

## Reducing Regional Fiscal Inequality And Increasing Regional Independence (Case Study Of The Regency, City And The Province Of Gorontalo)

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### Abstract

*Improving the economic fundamentals and fiscal independence of the city districts and Gorontalo Province is urgent for more than two decades. The issue of poverty levels and quality economic growth is in line with the issue of regional fiscal independence ratios and fiscal inequality. This paper aims to analyze the level of regional fiscal independence in Gorontalo Province, using a descriptive qualitative approach assisted by the Williamson and Theil index. The research concluded, First The level of fiscal independence in the five regencies, a city and Gorontalo Province is still very low. This can be seen from the high vertical fiscal inequality index and the very low regional fiscal independence ratio. Specifically for Gorontalo Province and Gorontalo City, the narrower margin between regional original income or PAD and central transfers means positive decentralization increases capacity and fiscal independence. The five regencies still rely on PAD from the Other Legal PAD component, whereas the performance of regional taxes and levies is still very low. Second, PAD owned by Gorontalo Province and Gorontalo City is contributed more by regional taxes. Third, the regional spending structure which is dominated by employee spending and indirect spending has not had an automatic impact in increasing the creation of new jobs and community and regional income. Fourth, the synergy of central and regional government fiscal/spending policies is not yet optimal. Transformation of the economic structure through strengthening the industrial ecosystem, transformation of agricultural commodities, and transformation of the governance of potential regional taxation and levies in regional policy synergy to increase fiscal independence.*

**Keywords:** *fiscal, regional, district, city, province, Gorontalo.*

### Introduction

The formation of Gorontalo Province is in line with the aim of implementing fiscal decentralization, namely creating equitable prosperity. The central government has designed the allocation of national resources effectively, efficiently, optimally and fairly to achieve these goals. The policies in question include transferring funds to provincial and city district governments, improving them continuously so that the transfer funds received by regional governments can provide optimal benefits for the welfare of the community. Gorontalo Province was established by Law Number 38 of 2000 dated 5 December 2000 consisting of five districts, namely Gorontalo, Boalemo, Pohuwato, Bone Bolango, and North Gorontalo and one city, namely Gorontalo City. For more than two decades,

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Gorontalo Province is still trapped in the problem of high levels of poverty. BPS data shows that the poverty level in Gorontalo Province as measured by the percentage of poor people in the first semester of 2023 reached 15.15 percent, above the national poverty level of 9.36 percent. Of the 34 provinces, Gorontalo is the fifth poorest province after Papua, West Papua, East Nusa Tenggara and Maluku. This condition is quite challenging for city districts in Gorontalo Province and the central government. Gorontalo Province's economic growth in 2023 from the first quarter to the third quarter respectively is 4.23; II 4.25; and 4.62 percent (yoy). Even though the economic recovery trend is on track after being impacted by the COVID-19 pandemic, the regional economic growth rate is still below the national economic growth rate, namely 5.04 percent and 5.11 percent (yoy).

If we look at the sources of funds and use of the APBD of the Regency City and Gorontalo Province, the Regional Fiscal Capacity Ratio (KFD) shows a figure that is still quite low. The KFD ratio is regional financial capacity, the calculation of which is regional income plus regional financing receipts minus income whose use has been determined, certain expenditures, and certain regional financing expenditures.

Table 1. Gorontalo Province Regional Fiscal Capacity Ratio and National Province Rank, 2018-2022

Year	RKFD	Rating
2018	0.221	34
2019	0.171	34
2020	0.103	34
2021	0.160	34
2022	1,350	28

Source: Indonesian Ministry of Finance

The low KFD ratio of Gorontalo Province as in table 1 is an indicator of the high level of vertical fiscal inequality, both using the share of inter-government transfer approach to regional government expenditure (CVI-1) and the share of government expenditure that is not covered by the original income of each regional government (CVI-2). The higher the CVI-1 and CVI-2 values (closer to one) means the higher the level of vertical fiscal inequality or the higher level of dependence on transfer funds and loans from the central government.



