

The Determinants of Districts/Cities Spending in Aceh Province: An Analysis of Electoral Districts

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Abstract

The purpose of this study was to examine the determinants of local expenditures (BD) of districts/cities in Aceh Province. This study used secondary data in form of budget realization reports and local expenditures of districts/cities in Aceh province from 2011 to 2015. Data were accessed on legal sites of Central Bureau of Statistic, the financial management and wealth agency of Aceh, and the Ministry of Finance. The result of this study indicated that Regional Gross Domestic Bruto (PDRB), Local Government Revenue (PAD), General Allocation Fund (DAU), and Special Allocation Fund (DAK) influenced local expenditures (BD). Based on the election areas 1 and 2, there were two differences in PDRB, PAD, DAU, and DAK. The other findings of this study revealed that there was a possibility of flypaper effect in the districts/cities of Aceh Province, and will be the further study.

Keywords: Determinants; Expenditure; Province; Aceh.



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1. Introduction

Aceh is a province in Indonesia that had a conflict with the central Government for almost 30 years. The conflict ended in reconciliation caused by MOU Helsinki in 2005 and strengthened by the presence of Law of Aceh Government (UUPA) Number 11 of 2006. UUPA provides the authority for the Government of Aceh province to manage more on its finances. In UUPA verse 2, chapter 183 claims that Aceh Province gets 2% of General Allocation Funds (DAU) for 20 years from 2008 to 2022 and 1% of National General Allocation Grants from 2023 to 2017. It means that Aceh government has received at least 3.5 trillion-7.02 trillion since 2008 (Aceh Tribunews.com). There are more than 10 trillion funds as a part of balance funds from central government transferred to the Government of Aceh province and hopefully, can increase the economic growth in Aceh.

Some latest studies in the world that district spending factors could increase district economic growth. Gemmell *et al.* (2016) was said the distribution of expenditure budget in infrastructure building and tool of education in long term caused better output in the future. Guo *et al.* (2016), expenditures of China government, the district did domestic investment but it was not consumption of district. But Wu and Wang (2013) said that transfer budgeting of central was still forced for government district officer. Kyriacou *et al.* (2017) studied in OECD country advised that it had better if decentralization budget caused government quality repairmen in decreasing development lag among provinces government. This was similar to Yushkov (2015) said that the more decentralization budget did not make district government cozy so it impacted negatively to local government. The different result was said by Li *et al.* (2016) that district government officer was often persuaded to corrupt so expenditure budget did not influence economic performance in the district.

Kuncoro (2004) the existence of sources of revenue fund, especially the Balance fund is expected to make better regional economic growth such as providing new jobs vacancies in order to increase the revenue of people. Furthermore, Aceh Province allocates funds to 23 districts/cities consisted of 18 districts and 5 cities. The existence of these funds makes the districts/cities in Aceh Province optimize all potential revenues to be more productive Local expenditures. The problem with a number of 23 districts/ cities would be a problem in allocating funds spent by districts/cities in Aceh Province. Yustikasari (2007), the funds of expenditures should be spent for productive programs, such as; public service programs in order to increase the economic growth of people of that area. Unfortunately, Central Bureau of Statistics of Aceh Province reports that Aceh province is in the second lowest level of economic growth in Sumatra (Aceh Tribunews.com). This can be seen from the *Regional Gross Domestic Bruto* (PDRB) reached 2.2 percent in the third quarter of 2016 while the first position is Riau with the *Regional Gross Domestic Bruto* (PDRB) is 1.1 percent. Based on the description in the introduction above, the purpose of this study is to test the determinant of district /city expenditure in Aceh Province.

