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Panel Analysis of the Effect of Economic and Social Condition on Districts/Cities' Fiscal Independency in North Sulawesi-Indonesia

Herman Karamoy
Faculty of Economic and Business, Sam Ratulangi University, Manado, Indonesia

Agus Tony Poputra
Faculty of Economic and Business, Sam Ratulangi University, Manado, Indonesia

Abstract
This paper analyzes the impact of economic and social factors on fiscal independence of districts/cities government in Province of North Sulawesi, Indonesia. Scope of research includes all districts in2009-2012. To analyze secondary data, we utilize the Pooled EGLS (Cross-section random effects) method. This research not only use secondary data, but also primary data. The primary data are used to obtain deep picture about factors that lower fiscal dependence of districts/cities in North Sulawesi. Those data are collected by interview to parties related to generate own resource revenues (OSR) and by focus discussion group with academicians. This research finds that economic development and population in districts of North Sulawesi do not significantly affect on fiscal independence. Otherwise, only variable human development index has significantly positive effect on fiscal independence. These findings are supported by primary data which show that: (1) most activities of dominant economic factor of those districts, except Manado and Bitung, namely agriculture, are not tax or surcharge objects; (2) types of local government tax have small tax base for districts and varies between districts that have big cities and small cities; (3) low of human resource capacity and creativity to generate OSR effectively and efficiently; and (4) low of taxpayers compliance.
Keywords: fiscal independence, economic development, human development index, population.

1. Introduction

Indonesian local autonomy, effectively applied since January, 2001. It is based on the Law Number 22/1999 about "Local Government." As a consequence of local autonomy, government provides fiscal decentralization arranged in the Law Number 25/1999 about "Financial Balancing between Central and Local Government." Then, both laws were modified by the Law Number 32/2004 and the Law Number 33/2004, respectively. Especially, for the Law Number 32/2004 already replaced by the Law Number 23/2014.

Indonesian local autonomy model assign autonomy directly to district and cities (the third tier of government), not through province. The last is treated as representation of central government in region. This model is different from the local autonomy model implemented by several countries in the world, such as United States of America, which assign autonomy to state (province), and further state assign to districts/cities.

Currently, the two laws above is also in the revision process to obtain an appropriate pattern given the changing environment and the many problems that arise in the implementation of autonomy thus blurring the mission of regional autonomy. According Mardiasmo (2002:59, there are three main missions of autonomy are as follows:

1. Creating efficiency and effectiveness in the management of regional resources.
2. Improving the quality of public services and social welfare.
3. To empower and create a space for people to participate in the development process.

Implementation of fiscal decentralization as a consequence of regional autonomy, in essence, contains expectation of creating development from below (Bahl, 1999: 2). In the economic context, Oates (1993) states that fiscal decentralization is intended to improve the economic-efficiency where the provision of public goods and services may vary tailored to the tastes and conditions of each region so as to providea greater social welfare rather than determined centrally and with the same number of cross-jurisdictional.

Local autonomy and fiscal decentralization is the delivery of authority from the central government to autonomous regions, along with the delivery of the sources of financing (money follows function). Oates (2005) emphasizes the importance of reliance on OSR in the financing of local budgets. It is associated with the application of a tight budget, which emphasize the dangers in a system if the local governments are highly dependent on higher-level government's transfers to fund their budgets. Furthermore, Lovell (1981: 197) shows that the higher the level of dependence of the autonomous regions to the central government transfers will lead to higher dependency of the local government policies on the central government. Policy dependency involves responsibilities, procedures, or activities imposed by a level of government to other levels of government through constitutional, legislative, executive, or judicial action, as a direct command or a condition of aid.

Since low fiscal independency of local governments render high dependency of their policies on higher-level governments, local governments need to enlarge their OSR in order to provide more rooms for creating their own policies. The ability to generate OSR depends on several factors including the following:

1. The potential revenue that could be obtained from sources dedicated financing of the central government to local governments, including the power of taxation (taxing power).
2. The ability of local governments to collect revenue, including the ability to conduct surveillance to avoid revenue leakage.
3. The ability of the economy of a region.
4. The social conditions of the community.