Source: Regional Office of DJPb Gorontalo Province, Data processed in 2023

Figure 1. Average Level of Vertical Fiscal Inequality Model CVI-1 and CVI-2 City Districts in Gorontalo Province 2018-2022

The high level of vertical fiscal inequality in Gorontalo is not accompanied by a high level of horizontal inequality. This level of horizontal fiscal inequality can be used as an

indicator of the level of welfare inequality between regencies and cities in Gorontalo Province. The results of calculating the Williamson index and Theil Entropy for Gorontalo Province in 2022 are 0.20 and 11.41 respectively. This value shows the relatively low level of inequality between City Districts.

Several economic and fiscal parameters in Gorontalo Province show that the poverty level is still high, the level of economic growth is not optimal, the KFD ratio is low, and the vertical fiscal inequality is high. These fiscal parameters show that the level of fiscal independence in Gorontalo Province is still low. This has an impact on the lack of funds and ability of City Districts to support economic growth and community welfare. Related to this, there are several research results regarding regional fiscal inequality/regional fiscal capacity which state that regions that have low PAD and a high level of dependence on transfer funds tend to be poorer and have less optimal development. This paper aims to analyze the level of regional fiscal independence in Gorontalo Province.

### **Literature Review**

Fiscal inequality can be classified into two, namely Vertical Fiscal Inequality and Horizontal Fiscal Inequality. Vertical fiscal inequality in Gorontalo occurred as a result of the implementation of fiscal decentralization where not all authority to collect revenue was given by the Central Government to the Regional Government in Gorontalo, both Regency City and Province. Meanwhile, autonomous regions are given the responsibility and authority to carry out spending that exceeds the region's ability to generate PAD.

Vertical fiscal inequality occurs because there is a gap between the granting of authority to collect revenue, especially from the taxation sector, and the granting of responsibility for expenditure from the Central Government to Provinces and City Districts. In theory, it is possible for a Regional Government not to experience vertical fiscal imbalance, that is, when a condition is reached where all expenditure carried out can be fully financed with PAD. To achieve these ideal conditions, the Central Government and Regional Governments face various quite serious challenges, and it takes a relatively long time to make it happen.

Horizontal fiscal inequality or inequality between regional governments is a condition where there are regional governments that are richer than others. This is reflected in the PAD that has been collected by each local government. The greater the PAD that is owned will provide wider space for the relevant regional government to spend in order to encourage economic growth and improve the welfare of the people in their region. As a result of the disparity in PAD among local governments in a particular region, the categorization of developed regions, developing regions and underdeveloped regions has emerged.

General Allocation Funds, Special Allocation Funds and Profit Sharing Funds are instruments used by the Central Government to create financial balance between the central and regional governments. Why does the central government establish these three financial instruments? First, to overcome the problem of vertical fiscal inequality. The central government controls most of the main state revenues such as taxes. Second, overcoming horizontal fiscal inequality, where the ability of regions to earn income varies greatly depending on the wealth of natural resources. Apart from that, there are differences in the intensity of economic activities, spending needs to carry out government functions and services to the community such as the poor and extreme poor, stunting, children and teenagers out of school and open unemployment of productive age. Third, maintaining the achievement of minimum service standards. Fourth, overcoming problems arising from the spread or overabundance of the effects of public services such as roads, fire departments, higher education facilities, electricity and telephone networks, pollution control systems, hospitals, where these facilities are generally unwilling and unable to be built solely relying on regional budgets. which is relatively minimal. Fifth, the aim of stabilization (Yuswanto, 2009).

The application of the money follows functions principle is very important in the context of fiscal decentralization to support the transfer of authority to regional governments. Hart and Welham (2016) state that MFF is a key rule in fiscal decentralization. According to Bahl (1999), in applying the money follows functions principle, the first rule that must be followed is expenditure assignment to local governments. Second, determine the revenue assignment responsibility of the regional government. Regarding revenue assignment, it is very important to determine the proportion of regional revenue sources, whether from regional central taxes or from transfers to the regions.

