

# The Impact of Special Autonomy Funds and Transfers on Aceh Province's Regional Financial Independence

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## Abstract

**Purpose** - The purpose of this study is to look into and assess the structural impact, relevance, and weighting of the Special Autonomy Fund, DAK, and DBH determinants on regional economic growth, as well as their impact on regional financial independence in Aceh Province.

**Design/methodology/approach** - There was a cross section of data panels from 2008 to 2017 and interviews with district/city stakeholders in Aceh Province. Structural equation model based on confirmatory value standardization as a method of assessing novelties.

**Finding** - As a means of achieving originality, a structural equation model based on confirmatory value standardization is used.

**Research limitations/implications** - Where the structural equation is :  $\hat{Y} = 0.132 X_1 + 1.624 X_2 + 1.274 X_3$ ;  $V = 0.995$  with R-square = 0.990. The Special Autonomy Fund, DAK, DBH are influential elements with positive and significant values in realizing regional economic growth and the framework of regional financial independence in Aceh Province.

**Practical implications** - With the last five years the management of the Special Autonomy Fund, DAK, DBH has become a breakthrough for the implementation of models and workflows.

**Originality/value** - This research for effectiveness and the best form of management for the stimulation of regional economic growth and the realization of regional financial independence in Aceh Province.

**Keyword** : Special Autonomy, structural equation model, regional economy, regional finance

**Paper Type** : Research paper

## Introduction

After the 2004 Aceh earthquake and tsunami, the NKRI and GAM signed an MoU (Memorandum of Understanding) on August 15, 2005. Aceh Government Law No. 11 of 2006 was enacted. An important motivation for this law is to help reconstruct the people and region of Aceh following the earthquake and tsunami, as well as to resolve problems peacefully, comprehensively, and dignifiedly within the Unitary State Republic of Indonesia. This law regulates the Special Autonomy Fund to execute this spirit (Otsus).

The Special Autonomy Fund is a revenue source for the Aceh government that is used to fund development, primarily infrastructure development and maintenance, people's economic empowerment, poverty alleviation, education, social and health financing. The Special Autonomy Fund is used to finance development activities related to the implementation of Aceh's rights. The Special Autonomy Fund is valid for a period of 20 years, from 2008 to 2027. From the first to the fifteenth year, the sum is equal to 2% of the National General Allocation Fund maximum. From the sixteenth to the twentieth year, the sum is equal to one percent of the National General Allocation



Fund's roof. Aceh Province received Rp. 56.938 trillion over the ten years of the Special Autonomy Fund's implementation, from 2008 to 2017. Rp 5.693 trillion each year on average.

To further understand the impact of Aceh Province's special autonomy funding on the region's financial independence, structural equation model analysis was employed. The MLE method of parameter estimation is the most commonly used. An investigation into PAD (Regional Original Income) indicators is the goal of this project. Accumulating the latent variable/assessment in Aceh Province's Special Autonomy Fund is also a substantial contribution to putting together the latent variable/assessment.

The following novelties should emerge from this investigation's findings:

Using the PAD indicator and the effect of regional financial independence, this study examines the impact of special autonomy funds.

3. Poverty Alleviation, Education Funding, Social Funding, and Health Funding are among the indicators of special autonomy funds that most contribute to regional financial independence in this study.

### **Literature review**

#### *Special Region Autonomy*

The grant of regional autonomy is supposed to enable flexibility in regional development by increasing active community engagement since there are three key tasks associated with regional autonomy: a. Improving regional resource management efficiency and effectiveness

b. Improving public services and welfare.

c. Empower and enable community participation in the development process.

Article 1 paragraph 5 of Regional Government Law No. 32 of 2004 To oversee and administer its own government issues as well as the local community's interests, regional autonomy is granted by statute. Regional autonomy is the independence or freedom to set their own laws based on legislation to fulfill regional demands.

Regional autonomy is supposed to improve efficiency, effectiveness, and accountability in Indonesia's public sector. With autonomy, regions must explore for alternate sources of development financing while maintaining hope for central government help and sharing, and manage public monies according to community objectives and ambitions.