2. Literature Review

2.1. Local Expenditures and Sources

Local expenditures are regional obligations and recognized as deductions to net worth in the period of the relevant fiscal year. In Law No. 23, 2014 which is in line with Regulation of Ministry of Home Affairs No.59, 2007 where the districts/cities should fund all their affairs in accordance with the provisions of applicable law. In the implementation, Local expenditures are grouped into direct and indirect expenditure. This has been mentioned in article 36 of Ministry of Home Affairs No. 13/2006. Local Government of districts/cities spend the budget for implementing development in carrying out activities every year. Halim (2002) all expenditures spent by the government on the budget period are called Local expenditures. In financing the development, the government or district or city should take and use all sources of revenues. In Law no. 33, 2004 on balance claims that the source of implementing decentralization consist of Local Government Revenue (PAD), Balance Funds, regional lending, and other legal revenues. Local Government Revenue (PAD) is obtained from Local tax; Regional retribution, revenue of local wealth management separated from the other Local Government Revenues (Law No. 33, 2004). The source of PAD is important in fastening the process of local independence from central Government. Then, the balance which is the biggest local revenues derived from central Government is categorized as the source of State Budgets (APBN). Funds of APBN are distributed to regions and are used to pay their needs. Balance funds consist of: Revenue Sharing funds (DBH); General Allocation Funds (DAU), and Special Allocation Funds (DAK) which are expected to improve the economic growth of regions. The level of economic growth is one of the main purpose either local or central government. The economic growth supports local governments to develop economy by managing resources and forming a partnership with the community to create new vacancies so that it will influence the development of economic programs in the regions, (Kuncoro, 2004). The development of economy can be seen by the improvement in productivity and per capita revenues of inhabitants so that it will be possible to increase the welfare of inhabitants.

2.2. Previous Studies on Local Expenditures

Some recent research related to Local expenditures has been done with different models and results. A research conducted by Abdullah and Junita (2017) indicated that Local Government Revenue affects Local expenditures in 23 districts/cities in Aceh. Meridiana and Abdullah (2017) said that the rest of the previous budget, changes, and size of the budget affects direct expenditure in 23 working units in the Government of Aceh Besar District. A research conducted in overseas by Rios *et al.* (2017) revealed that the most relevant influence on local government expenditures is the economic factor compared to political and demographic factors.

A research conducted by Prakosa (2004) in the central java indicated that PAD and DAU influenced on Local expenditures in the province of Central Java. Lestari and Setyawan (2017) conducted a research in Central Java and found that PDRB, Population, revenue, DAU, economic growth, and human development index influenced on Local expenditures. Meanwhile, a research conducted by Nurdawaty *et al.* (2017) indicated that Economic growth and the other legal revenues did not influence the allocation of Capital expenditures budgets in East Java. In Jambi provinces, PAD and DAU significantly affected the expenditure while DBH and DAK did not affect the expenditure of Jambi Province. While a research conducted by Jannah *et al.* (2017) also mentioned that PAD, DAU, DAK and DBH influenced the allocation of expenditure in Gresik regency. While the research conducted by Jannah *et al.* (2017) also mentioned that PAD, DAU, DAK and DBH affected the allocation of expenditure in Gresik regency. While a more extensive research conducted by Amalia (2017a) also found that PAD, DAU affected Local expenditure and differences in gap areas in Indonesia and all provinces in Indonesia region either in Java and outside of Java indicated flypaper Effect.

The various studies above explain that some of the decisive factors affected the Local expenditures, but the results were still diverse. In addition, previous studies did not examine based on separation areas. Based on the above descriptions, this paper was conducted to examine the determinants of local expenditures in the districts/cities of Aceh province with the analysis of the regional approach as a moderation variable. This study was significant to do because Aceh had 23 regencies/cities whose area and populace were different. So hopefully it showed that different treatment of Aceh government to regencies/cities inside.

3. Methodology/Materials

This study used secondary data in form of budget realization reports in 2011-2015. The data were obtained by accessing the site of Regional Financial and Wealth Management Agency, Aceh Representative Finance Audit Board on www.djpk.kemenkeu.go.id and Central Bureau of Statistic of Aceh on www.bps.go.id. All data obtained were then collected and subsequently grouped into districts/cities based on the electoral areas established by the Election Supervisory Commission. Based on that, the regions of Electoral District 1 consisted of Aceh Besar, Banda Aceh, Pidie, Pidie Jaya, Sabang, Aceh Jaya, Aceh Barat, Nagan Raya, Aceh Tenggara, Aceh Selatan, Aceh Singkil, Aceh Barat Daya, Simeulue, Gayo Lues dan Subulussalam. While the electoral areas 2 included Aceh Tengah, Aceh Utara, Aceh Timur, Aceh Tamiang, Bireuen, Bener Meriah, Lhokseumawe, Langsa. Thus, this research model is:

$$BD_{it} = \beta_0 + \beta_1 PDRB_{it} + \beta_2 PAD_{it} + \beta_3 DAU_{it} + \beta_4 DAK_{it} + \beta_5 D + \epsilon_{it}$$

Where BD was Regional Expenditure, GRDP was economic growth, PAD General was own-source revenue, DAU was general allocation fund, DAK was Special allocation fund, Dis Dummy region, which 1 is the electoral area 1 and 0 is electoral area 2.