In central and regional financial relations, transfers to regions act as funds to balance the fiscal capacity of each region. Boadway et al (2007) stated that the passive role of transfer funds is to close fiscal gaps and achieve equality. This fiscal imbalance can be seen in terms of income and expenditure. On the expenditure side, inequality is triggered by two things, differences in population, both in number and composition, which ultimately determine the size of the fiscal need for the provision of public goods, as well as differences in costs for the provision of public goods in each region. The active role of transfer funds in achieving national goals, as a means of balancing public service standards, and acting as a tool for harmonization of policies, to prevent inefficiency in public spending.

## Results and Discussion

### a. Conditions of Regional Fiscal Independence in Gorontalo Province

The ability of a Regional Government to provide public services to the community is determined by the income that the relevant Regional Government can collect/receive, especially that which comes from PAD. There are three sources of Regional Revenue and Expenditure Budget (APBD) income in both Level I and Level II Regional Governments, namely PAD, transfer receipts from the central government or more familiarly known as Regional Transfer Funds (TKD), and other legitimate income. . The two sources of APBD income mentioned first are the main and most dominant in every Regional Government in the Gorontalo Province region. The local government's ability to collect PAD shows independence in providing services to the community. The percentage of Regional Government PAD in the Gorontalo Province region for the period 2017 to 2022 is as follows:

Table 2. Percentage of PAD to APBD in Gorontalo Province for 2017-2022

Local Government	2017	2018	2019	2020	2021	2022	Average
Gorontalo Province	19.64	21.36	22.13	22.27	25.89	27.45	23.12
Regency. Boalemo	6,11	6.66	8,10	6.07	6.81	6.64	6.73
Regency. Gorontalo	11.08	10.16	10.35	9,10	9.06	10.91	10,11
Gorontalo City	19.33	20.59	21.74	23.01	28.71	26.03	23,24
Regency. Pohuwato	6.13	5.76	6.40	5.33	8.01	14.88	7.75
Regency. Bone Bolango	7.41	6.67	7.73	7.99	8.95	10.98	8.29
Regency. North Gorontalo	3.72	3.87	4.12	3.51	3.81	4.24	3.88

Source: Dit APK (data processed)

The ideal percentage of PAD to APBD can vary depending on local conditions and resources as well as priorities and policies. Several regions are targeting PAD to reach 30 percent of the total APBD. However, to achieve this, regions must have strong economic resources, effective tax and levy policies and a good financial management system. Table 1 shows that in the 2017-2022 period, the percentage of PAD to APBD, both at the provincial and district/city levels, has never reached 30 percent. For Gorontalo Province,

the percentage of PAD to APBD has an increasing trend, in 2017 it was 19.64 percent and in 2022 it reached 27.45 percent. At the district/city level, in the 2017-2022 period, the top three regional governments with the highest average percentage of PAD to APBD are Gorontalo City, Gorontalo Regency, and Bone Bolango Regency.

The city of Gorontalo as the provincial capital shows higher income performance than the regional average as shown in table 2. This is logical because apart from being the center of government, it is also a center for trade and business, due to its complete modern city facilities characterized by services. Gorontalo Regency and Bone Bolango as the closest areas (hinterland) also received a positive impact from the rapid economic progress of Gorontalo City. Meanwhile, Boalemo and North Gorontalo Regencies, which are geographically quite far from the capital, are affected by a slow economy and low PAD.

The high or low percentage of PAD to APBD in a local government can be used as a parameter to measure the level of vertical fiscal inequality in a local government. The smaller the percentage, the higher the level of fiscal inequality. Apart from using this approach, the level of vertical fiscal inequality can also be measured using the Vertical Fiscal Inequality Coefficient. The vertical fiscal inequality coefficient calculated using the share transfer approach between central governments on regional government expenditure in the Gorontalo Province region is as follows.