#### *Aceh Special Autonomy Fund*

Aceh Province has a distinct legal community entity. The rules and regulations of the Unitary State of the Republic of Indonesia based on the 1945 Constitution of the Republic of Indonesia provide it specific authority to regulate and administer its government activities and local community interests. The Aceh region's advantages and specialties were last recognized by the state by Law No. 11 of 2006. (LN 2006 No 62, TLN 4633). This Law on Governing Aceh is an integral part of the Memorandum of Understanding agreed on August 15, 2005. It is a dignified type of reconciliation for Aceh's social, economic, and political growth. Among the basic provisions of the Aceh Government Law are:

1. The Aceh Regional Government and the Aceh Regional People's Representative Council each have their own functions and authorities inside the NKRI system.

2. The most comprehensive autonomy system in Aceh is a sub-system of the national government system.

3. Regulations in Aceh and District/City Qanuns are a real representation of the application of constitutional requirements in Government performance.

4. The authority to use current funding sources reflects the management of national and regional financial balance.

Incorporated the notion of Islamic personality towards everyone in Aceh without regard to nationality, rank, or status within the Aceh Province's regional boundaries.

#### *Development Indicator*

A development indicator is a tool used to assess a region's or community's growth rate. Indicators of development must be basic and include factors that can be measured and monitored, such as economic and environmental activity. The indicators chosen must be time-sensitive and sensitive to environmental changes (Rustiadi et al., 2009:156-159). Commonly used development indicators

include income, labor absorption, poverty, and resource certainty. Sustainable Growth. The goal of forming a business corporation has changed over time, as have the opinions of shareholders and stakeholders. The previous concept that forming a corporate entity is solely for profit (profit-oriented) is changing. The gap between the selling price and the cost of production does not determine a company's value. The increase in the value of the company's shares can be translated into increased assets (equity). Customer, partner, and other stakeholder views shape a company's expected value. Thus, the company's image might be considered as a "intangible" asset that can enhance share prices. The reputation of conducting manufacturing and business operations affects stakeholders' perceptions of the organization. Customer, partner, and stakeholder perceptions are Expected company value Building a vision is based on the company's production and business procedures. The triple bottom line notion recognizes that the company's objective is to create value, not just profit. The "Triple P" philosophy stands for profit, people, and planet.

*Regional Financial Independence*

Regional financial independence demonstrates the ability of local governments to fund their operations, development, and services to the community through taxes and levies. The original regional income (PAD) is contrasted to other regional revenue sources such as central government aid or loans (Halim, 2007:232).

According to In-Law 32 of 2004, regional financial independence means that the government can finance and account for its finances under the notion of decentralization. Regional financial independence refers to a region's reliance on external The stronger the autonomy, the less reliant the region is on external help (particularly the central government). Regional financial independence refers to community involvement in regional development. The greater the community participation in paying provincial taxes and levies, the greater the PAD. The more a town pays in taxes and regional levies, the better.

*Special Autonomy Fund Formulation*

Law Number 11 of 2006 concerning the Government of Aceh (LN 2006 No 62, TLN 4633) and Law 18/2001 on Special Autonomy for the Special Region of Aceh as Aceh Province are the basis for the allocation of the Special Autonomy Fund. One can categorize these factors into five categories: (1) Infrastructure Development; (2) People's Economic Empowerment; (3) Poverty Alleviation; (4) Education; (5) Social Funding and Health. These factors all affect the success of program implementation.

**Research methods**

Data analysis research will be done in Aceh province districts/cities. The study will run from October through December 2018. In social science research, there are three types of research: exploratory, descriptive, and explanatory (Umar, 1999:36). Exploratory research investigates new ideas or linkages. Descriptive research, on the other hand, describes a phenomenon's qualities. Finally, explanatory research examines how one one influences other variables. This type of research is called mixed research since it blends qualitative and quantitative approaches (Bazeley, 2002). Aceh Province's districts/cities were assessed quantitatively. Qualitative methodologies are utilized to create effective programs for local stakeholders. This study used 10-year panel data from 23 Aceh districts/cities. The number of panel data acquired from the Aceh Provincial Government (2008-2017) is 230 important data. The sample selection approach involves multistage sampling or progressive sampling to obtain the representativeness of the examined data.