Sources of income submitted by the central government to autonomous regions often cause problems. The main problem is that the majority of income sources, especially local tax has a narrow tax base. It creates difficulty for local governments in generating sufficient revenues through those taxes. The problem was discovered by some researchers in the world including by Salazar and Guajardo (2009). Their research found that implementation of a National System of Fiscal Coordination (NSFC) in the form of revenue sharing by Mexican in order to avoid tax overlapping on the same object between central and local governments, has increased the dependence of local governments on the outcome of the central government.

Although local governments devolution of broad-based source of financing, but local governments often could not produce a sufficient OSR. This condition could be caused by: (1) the weakness of the human resources of local government officials; (2) local government strategy to gain equalization funds from the central government; (3) a leak in the collection; or so forth.

Apart from the internal side of the government, the economic condition of a region that includes the size and growth could affect the ability of local governments to generate revenues (Utami, 2012; Hidayat, 2009). An autonomous region that has a great economy could obtain larger subjects and objects of tax and surcharge. It would enable them to gain the greater revenues. Conversely, a small local economy would have difficulty obtaining sufficient OSR. Therefore, in the formation of a new autonomous region, the economic potency should become one of the important requirements. However, economic factors often defeated in by political interests in such decision. As a result, many new autonomous regions which not economically viable, still be formed based on political interest. It leads to high fiscal dependency of the new autonomous region.

Another external factor that could affect OSR such as noted above is a social condition. The better the social conditions of an area then the greater the income obtainable by community. With larger income, the community could do a greater consumption as well, which in turn will increase the local tax and surcharge basis.

With the growing ability of local governments in generating OSR, the higher the fiscal independency. This is an expected condition in the autonomy and fiscal decentralization. High OSR strengthen the capability of local governments to provide public goods and services in accordance with the characteristics of the region, not too dependent on central policies which generally uniform across the autonomous region.

Implementation of autonomy and fiscal decentralization in Indonesia has been running for almost 16 years. Likewise, the economic and social conditions in the regions of Indonesia have increased in this period. However, imbalances between regions (horizontal imbalances) are still going on, especially between areas that have large natural resources and the poor ones. Therefore, the central government still provides the transfer of large amounts of local government in the form of general grants, the amount of at least 25 percent of domestic revenue in the state budget, as well as, various other types of transfer.This paradoxical situation attracts researchers to investigate the effect of economic and social conditions of the fiscal independence of districts/cities in Indonesia, especially those in North Sulawesi province.

Therefore, the issues raised in this study are: (1) do economic factors proxied by the Gross Regional Domestic Product (GDP)affect on the fiscal independence of districts/cities in North Sulawesi?; and (2) do social factors proxied by the Human Development Index and the total Population on the fiscal independence of districts/cities in North Sulawesi? The objective of this study is to examine the influence of those two groups of factor on the fiscal independence of districts/cities government in North Sulawesi. *To analyze this problem, we utilize panel data by running Pooled EGLS (Cross-section random effects) to eliminate the effect of specific characteristics of each district/city on general conclusion.* To deepen this study, some interviews are held on local government employees who have a primary duty to gather the local tax and surcharges.

2. Literatures

2.1 Fiscal decentralization

According Calsamiglia, Garcia-Milà, and McGuire (2006: 1), there are some arguments against fiscal decentralization by stating that the centralized system generates economies of scale in the production of public goods and accommodates consumption spillovers across regions, as well as, the difficulty of the redistribution of income at the local level when using fiscal decentralization. However, many expertssupport fiscal decentralization with themselves arguments.