Table 3. Coefficient of Vertical Fiscal Inequality Using the Inter-Governmental Share Transfer Approach Regarding Regional Government Expenditures (CVI-1) in Gorontalo Province 2018-2022

Local Government	2018	2019	2020	2021	2022	Average
Gorontalo Province	0.716	0.681	0.655	0.629	0.497	0.636
Regency. Boalemo	0.780	0.668	0.696	0.716	0.712	0.714
Regency. Gorontalo	0.821	0.647	0.689	0.479	0.486	0.624
Gorontalo City	0.785	0.764	0.717	0.643	0.455	0.673
Regency. Pohuwato	0.890	0.748	0.777	0.621	0.505	0.708
Regency. Bone Bolango	0.892	0.688	0.712	0.713	0.534	0.708
Regency. North Gorontalo	0.889	0.768	0.742	0.682	0.614	0.739

Source: Gorontalo Regional Report of Assets and Liabilities Conference

The still high level of vertical fiscal inequality in the Gorontalo Province region is presented in table 3. The average fiscal inequality at the provincial level in the 2018-2022 period reached 0.636. At the district/city level, in the same period, the regional government with the highest level of vertical fiscal inequality was Boalemo Regency, while the regional government with the lowest vertical fiscal inequality was Gorontalo Regency.

Regional vertical fiscal inequality means that there is a deficit or imbalance between regional government income and expenditure. The causal factors vary depending on regional policies and conditions, generally including 1) Dependence on Transfer Funds; 2) Low Original Regional Income or inefficient taxation system and governance; 3) High regional debt where interest and installments will burden the budget; 4) Uncontrolled expenditure or waste of resources caused by weak commitment of regional heads (executive and legislative) to efficient spending; 5) Fluctuations in regional income due to dependence on certain economic sectors or commodities; 6) Increased demand for public services which is not followed by regional income; 7) Regional inequality within one province; 8) Policy changes, especially from the central government regarding transfer funds to regions; and 9) Corruption and poor financial management in areas.

The Law on Financial Relations between Central and Regional Governments aims to increase regional fiscal capacity through local original revenues, simplify tax administration, facilitate monitoring of integrated tax collection by regions and make it

easier for the public to fulfill tax obligations, in addition to implementing quality transfers to regions and expanding access to financing.

UU-HKPD is structured on four pillars, namely; Decreased vertical and horizontal inequality, strengthening local taxing power, improving the quality of regional spending, as well as harmonizing central and regional spending. In an effort to reduce vertical and horizontal inequality, it is necessary to redesign transfer management including Profit Sharing Funds, General Allocation Funds, Special Allocation Funds, Special Autonomy Funds, Special Funds and Village Funds. It also contains calculations of fiscal needs based on unit costs and service targets, so that government and service delivery can be realized and increased regional responsibility and performance in strengthening state revenues.

In an effort to strengthen local taxing power, five types of consumption-based taxes were reclassified, namely entertainment tax, parking tax, hotel tax, restaurant tax and street lighting tax into Certain Goods and Services Tax. To improve the quality of regional spending, the Transfer to Regions format of DAU for Fiscal Year 2023 consists of DAU whose use is not determined which is handed over according to regional authority and priorities. The use of the DAU determined is adjusted to the programs/activities determined by the government, such as PPPK salaries, sub-district funding, public services in the fields of education, health and public works.

Apart from being measured using an approach Vertical Fiscal Inequality Coefficient, regional fiscal ability or capacity can be seen from the Regional Fiscal Capacity Ratio. The higher the RKFD value indicates that the regional government has good fiscal independence. The Ministry of Finance has determined the level of regional fiscal capacity for the Provincial and Regency City levels as follows.