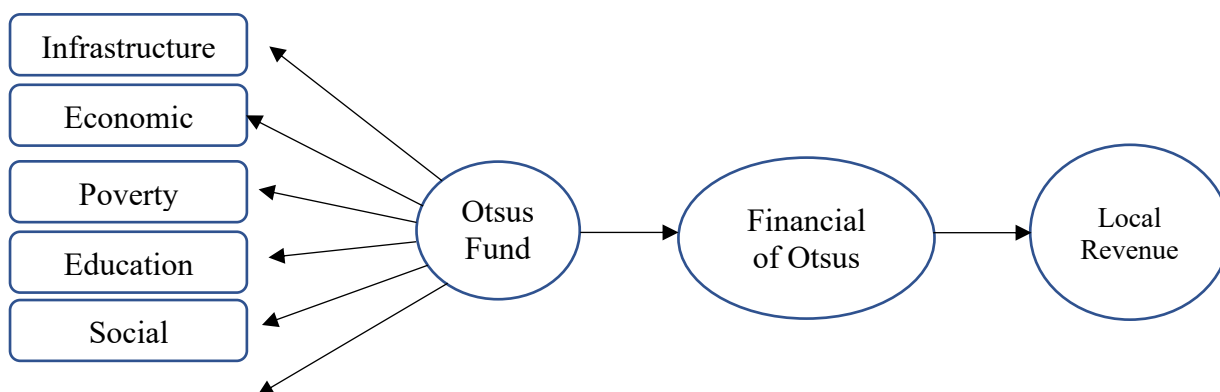


Figure 1. Theoretical Framework

The obtained data will be processed to meet the analysis' needs. Data are processed and presented using descriptive statistics for discussion, while inferential statistics are used for analysis and hypothesis testing. This research is structured on the variables Infrastructure (X1), Economics (X2), Poverty (X3), Education (X4), Social (X5), and Healthcare (X6). SEM was utilized to answer research questions and evaluate the developed model (Structural Equation Model).

### Result

The condition of infrastructure in the form of roads that are under the authority of districts/municipalities is no better than those under provincial and national authority. This can be seen from the length of roads with damaged conditions and the length of roads that have not been penetrated in each District/City. The main obstacle is the difference in budget allocations from the Central, Provincial, and District/City. Some districts whose provincial roads are still not good and have not been penetrated, namely: Kab. Gayo Lues, Simeulue, Southeast Aceh, South, Aceh Besar, Aceh Singkil, Bener Meriah, Pidie Jaya, Langsa and the City of Subulussalam. The description is in Table 1 below.

Performance Indicator	Achievements (Km)				Target (Km)	
	2012	2013	2014	2015	2016	2017
<b>National Road</b>						
<b>Steady</b>	<b>1,663,385</b>	<b>1,699,270</b>	<b>1,706,340</b>	<b>1,733,480</b>	<b>1,761,080</b>	<b>1,782,397</b>
Good	1,339,005	1,166,690	1,267,100	1,118,621	1,246,461	1,340,291
Medium	324,380	532,580	439,240	614,859	514,619	442,106
<b>Not steady</b>	<b>94,700</b>	<b>104,080</b>	<b>97,020</b>	<b>69,873</b>	<b>42,273</b>	<b>20,957</b>
Scuffed	53,500	45,920	24,420	22,843	13,543	8,527
Difficulty	41,200	58,160	72,600	47,030	28,730	12,430
<b>Total</b>	<b>1,758,085</b>	<b>1,803,350</b>	<b>1,803,360</b>	<b>1,803,353</b>	<b>1,803,353</b>	<b>1,803,354</b>
<b>District Road</b>						
Good	1,107,570	1,009,520	444,244	471,244	505,244	578,734
Medium		98,050	674,678	692,678	713,678	701,078
Scuffed	555,870	555,570	187,607	205,607	196,607	195,607
Difficulty	124,470	124,470	381,290	332,293	286,293	226,403
Untouched	60,000	14,000	14,000			
<b>Total</b>	<b>1,847,910</b>	<b>1,801,610</b>	<b>1,701,819</b>	<b>1,701,822</b>	<b>1,701,822</b>	<b>1,701,822</b>

Table 1.  
Aceh  
Province  
2012-2017  
National and  
Provincial  
Road  
Achievements  
(in Km)

Source: Bappeda Aceh, 2017

Number of Poor People in Aceh Province 2008-2017, The description is in Table 2 below.