4. Results and Finding

This research used panel data and needed to select the appropriate model for this research. After testing using Pooled Least Square, chow test was then performed. If the result of chow test was not significant, then Pooled Least Square model would be good to be used in this research. The study found that Cross-section F chow test was $-4.565 > \alpha 5\%$. This indicated that a Hausman test did not need to be tested. Based on the research model with the equation: $BD_{it} = \beta_0 + \beta_1 PDRB_{it} + \beta_2 PAD_{it} + \beta_3 DAU_{it} + \beta_4 DAK_{it} + \beta_5 DummyRegion_{it} + \epsilon_{it}$, the results served as in [Table 1](#) below.

Table-1. Determination of Local Expenditures of District/ City in Aceh Province

Variables	Coefficient	t-Statistic
C	-111216.6***	-6.912923
PDRB	-0.024425***	-14.40745
PAD	3.167449***	22.16389
DAU	1.537674***	29.20148
DAK	1.701792***	7.051831
DUMMY	34021.68***	4.442900
Adj. R-squared	0.930769	
F-statistic	1544.420***	

Source. Data processed, 2017

Note: *** significance level 1 %

Based on [Table 1](#) above, the equation is $BD = -111216.6 - 0.024425 PDRB + 3.167449 PAD + 1.537674 DAU + 1.701792 DAK + 34021.68 D$. The regression results showed that all the independent variables were able to explain the dependent variable of 0.930769. It revealed that 90.01% of 2011-2015 Local expenditures in districts and cities in Aceh province were determined by GRDP, PAD, DAU, and DAK while the rest was influenced by other factors such as Zakat and Special Autonomy Funds. These results were statistically supported by a simultaneous test or F test about 1544,420 with a significant level of 1 percent. The partial regression results also showed that GRDP, PAD, DAU, and DAK also affected Local expenditures with their respective values in 2011-2013. It can be seen from the respective values of -0.024425, 3.167449, 1.537674 and 1.701792 with a significant value of 1 percent which was slightly different found in PDRB whose coefficient value was negative. This happened because the districts and cities in Aceh province performed disparity in the economic growth among of those areas.

These findings were in accordance with a research conducted by [Rios et al. \(2017\)](#); [Lestari and Setyawan \(2017\)](#); [Nurdiwaty et al. \(2017\)](#); [Jannah et al. \(2017\)](#); [Amalia \(2017a\)](#); and [Prakosa \(2004\)](#) All of them concluded that PDRB, PAD, DAU, and DAK influenced Local expenditures. In addition, the overseas study conducted by ([Rios et al., 2017](#)) claimed that the economic factors are the most relevant factors in influencing Local expenditures compared to political and economic factors. In the other hand, the results of this study also found that dummy variables which were the electoral areas indicated a positive and significant value. This confirmed that there were differences in the economic growth, PAD, DAU and DAK which were based on the electoral areas in 23 districts and cities in Aceh province.

5. Conclusion

The results explained that the Local expenditures of districts and cities in Province of Aceh were strongly influenced by GDP, PAD, DAU, and DAK. Four independent variables used in this study were the most dominant factors in influencing local expenditures that have not been optimal yet in increasing local government revenue every year. This explained that the districts and cities were heavily dependent on the grants or transfers from central government rather than using sources of funds from their local government revenue. Based on the findings, it can be concluded that There were indications that all the districts/cities in Aceh province performed Flypaper Effect. Where the government was more likely to use the balance funds provided by the central government as the expenditures, this was in line with what was stated by [Amalia \(2017a\)](#). Based on the result of this research, it was expected to conduct research on districts and cities in aceh with the regional approach and related to the regional gap due to flypaper effect.

The results of this study imply that local spending in 23 districts/ cities in Aceh Province is not the same. These findings could be used by the provincial government to make distribution of development funds and increase the flow of funds according to regional needs. In addition, the legislators elected both for election for provinces or Legislator for Indonesia that are in the constituency to think and pay attention to the community constituencies.

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