Table 4. Range of Fiscal Capacity Ratios for Provinces and Districts and Cities

Provincial RKFD Range	Regency/City RKFD Range	Regional Fiscal Capacity Category
RKFD < 1.442	RKFD < 1.171	Very low
1,442 <=RKFD < 1,756	1.171 <=RKFD < 1.504	Low
1,756 <=RKFD < 2,070	1.504 <=RKFD < 1.838	Currently
2,070 <=RKFD < 2,384	1,838 <=RKFD < 2,171	Tall
2,384 <=RKFD	2,171 <=RKFD	Very high

Source: Ministry of Finance

Even though there are slight differences in the range of values in determining the level of regional capacity of Provinces and Districts and Cities, in general table 4 shows that the higher the RKFD value indicates a high level of regional fiscal capacity.

Table 5. Regional Fiscal Capacity Ratio in Gorontalo Province for the 2017-2022 Period

Local Government	2017	2018	2019	2020	2021	2022	Average
Gorontalo Province	0.23	0.221	0.171	0.103	0.160	1,350	0.373
Regency. Boalemo	0.28	0.538	0.303	0.347	0.353	1,288	0.518
Regency. Gorontalo	0.56	0.623	0.687	1,567	0.696	1,117	0.875
Gorontalo City	0.56	0.650	0.758	0.780	0.821	1,242	0.801
Regency. Pohuwato	0.34	0.551	0.534	0.568	0.538	1,578	0.685

Regency. Bone Bolango	0.23	0.108	0.470	0.469	0.546	1,198	0.504
Regency. North Gorontalo	0.40	0.501	0.368	0.307	0.397	1,749	0.620

Source: Ministry of Finance, 2023

The regional fiscal capacity of Gorontalo Province for the 2017-2021 period has always been in the "very low" category nationally. In 2022, Gorontalo Province's fiscal capacity ratio will increase so that it can move positively to rank 28th out of 34 provinces. However, the regional fiscal independence ratio of Gorontalo Province is still in the "very low" category. The highest RKFD for City Regency in Gorontalo Province in 2022 was achieved by North Gorontalo Regency, while the lowest index was in Gorontalo Regency. Harder efforts are needed to increase regional original income with the aim that it can be used to increase limited regional spending space in order to encourage regional economic growth.

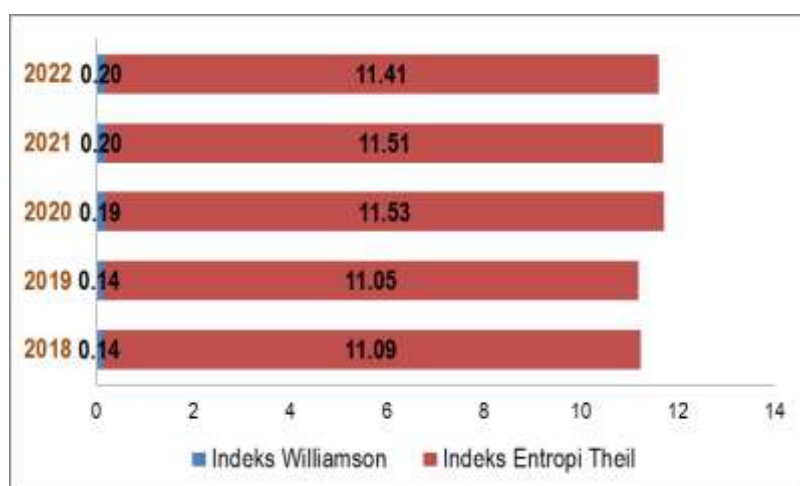


Figure 2. Williamson Index and Theil Entropy in Gorontalo Province for the 2018-2022 Period

Source: Gorontalo Regional Report of Assets and Liabilities Conference

To determine the inequality of development that occurs in Gorontalo, calculations using the Williamson Index are used. In its calculations, the Williamson Index uses Gross Regional Domestic Product (GRDP) per capita and population as basic data. The Williamson Index is used to see how much inequality exists between regions with a value ranging between 0-1. If the Iw value is away from 0 (zero), it indicates that the level of income inequality between regions within that region is getting bigger, and if the Iw value is close to 0 (zero), it shows that the level of income inequality between regions within that region is getting smaller. Apart from using the Williamson Index, the Theil Index is also used to measure income inequality. According to Kuncoro (2001), Theil's Entropy concept of a distribution is basically an application of information theory concepts in measuring economic inequality and industrial concentration. The data required in the Theil Index analysis is Gross Regional Domestic Product (GRDP) per capita and population for each region.