Poor People	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017*
Urban	195,8	182,19	173,37	176,02	171,8	156,69	161,94	157,57	159,5	172,35
Rural	763,9	710,68	688,48	718,78	737,24	685,73	719,31	694,01	688,94	700,26
<b>Total</b>	<b>959,7</b>	<b>892,87</b>	<b>861,85</b>	<b>894,8</b>	<b>909,04</b>	<b>842,42</b>	<b>881,26</b>	<b>851,59</b>	<b>848,44</b>	<b>872,61</b>

Table 2.  
Number of  
Poor People

Over the last ten years, the number of poor individuals in Aceh Province has dropped. In 2008, the poor population totaled 959.7 thousand persons, and it has since decreased to 848.44 thousand people in 2016. Aceh Province has a higher proportion of poor individuals in rural areas than in urban areas. According to a report published by the Central Statistics Agency for Aceh, the impoverished population of Aceh Province amounted to 848.44 individuals in March 2016 or 16.73

percent of the province's total population. In 2016, rural areas were home to the vast majority of the impoverished (81.2 percent), with urban areas accounting for only 18.8 percent. Similar findings were made in 2017 when it came to the total impoverished population of 872,610 people, with 80.2 percent residing in rural areas and the remaining 19.8 percent residing in urban areas. Therefore, most poverty alleviation programs and activities should be concentrated in rural areas. In the next five years, the APBA will allocate a budget of around Rp. 18 trillion for infrastructure, Rp. 11.5 trillion for education, and Rp. 9 trillion for health. In the following five years, the APBA budget allocation will be targeted for infrastructure, which will receive around 30.3 percent of the total, education, which will receive 19.7 percent, and health, which will receive 16.4 percent. For the years 2008-2013 (40:60 percent) and 2014-2016 (40:60 percent), the Special Autonomy Data Allocation for Aceh Province is shown in Table 4.2. (60:40 percent ).

### **Discussions and implications**

While the poor population in rural regions totals 688.94 thousand individuals, or 19.11 percent of the rural population, the poor population in urban areas totals 159.5 thousand people or 10.82 percent of the population residing in urban areas. In March 2017, there was a significant increase in the number of poor individuals, with 24.17 thousand persons having been added to the population over the previous year. Because of this, the percentage of poor people in Aceh climbed to 16.89 percent, or 872.26 thousand people, in 2017, putting the province at the top of the list for the poorest provinces in Sumatra. Once again, this is an odd reality. Aceh Province was the only province to receive additional transfer monies in the form of the Special Autonomy Fund, which was established by the Indonesian government (Otsus).

The poverty depth and severity indexes can be used to determine the severity of poverty in Aceh Province, and the indexes can be found here. Using the poverty depth index, we can see how much the poor spend on average compared to the poverty line. Using the poverty severity index, we can see how much the poor spend on average compared to the poverty line. Over the period 2008-2017, there was a decreasing trend in the poverty depth and severity index, which indicates that there was an improvement and a drop in the degree of spending gap and distribution of the poor population in Aceh Province during this period. In 2017, the poverty depth index for Aceh Province was 2,978, representing a reduction of -0.49 points compared to the previous year's index of 3.47. Meanwhile, the measure of poverty severity declined from 0.997 in 2016 to 0.807 in 2017, indicating a decrease in poverty.

According to the numerous indicators in the education sector, the conditions in Aceh Province, in general, are relatively favorable for the development of the education sector, particularly in primary and secondary education. This has been occurring since before the establishment of Otsus in Aceh (in 2007), and it has continued to occur ten years after the establishment of Otsus (in 2017), but at a lesser rate. Accurately stating, what is still occurring in Aceh's educational field is the unequal condition of education in Aceh. This is true both across districts and cities as well as between the northern and eastern, central and western, as well as southern, corridors in Aceh. Beyond the issue of regional inequality, which must be addressed, what needs to be promoted and elevated to the top of the priority list for future education policy in Aceh is an increasing interest among people in Aceh in receiving Secondary Education (SMA) as well as Higher Education through lectures, at all levels of education from diploma to bachelor to doctorate. Postgraduate.

