regional income and instead brings losses in the form of debt. This problem arises because BUMD does not

have adequate competitiveness. As a result, BUMD loses compared to competitors and finds it difficult to survive in the midst of market movements.

In fiscal decentralization, BUMD plays an important role in generating PAD for the regions. A healthy BUMD will produce abundant PAD and support the region to develop and meet its needs. However, in Papua, this is difficult to achieve because BUMD has not been able to survive in the midst of increasingly fierce competition. Even some time ago there were several BUMDs that had to be closed or bankrupt as a settlement of unpaid debts.

The author is of the view that this condition cannot be separated from poor management in Papua. According to one source, it is known that there are vacancies in certain organizations in the Papuan local government. This emptiness makes it difficult for BUMDs to develop and feel they have no responsibility to develop their regions. The vacancy that occurs makes the government and BUMD seem to move freely in carrying out programs. Even though the program that was carried out was not appropriate or not properly given to the community.

This is what is still difficult to do in Papua given the limited human resources that are still minimal from education. Therefore, targeted solutions are needed so that human development in Papua can run and produce people who have adequate knowledge and skills. This is also expected to support local governments in developing and achieving fiscal independence as expected by the central government.

In order to support the fiscal independence policy in Papua, there are concrete steps that the government can take. The solution that can be given is to encourage BUMD to play a more optimal role in generating regional income. However, this can only be done with the help of State-Owned Enterprises which are the main part of BUMD. Actions that can be carried out by SOEs are to provide training and business opportunities, to capital. These things are considered to be able to strengthen BUMD, especially to support regional income which is still considered minimal.

The support provided by BUMD to the community, in the future, can support the contribution of special autonomy funds obtained through the DAU or the Additional Infrastructure Fund or DTI. The main thing is that Papua is no longer dependent on the center and is able to meet its needs without central assistance or known as fiscal decentralization.

The condition in Papua with its various districts that are still dependent on central finances illustrates that fiscal decentralization which is expected to be able to improve the welfare of the community is not entirely true. The government is considered to need to review the policies made, especially in certain areas such as Papua. This is because after an in-depth study there are other regions that have or have not been able to meet their fiscal needs independently. These areas will be discussed in the next section.

#### **IV. Conclusion**

The fiscal relationship between the central government and local governments is an important aspect. The delegation of authority from the central government to local governments must also be accompanied by the delegation of finance. This is a consequence of decentralization. One of the consequences that must be done is to provide financial transfers to the regions, especially in determining their regional expenditures. The presence of this consequence makes the center give an authority for the regions to be financially independent from the central government.

The distribution of finance or the delegation of financial authority to the region is then known as fiscal decentralization. Its presence is adjusted to several laws that the government has set. One of them is Law on Regional Government and Fiscal Balance. The presence of regional autonomy and fiscal decentralization can support regional independence from the

central government. It is hoped that after a certain period of time fiscal decentralization will be able to bring Indonesia into a prosperous and sustainable condition.

Despite its great aims, fiscal decentralization in Indonesia has drawn criticism. One of the strong criticisms conveyed is that not all regions in Indonesia are able to implement fiscal independence. One area that is still very dependent on the presence of the central government, especially funding, is Papua. Papua still needs central government assistance to finance its various needs. In fact, if we look closely, Papua is an area that has abundant natural wealth, charming scenery, and endless natural resources.

Apparently this situation is caused by several things, including the amount of regional expenditure. Regions have many programs even though they have insufficient funds. The next reason that causes fiscal dependence on the center is the instability that occurs in society. The instability in question is the variety of turmoil that occurs in society, due to the separatist movement.

Another reason for Papua's dependence on central finance is the very minimal local revenue. The PAD figure is a picture of the financial independence of a region. This is because the PAD owned will be used to fund regional expenditures. Another thing that causes Papua's fiscal dependence on the center is the minimal role of regional companies as a source of income. BUMD Papua actually suffers a loss because it is not able to compete with private companies that have better quality.

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