Based on calculations using the Williamson index in table 5, it can be seen that during the 2018 - 2022 period the level of income inequality in Gorontalo province experienced an upward trend. Even though it has increased, if you look at the Williamson



index value, it can be interpreted that the level of development gap between regions in Gorontalo province is widening but is still in the low category. Based from the results of the analysis using the Theil index, it was found that the average value of the Theil entropy index between City Regency areas in Gorontalo Province for the 2018–2022 period was 11.32. This means that the inequality of development between District and City areas in Gorontalo Province is quite low. The inequality index between regions for the 2018-2019 period has decreased, however, the COVID-19 pandemic has caused inequality between regions in Gorontalo Province to widen again in 2020. As the pandemic subsides and economic activity continues to recover, the Theil entropy index for the 2021-2022 period experiences a downward trend. .

#### *b. Economic Conditions and Welfare in Gorontalo Province*

Income inequality is closely related to relative poverty. Poverty and inequality are two elements that cannot be separated. To find out how widespread poverty is in a country, (Todaro et al., 2009) concluded that there are two factors, namely the average level of national income and the level of inequality or inequality in income distribution. (Kuncoro, 2006) argues that at a macro level, poverty arises because of imbalances in resource ownership patterns which can trigger inequality in income distribution. Poor people only have limited and low quality resources, in contrast to rich people who have abundant and high quality resources. Poverty causes the inequality of income distribution between rich and poor to become increasingly unequal. As stated by (Arsyad, 2010), the failure to achieve a significant reduction in poverty rates has resulted in increasing inequality in income distribution in developing countries. Therefore, reducing poverty is very necessary, so that income inequality in society becomes lower (Hindun et al., 2019).

Table 6. Percentage of Poor Population in Gorontalo Province, 2017-2022

Local Government	2017	2018	2019	2020	2021	2022	Average
Gorontalo Province	17.65	16.81	15.52	15.22	15.61	15.42	16.04
Regency. Boalemo	21.85	20.33	18.87	18.57	19	18.74	19.56
Regency. Gorontalo	20.55	19.84	18.06	17.56	17.89	17.71	18.60
Gorontalo City	5.70	5.57	5.45	5.59	5.93	5.73	5.66
Regency. Pohuwato	21.27	19.40	18.16	17.62	18.08	17.87	18.73
Regency. Bone Bolango	17.81	17.40	16,12	15.81	16.30	16.05	16.58
Regency. North Gorontalo	19.23	18.54	16.95	16.88	17.23	17.24	17.68

Source: BPS Gorontalo Province (processed data)

Based on BPS data, the lowest percentage of poor people in Gorontalo Province is in Gorontalo City, while the highest percentage of poor people is in Boalemo district. Percentage of poor people in cities is lower when compared to districts due to several factors, including:

- Greater job opportunities. Cities have more job opportunities, both in the formal and informal sectors. This makes it easier for city residents to find work and increase their income.
- Better access to public facilities and services. Cities have better access to public facilities and services, such as education, health and transportation. This can help city residents to improve their quality of life.



The economic growth variable has a negative and significant relationship to poverty in City Districts. This negative relationship between the variables of economic growth and poverty shows that increases and decreases in economic growth that occur will affect the level of poverty. This is in line with research conducted by Saputra, (2011), Permana, (2012), Wiguna, (2012), (Syahrullah, 2014), (END, 2019), and (Fadila, 2020).