Xie, Zou, and Davoodi (1999: 228) argued that fiscal decentralization, the devolution of fiscal responsibility of the central government to the local government, is seen as a means to improve government efficiency, as well as, increase economic growth and development. Furthermore, Oates (1999) argued that there are significant efficiency gains when implementing fiscal decentralization. Specifically, decentralized system could accommodate varied demands for public goods and services across regions. The existence of benefit from fiscal decentralization and political will, then in the last few decades, many countries have implied fiscal decentralization, including Indonesia.

Delegation of fiscal authority to the regional has four main relationships, as follows (the World Bank, 2003):

1. Spending decisions
2. Taxing power and collecting revenues
3. Local debt
4. Transfer among levels of government.

2.2 Fiscal Decentralization Models

Calsamiglia, Garcia-Milà, and McGuire (2006:7) suggests that there are three fiscal decentralization systems:

1. *Full centralization*; in this model of central government utilizes the uniform tax function to obtain revenues in order to provide the same public goods and services across regions. Central government transfer to the regions is the only source of financing public expenditures in the regions. The local government merely a representation of the central government to deal with the administrative work without authority to make decisions.
2. *Full decentralization*; in this model, local governments have taxing power and responsibility to generate revenues. Local government could freely sets the level of public goods that are provided without any intervention or assistance from the central government. They could decide to make voluntary contributions to other local governments to help boost spending on public goods.
3. *Guaranteed minimum level*; this model combines some of attributes of the two models above. The central government imposes a similar tax system to generate revenue to fund transfers to local governments that support a minimum level (insufficient) of public goods in the region. The local government has the authority to get the local tax revenue to adjust spending levels above the required level. The local government has no authority to provide voluntary assistance to other local governments

If reviewing the explanations of the models above, fiscal decentralization in Indonesia using a third model, the guaranteed minimum level. The central government provides transfers to finance public goods spending minimum in regions, whereas local governments have the authority of local taxes for additional public goods spending.

2.3 Fiscal Independency

Local or regional fiscal independency is an important prerequisite in the implementation of local autonomy through decentralization. One of several characteristics a region is said to be able to implement local autonomy is the local financial independency. It means, the autonomous region must have the authority and ability to excavate its own financial resources, manage, and use their sufficient own monies to finance the implementation of local government and the provision of public goods.

Fiscal independency could be measured by the ratio of fiscal independency or regional finances. This ratio describes the ability level of a region to self-finance government activities, development, and public service to the people who have paid taxes and surcharge as a source of OSR. The ratio of local financial independency is measured by comparing the amount of OSR and the amount of revenues derived from other sources (external), such as the general grants, block grants, tax and natural resource income sharing, emergency fund, and debt (Halim, 2001). The formula used to calculate the ratio of fiscal independency is as follows:

$$\text{Ratio of fiscal independency} = \frac{\text{Own source revenue}}{\text{Revenues from external parties}}$$

Fiscal independency ratio illustrates the level of dependence of local governments on external funding sources .The higher the value of this ratio, the lower the level of dependence of a region on the external source. In other words, the region increasingly has fiscal independency, and vice versa. The higher the ratio of fiscal independency also means the higher participation of the people in paying local taxes and surcharge.

2.4 Sources of Local Government Revenue Indonesia

There are three major groups of local government revenue in Indonesia, namely OSR, Equalization Fund, Revenue Sharing, and other legal revenues. According to the Law Number 33/2004, the OSR contain some details of revenue are as follows:

1. Local tax
2. Local surcharges
3. Results of separated wealth management
4. Other legal OSR.

Furthermore, according to the law, other components in the legal OSR are as follows:

1. Results of sales of not separated assets
2. Demand deposit income
3. Interest income
4. Gain related to currency exchange
5. Commission, discount, or other forms as a result of sale and/or procurement of goods and /or services by local government.

The Law Number 33/2004 also regulates the equalization funds provided by the central government to local governments that include the following:

1. Tax revenue sharing and non tax revenue sharing
2. General grant
3. Block grants.

Implementation of financial equalization between the central and local governmentsis intended to overcome the gap between central and local government (vertical imbalances) and gap among regions (horizontal imbalances).