APBA/APBD money from ZIS can be a viable alternative to traditional funding sources in Aceh; however, this revenue stream must be maximized. Aceh Tengah and Bener Meriah are located in the high central region. Total revenue for Ziswaf was IDR 37.4 billion in 2013, with a total distribution of IDR 29.3 billion made to shareholders. And then there was the year 2014, when Ziswaf's overall income grew to Rp 46.78 billion, with a more significant distribution rate than his previous year's income, which was Rp 53.21 billion. Ziswaf's income declined in 2015, which had an impact on the company's ability to realize its distribution, which totaled Rp. 48.58 billion and Rp. 25.09 billion, respectively, in the following year. 2016 had an increase in total revenue from the previous year, Rp. 50,42 billion, and a distribution level of Rp. 36,65 billion, which was an increase from Rp. 50,42 billion in 2015. By 2017, Ziswaf had earned Rp. 58.30 billion in total revenue, with Rp. 35.86 billion in dividends paid out to its shareholders. According to health indicators, in 2007,

the percentage of the population who reported having health complaints in the previous month in Aceh Province, which was higher than the national average, was 40.81 percent (30.90 percent). Until 2017, the percentage of the people in Aceh Province who reported having health concerns in the previous month declined to 24.85 percent, a decrease of -15.96 percent. Aceh Province had a lower percentage of the population with health complaints during the last month of 2017 (24.85 percent) than the national average (25 percent) (28.62 percent). Indicators of health: In Aceh Province, the percentage of the population who experienced health problems during the previous month in 2007 was 40.81 percent, higher than the national average of 30 percent (30.90 percent). Until 2017, the percentage of the people in Aceh Province who reported having health concerns in the previous month declined to 24.85 percent, a decrease of -15.96 percent. Aceh Province had a lower percentage of the population with health complaints during the last month of 2017 (24.85 percent) than the national average (25 percent) (28.62 percent). Using the coefficient model from the structural model, the researcher gives the factor weighting by applying the following equation:

$$\bar{V}_n = (0,132Y + 0,99P + 0,44X1 + 0,48X2 + 0,47X3 + 0,57X4 + 0,17X5 + 0,071X6)/F$$

Where  $V_n$  is the average district/city measurement, determined by adding up each factor's weighting coefficient. A research alternative if special autonomy funding are restricted or exhausted. The first step is to increase regional income by increasing regional taxes and levies, among other means. In order to collect user fees, for example, regional assets have been used in numerous ways. For example, the canteen that previously had no rent is now subject to rent, and the heavy equipment fee is now being collected. Second, reduce spending. Third, promote cost-recovery of services through the establishment of a Regional Public Service Agency (BLUD). Plan for Public-Private Partnerships for Infrastructure Development. Fifth, developing a Governor Regulation to optimize the utilization of CSR money for private firms and BUMN in Aceh. Sixth, optimizing ZIS for social security, scholarships, and poverty reduction. Currently, the province has increased ZIS collecting for civil servants. Seventh, enhancing community involvement in religious education funding. Since dayah education was aided by the special autonomy fund, NGOs' engagement has dwindled.

### Conclusion

Based on the findings of this study's analysis and discussion, it can be concluded that the Special Autonomy Fund (X1) variable is comprised of 6 (six) indicators: Infrastructure Development (X11), People's Economic Empowerment (X12), Poverty Alleviation (X13), Funding Education (X14), Social Funding (X15), and Health Funding (X16) are indicators that have been proven to be valid and reliable in determining whether or not the Special Autonomy Fund is implemented. The Special Autonomy Fund, the DAK, and the DBH are critical components in achieving regional economic growth while maintaining regional financial independence. According to the findings of the analysis, the establishment of the Special Autonomy Fund (X1) has a large and favorable impact on regional economic growth (Y) and regional financial independence (V). This demonstrates that regional growth is possible if the Special Autonomy Fund is implemented in operational operations and government policies at the Provincial and District/City levels. Policy priorities in the research domain demonstrate management using a weighted and factorial method for each District/City.

Long-term priorities for regional economic growth goals and their impact on regional financial independence with the Special Autonomy Fund, DAK, and DBH demonstrate that the model approach, which takes priority weights and regional factors into account, must be prioritized immediately by various stakeholders. As a result, the allocation pattern for the six goals (Infrastructure Development (X11), People's Economic Empowerment (X12), Poverty Alleviation (X13), Education Funding (X14), Social Funding (X15), and Health Funding (X16)) should serve as a priority scale for future improvement.

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