Table 7. Growth of Gross Regional Domestic Product in Gorontalo Province (%) 2017-2022

Local Government	2017	2018	2019	2020	2021	2022	Average
Gorontalo Province	6.74	6.49	6.4	-0.02	2.41	4.04	4.34
Regency. Boalemo	6.66	6.69	6,7	-0.21	2.04	3.05	4.16
Regency. Gorontalo	6.78	6.2	6.22	-0.01	2.43	3.93	4.26
Gorontalo City	7.43	7	6.95	-0.02	2.83	4.1	4.72
Regency. Pohuwato	6.66	6.47	6.28	-0.18	2.21	3.08	4.09
Regency. Bone Bolango	7.09	6.46	6.35	0.06	2,2	4.01	4.36
Regency. North Gorontalo	7.41	6.93	6.77	-0.22	2.21	3.3	4.40

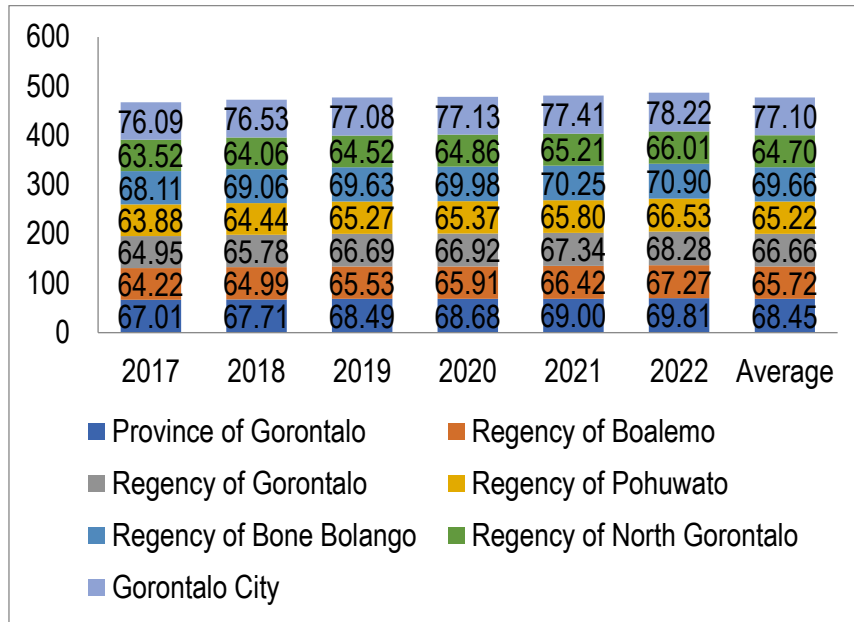
Source: BPS Gorontalo Province (processed data)

The economic growth rate of the City and Regency in Gorontalo before the pandemic occurred was always able to reach above 6 percent, however the COVID-19 pandemic had a significant impact on the economy which caused the rate of economic growth to contract quite deeply. As the pandemic begins to subside, the rate of economic growth in Gorontalo is slowly starting to recover, although quite slowly.

It can be seen in table 7 that Gorontalo City, as the central of economic activity in Gorontalo Province, is the area with the highest growth rate. Meanwhile, Boalemo Regency is the area with the lowest economic rate. This indicator is in line with the results of several studies conducted previously regarding the negative relationship between economic growth and poverty, where Gorontalo City is the area with the lowest percentage of poverty levels when compared with other areas in Gorontalo Province, while Boalemo Regency is the area with the highest percentage of poor people (table 5).

Another factor that can also be a contributing factor to poor people is the quality of human resources. On the other hand, the development paradigm that is currently developing is economic growth which is also measured by improving the quality of human life. One of the benchmarks used to see the quality of human resources is the Human Development Index (HDI). A low Human Development Index (HDI) will result in low work productivity of the population. Low productivity results in low income generating. So low income causes a high number of poor people.

Economic development should not only lie in the income generated in one area, but also include improving the quality of life of the population. If the HDI value is high, then people's work productivity is also high, if productivity is high, then the income earned by people is also high. However, if the HDI value is low, then the work productivity of the community is low, if productivity is low, then the income earned by the community is also low.