2.5 Local Tax and Surcharge

The nature of taxes and surcharges are mutually exclusive, i.e. when a tax or surcharge collected by the province, the district /city government is not entitled to collect, and vice versa. Local tax is obligatory contribution to the regions that are owed by individuals or entities that are enforceable under the law, by not getting the rewards directly and used for the purposes of the area for the greatest prosperity of the people. On the other hand, surcharge is a local charges as payment for services or certain special permits provided and/or provided by local governments for the benefit of the individual or entity (Law Number 28 of 2009).

2.6 Local Tax and Surcharge of Districts/Cities in Indonesia.

Local taxes that can be levied district/city governments in Indonesia in accordance with the Law Number 28/2009 are: (1) hotel tax; (2) restaurant tax; (3) entertainment tax; (4) advertisement tax; (5) street lighting tax; (6) tax non-metallic minerals and rocks; (7) parking tax; (8) tax on groundwater; (9) swallow nest tax; (10) tax on land and building rural and urban areas; and (11) fees for acquisition of land and buildings.

Furthermore, surcharge may be levied by the district/city according to the law above are: (1) general service surcharge which this type can not be charged if its potential revenue is small and/or should be free charge by the government regulation; (2) surcharges for business service; and (3) certain licensing levies.

2.7 Gross Regional Domestic Product (GRDP)

The GRDP is one of the macro-economic indicators which generally used to measure the economic performance in the region. GRDP can describe the ability of a local government to manage its natural and other resources. Therefore, the amount of GRDP produced by each province or district/city relies heavily on the potential of natural resources and local factors of production. There are some limitations in the supply of these factors and ability of the region to manage businesses cause the amount of GRDP varies between regions.

The GRDP also reflects the total value of goods and services produced in the region (regional) for a certain period of time. The derivation of the GRDP can be obtained through three approaches, namely production approach, the income approach and the expenditure approach.

2.8 Human Development Index (HDI)

The main goal of HDI is to broaden the focus not only people's incomes, but also as a comprehensive measure on human development. United Nations Development Programme (UNDP) does not deny that the income per capita is one of the main determinant of the level of human development of a country, but the UNDP proposed that income as only one of the three factors in measuring human development, where the other two is the level of life expectancy as a proxy for the achievement of health, and literacy levels along with the length of time of school as a proxy for educational attainment. The three HDI indicators are given equal weight (Neumayer, 2001: 101).

3. Research Method

This study was conducted in all districts/cities in North Sulawesi for the period 2009-2012. Selection of this period is based on that of the period is not the creation of districts/cities in North Sulawesi and the required data are completely available. For in depth research to find out the root problem of the study's findings, then conducted interviews with officials related to the collection of revenue. For the purposes, sampling method utilized is purposive judgment sampling. Officials who interviewed are from three cities and three districts, i.e. Bitung, Manado, Kotamobagu, Sangihe, and East Bolaang Mongondow. Selection of the area based on consideration of local conditions that can represent the condition of districts/cities in North Sulawesi.

Technical analysis utilized is Pooled EGLS (Cross-section random effects). As panel data analysis is used as an analytical tool, the research equation expressed as follows:

$$\ln FIR_{it} = \alpha + \beta_1 \ln GRDP_{it} + \beta_2 \ln HDI_{it} + \beta_3 \ln POP_{it} + \varepsilon$$

where

FIR = Fiscal Independence Ratio which measured through OSR divided by external financing.
GRDP = Gross Regional Domestic Product.
HDI = Human Development Index
POP = Population as control variable
i = Districts/Cities
t = 2009, 2010, … 2012

3.1 Research Data

Economic Development of District/Cities in North Sulawesi

The economy of the districts/cities in North Sulawesi, which has grown from year to year. Nevertheless, it still looks the development gap between one region to another, both in terms of size represented by their Gross Regional Domestic Product (GRDP) atCurrent Price Basis and their growth rates.Table 1 figure out that Manado has always had the largest GRDP at Current Price. In 2012, the city of Manado has GRDP at Current Price of IDR 15.62 trillion. The value of GRDP is equivalent to 33.82 percent of the GRDP of North Sulawesi for the year as shown in Table 2.

Table1 GRDP at Current Price in North Sulawesi Region, 2009-2012

Districts/Cities	GRDP at Current Price Basis (IDR Million)			
	2009	2010	2011	2012
District of Bolaang Mongondow	1,724,043	1,957,552	2,244,361	2,484,292
District of Minahasa	3,811,634	4,337,830	4,862,872	5,416,621
District of Sangihe	1,246,249	1,473,073	1,685,834	1,876,788
District of Talaud	682,563	766,673	883,881	968,943
District of Minahasa Selatan	2,278,367	2,592,059	3,005,034	3,316,656
District of Minahasa Utara	2,362,432	2,660,389	2,910,575	3,228,426
District of Bolaang Mongondow Utara	621,010	707,124	829,097	934,724
District of Sitaro	502,531	592,916	736,366	858,516
District of Minahasa Tenggara	1,520,401	1,710,255	1,977,026	2,175,656
District of Bolaang Mongondow Selatan	403,628	465,672	546,469	616,292
District of Bolaang Mongondow Timur	662,981	767,649	882,923	977,350
City of Manado	10,487,597	11,921,759	13,446,834	15,621,880
City of Bitung	3,508,907	3,863,184	4,232,420	4,817,941
City of Tomohon	1,211,859	1,325,192	1,481,562	1,637,617
City of Kotamobagu	859,069	993,690	1,124,717	1,262,983

Source: North Sulawesi Statistical Central Board

On the other side, District of Bolaang Mongondow Selatan has GRDP at Current Price smallest in North Sulawesi. In 2012, the GRDP of the district amounted to IDR 616.29 billion. The figure is equivalent to 1.33 percent of the GRDP of North Sulawesi Province. Furthermore, City of Bitung which is the second largest city in North Sulawesi has GRDP at Current Price only of IDR 4.82 trillion, or less than a third of the GRDP of Manado, the capital city of the province. Given Bitung is the largest port city in North Sulawesi and also one of the largest port in eastern Indonesia, the potential can be increased significantly in the future.

High economic growth is always experienced by the city of Manado. Over the last few years the city's economy grew an average more than 8 percent. Furthermore, the districts and city formed by spin-off of District of Bolaang Mongondow, initially had low economic growth but experienced a significant improvement in the last few years. Increased economic growth occurs there are generally caused by the construction of government facilities in the districts and city so feared that the growth will decline in the future after the completion of construction of government facilities.

Improvement of economic growth enjoyed by districts and city in Bolaang Mongondow region is not experienced by island districts. District of Sangihe and Talaud are always growing below 6 percent. As a result, the share of both districts as shown in Table 2 before, continued to decline from year to year. This condition requires government support to build facilities in the remote islands in the two districts in order to reduce the economic gap with other districts and cities in North Sulawesi.

Table2. Share of Each District/City to North Economy Province, 2009-2012

Districts/Cities	Share of Each District/City to North Economy Province (%)			
	2009	2010	2011	2012
District of Bolaang Mongondow	5.41	5.42	5.49	5.38
District of Minahasa	11.95	12.00	11.90	11.73
District of Sangihe	3.91	4.08	4.13	4.06
District of Talaud	2.14	2.12	2.16	2.10
District of Minahasa Selatan	7.15	7.17	7.36	7.18
District of Minahasa Utara	7.41	7.36	7.13	6.99
District of Bolaang Mongondow Utara	1.95	1.96	2.03	2.02
District of Sitaro	1.58	1.64	1.80	1.86
District of Minahasa Tenggara	4.77	4.73	4.84	4.71
District of Bolaang Mongondow Selatan	1.27	1.29	1.34	1.33
District of Bolaang MongondowTimur	2.08	2.12	2.16	2.12
City of Manado	32.89	32.99	32.92	33.82
City of Bitung	11.01	10.69	10.36	10.43
City of Tomohon	3.8	3.67	3.63	3.55
City of Kotamobagu	2.69	2.75	2.75	2.73