Source: BPS Gorontalo Province (processed data)

Figure 3. Human Development Index in the Regency, City and Province of Gorontalo for 2017-2022

The Human Development Index for all regions in Gorontalo Province is always increasing, but only Bone Bolango Regency and Gorontalo City have a human development index that exceeds the average HDI for Gorontalo Province for the period 2017 to 2022 (figure 3). The city of Gorontalo always has the highest HDI, in 2022 it will reach 78.22 (the "high" category). More optimal efforts are needed from local governments in order to increase the HDI in their regions so that it is hoped that they will be able to provide a positive multiplier effect in order to increase economic growth and community welfare.

### Conclusion

From the discussion regarding the condition of fiscal independence and economic conditions in the Gorontalo Province region, it can be concluded that the level of fiscal independence in the five districts and one city in Gorontalo Province is still very low. This can be seen from the high vertical fiscal inequality index and the very low Regional Fiscal Independence ratio. Specifically, Gorontalo Province and Gorontalo City show increasingly narrow margins between PAD and central transfers. This means that decentralization positively increases capacity and fiscal independence in these two regions. The low level of fiscal independence in the Gorontalo Province region occurs partly because:

- 1) The local tax ratio is still low, although it is experiencing gradual improvement and improvement. Five districts still rely on PAD from the Other Legal PAD component, whereas the performance of regional taxes and levies is still very low. Only Gorontalo Province has more PAD sources contributed by local taxes.
- 2) Utilization of Transfers to Regions and Village Funds (TKDD) is not yet optimal. The use of Transfer Funds for indirect expenditure and employee expenditure does not have a direct impact on PAD.
- 3) Unsatisfactory Regional Expenditure Structure. Direct spending and capital spending generally produce an automatic impact in increasing the creation of new jobs, community and regional income.
- 4) The synergy of fiscal/spending policies of the Central Government and Regional Governments is not yet optimal.

## **Policy Implications**

Based on the discussion and conclusions regarding the low level of regional fiscal independence in the Gorontalo Province region, there are several policy recommendations that can be used as input to the Central Government and Regional Governments in the Gorontalo Province region, as follows:

- a) The degree of fiscal independence is reflected in the significant growth of Original Regional Income and its contribution to the APBD of each Province and Regency City. The most important component of increasing PAD is local taxing power where efforts to increase PAD go hand in hand with efforts to transform economic structure, commodity transformation and governance transformation.
- 1) Structural transformation through strengthening the industrial ecosystem in all districts, which takes the form of interconnecting rural agriculture with industry in areas that are sources of new economic growth, by accelerating development; i) Pawonsari Integrated Industrial Area in Boalemo Regency; Duhiadaa-Taluditi in Pohuwato Regency; Kwandang – Anggrek – Sumalata in northern Gorontalo; and Tibawa – Pulubala in Gorontalo Regency. ii) All districts have a master plan & affirmative action for convenience and investment attraction maps as part of the development of the regional industrial ecosystem; iii) Socio-cultural transformation, psychological-persuasive approach so that local communities are more open & participative, early prevention system for potential horizontal conflicts.
- 2) Commodity transformation through determining alternative commodities from horticulture, biopharmaceuticals and biomass that are integrated with the processing industry (downstream agriculture)
- 3) Governance transformation through exploring the potential for regional taxes and levies, increasing taxpayer compliance, digitalization and tax efficiency as well as updating NJOP regulations, the nominal value of which is actually far behind the current transaction value.
- b) Rationalization and efficiency of regional spending that more effectively drives the productive sector (real sector) and the sustainability of MSMEs. This is done through efficiency, eliminating less productive expenditures such as repeated field visits, coordination meetings, food and drink expenditures, official trips, training activities and technical guidance outside the region. Apart from being inefficient in terms of expenditure, this mode of activity outside the region is also not conducive to the continuity of micro, small and medium enterprises in the region.
- c) Develop financing instruments in the regions, so that they do not only depend on TKDD but are able to open up fiscal space through debt financing and other innovations. Regency, City and Provincial Governments are able to manage regional loans, both conventional and sharia, issue conventional bonds and SUKUK, form and design financing collaborations between the Government and business entities.

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