Source: North Sulawesi Statistical Central Board

Population Growth of Districts and Cities in North Sulawesi

Population of the North Sulawesi province in 2012 is 2,319,916 people. During 2008-2012, population of North Sulawesi increased on average of 1.24 percent per year. This figure shows that the growth of North Sulawesi's population is relatively restrained. Population growth is not just related to the number of births but also the migration of population from other provinces to North Sulawesi as a result of the rapid economic development in this province in the last few years.

Population of North Sulawesi Province is concentrated in city of Manado and Minahasa. In 2012, population in these two areas is 417 483 people and 316 884 people, respectively. Overall, the population is spread unevenly in North Sulawesi Province. In 2012, as many as 18.0 percent of the population reside in City of Manado although wide of this city is only 1 percent of the total area of North Sulawesi. This caused by Manado economy is most advanced in North Sulawesi and it experience a very rapid growth compared to the other districts and cities.

Rapid growth of City of Manado is inseparable from the development of business and supporting infrastructure, both private and government. On the other hand, District of Bolaang Mongondow Selatan is a region which has smallest population,2.53 percent of the total population of North Sulawesi despite having a large area that is 12 percent of the total area of North Sulawesi. This condition should be a challenge for the districts and cities with a very low population density to suppress the exodus of their population, through bring out development activities more seriously.

Human Development Index of Districts and Cities in North Sulawesi

Human Development Index (HDI) of North Sulawesi is the highest in eastern part of Indonesia. One of fundamental shortcoming of per capita real income in measuring the welfare of society is inability of that indicator to adopt equal distribution of income among people. Therefore, HDI is often used as a complementary indicator for measuring people well-being. North Sulawesi performance of this indicator is very good that this province has the highest HDI in eastern part pfIndonesia, which amounted to 76.95 and occupied second rank nationally until 2012. This indicates that the welfare of population is getting better so that member of community can meet various standards of living.

At the level of the district/city, City of Manado has the highest HDI in 2012, i.e. 78.92 percent, followed by Tomohon, i.e. 77.40. Nevertheless, there is still inequality of HDI between districts and municipalities in North Sulawesi. Some districts still have a low value, which is below 74 percent, even Bolaang Mongondow Selatan only have a value of 71.63 percent.

Government Revenue of Districts and Cities in North Sulawesi

In 2009, the overall revenue in the city and district governments of North Sulawesi is amount IDR 5.46 trillion. That figure increased to IDR 7.36 trillion in 2012, or an average increase of 10.42 percent per annum for the period. The increase mainly come from external funding, namely from the central and provincial governments.

Role of regional OSR on government revenue districts and cities in North Sulawesi is very limited. Manado's OSR, the capital of the province only reached 17.18 percent of its total revenues in 2012. Contribution of OSR of other districts /cities in the same year is very small, which is an average of 3.41 percent. This indicates that the level of fiscal independence of districts/cities in North Sulawesi are still relatively low so that the relationship with central and provincial governments are "instructive" in nature.

Statistical Results and Discussion

Table 3 shows the results of panel analysis utilizing Pooled EGLS (Cross-section random effects) on data used. The results show that the economic development of the districts/cities in North Sulawesi are proxied by the GRDP do not significantly affect the fiscal independence of local governments in North Sulawesi. This condition is caused by several factors including the following:

Table 3 Statistical Result

Variable	Coefficient	S.E.	t-Statistic	Prob.
C	-97.817	20.468	-4.779	0.000
GRDP	0.173	0.311	0.557	0.580
HDI	21.351	4.571	4.671	0.000
POP	-0.031	0.543	-0,057	0.954
Random Effect				
DBOLMONG-C	0.178			
DMINAHASA-C	-0.139			
DSANGIHE-C	0.389			
DTALAUD-C	-0.459			
DMINSEL-C	-0.595			
DMINUT-C	-0.259			
DBOLMUT	0.311			
DSITARO	0.628			
DIMITRA	-0.354			
DBOLSEL	0.663			
DBOLTIM	0.007			
CMANADO-C	0.449			
CBITUNG-C	0.227			
CTOMOHON-C	-0.734			
CKOTAMBG-C	-0.312			
			SD	Rho
Cross-section random			0.474	0.822
Idiosyncratic random			0.220	0.178

Dependent variable: FIR (Fiscal Independency Ratio)

1. GRDP of districts/cities outside Manado and Bitung dominated by agriculture. Activity in this sector is largely not an object of taxes and levies. Some districts/cities try to attract a levy on agricultural and fishery products, but got a challenge, especially considering that the economic incidence will be borne by poor farmers and fishermen.
2. Type of local taxes in Indonesia in the form of "closed list," provides very wide variation among districts/cities. Relatively large cities/districts generally have a large tax base for park activities, hotels, restaurants, and licensing. Instead a small area mostly relies on Excavation Tax, namely tax on mining stone and sand. In environemental perspective, this tax gets a serious concern. Environmentalists estimate that tax revenue from this activity could not compensate environmental damage.
3. Lack of responsible officer who creatively attempts to collect taxes to the intensification and extension of taxes and levies.
4. Low effort to supervise the collection of taxes and levies so that leakage reception.
5. Low awareness of taxpayers to perform their duties. One reason is that they feel the lack of local government services.

Otherwise, this reseach finds significantly positive effect of HDI on fiscal independency in North Sulawesi. These results are in line with the general view that improving the quality of human resources in certain area will provide greater opportunities for them to get jobs or create jobs. Thus, the opportunity to earn greater local OSR.

In-depth research on fiscal independence obtained through interviews with officials at local government agencies who have the principal task of generating revenue as well as through focus group discussion (FGD) shows some of the factors that cause low fiscal independence in districts/cities in North Sulawesi as follows:

1. Almost all local taxes have a very narrow tax base in most districts/cities in North Sulawesi.
2. Officerswho has the principal task for income generating are very less than administrative ones.

3. Lack of supervision in the collection of taxes and levies.
4. Low efforts of district/city governments for tax purposes, both intensification and extension. There is a tendency to provide more attention to given subject and object taxes and levies.

4. Conclusions

Research Results Regarding the fiscal independence of districts/municipalities in North Sulawesi can be summarized as follows:

1. The economic development of local government in North Sulawesi has no significant effect on the fiscal independence of local governments. It is caused by several factors, including: (1) sectors that dominate the economy of the districts/cities outside Manado and Bitungare agriculture sectors whose activities are largely not an object of taxes and levies; (2) types of local taxes that allowed the central government has very narrow tax base in most districts/cities of North Sulawesi; (3) lack of effort in the intensification and extension of taxes and levies creatively; (3) lack of efforts to supervise the collection of taxes and levies so that leakage reception; and (4) low awareness of taxpayers to fulfill their obligations.
2. Human Development Index (HDI) has a positive influence and significant impact on the fiscal independence of local governments in North Sulawesi. This is in line with the general view that improving the quality of human resources in an area will provide greater opportunities for them to get or create jobs.
3. The development of population does not significantly affect the fiscal independence of local governments in North Sulawesi. Factors that cause this condition include the unemployment and poverty in North Sulawesi are still relatively high. The development of the population actually gives the opportunity to increase government revenue. However, the high unemployment and poverty makes the population growth becomes less useful to increase revenue, and even tends to bring out burden to government.
4. Appropriation of Property Tax of Urban and Rural into the local tax has been very detrimental to local government in North Sulawesi. The delegation of that tax will both increase the burden of local governments and reduce government revenues of local government in North Sulawesi since they no longer receives equalization fund or cross-subsidies that come from big cities in Indonesia related to the property tax.

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