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REGIONAL DISPARITY ANALYSIS BASED ON REGIONAL FINANCIAL INDEPENDENCE IN CITIES IN EAST JAVA BEFORE COVID-19 PANDEMIC

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Abstract: *The gap or uneven regional development in East Java Province is indicated by the absorption and concentration of the population in the city center, it is known from the highest population density level in 2014 in Surabaya City, which is 2.874 million people, where Surabaya City is also the city center in East Java Province. How the financial independence of financial management from each region must be different, but why are the regions close to big cities the PAD is not effective and efficient in learning regional needs. On the three criteria for the ratio of financial independence, namely the cities of Kediri, Pasuruan, Probolinggo, Batu, Blitar, and Mojokerto the average is <30% which is said to be moderate financial independence. For the City of Madiun, there are criteria 4, namely financial independence on average <40%. While in criteria 5 with good financial independence <50%, namely in the city of Malang. And on this criterion 6 the average is > 50.1% with very good financial independence, namely in the city of Surabaya. So in each city in the province of East Java, financial independence is different from each local original income, for existing financial independence it can be seen that the growth rate in each city, with regional disparities, each city has regulations that different to get the original regional income. From the financial independence of each city, the level of economic growth can be carried out properly for the movement of the economy in East Java Province. With the level of independence of each City, Gross Regional Domestic Product can be used as a benchmark for how the economic growth rate shows an increase in the economy. To measure the level of economic disparity between regions in East Java Province. For cities where the level of economic growth is still lacking, it will increase the existing sectors in each city because the sectors in each city are different, therefore the income or income of each city is different with the existing regulations. To support local revenue, the level of regional disparity can be used for the benefit of each city to increase income or income so that the level of the economy in each city can be maximized and can measure the level of economic inequality.*

Keywords: *Regional Disparity, Financial Independence*

1. Introduction

Development can be interpreted as a systematic and continuous effort to create conditions that can provide various alternatives for achieving the aspirations of every citizen (Rustiadi, Ernan, 2019). The main goal of development is the development of the areas in it, especially in the harmony of development or growth rate between regions. The factors driving the development of a region are closely related to the availability of regional facilities and infrastructure, especially socio-economic facilities and infrastructure that play a role in advancing and equitable regional development. The unequal distribution of public facilities will cause disparities between regions so that an area can be said to be left behind or a poor area.

The development center of an area generally also functions as a service center and must have facilities capable of providing services as the area behind it. An analysis of the disparity in the level of regional development is important to know the development of services, especially in ensuring the availability and affordability of facilities
services so that efforts are needed to identify locations that need to be considered in regional development.

The gap or uneven regional development in East Java Province is indicated by the absorption and concentration of the population in the city center, it is known from the highest population density level in 2014 in Surabaya City, which is 2.874 million people, where Surabaya City is also the city center in East Java Province.

How is the financial independence of financial management from each region must be different, but why are regions close to big cities the PAD is not effective and efficient in learning regional needs

2. Literature review

Regional Financial Independence

Definition of Regional Financial Independence

As stated in Law No. 32 of 2004 that "regional financial independence means that the government can carry out its own financing and financial accountability, implement it independently, within the framework of the principle of decentralization".

(Abdul Halim, 2017) defines regional financial independence as follows:

"Regional financial independence is the ability of local governments to finance their own government activities, development, and services to people who have paid taxes and levies as a source of revenue needed by the region."

Regional financial independence itself is indicated by the size of the regional original income compared to regional income originating from other sources, for example, central government assistance or from loans. From some of the opinions expressed above, it can be concluded that regional financial independence is the ability of local governments to explore and manage their regional resources or potentials effectively and efficiently as the main source of regional finance that is useful for financing regional government administration activities.

Level of Regional Financial Independence

The granting of autonomy to regions is intended to accelerate the realization of prosperity through independence which is carried out by regions by regulating and managing their own government affairs based on the principle of autonomy which and it is hoped that with regional autonomy, all regions in carrying out regional affairs, both government affairs and affairs in development, can rely on regional finances. each of which is local revenue (PAD). This is as previously stated that the indicators for realizing regional independence are measured through PAD.

(Abdul Halim, 2017) argues that "Regional financial independence is indicated by the size of local original income compared to regional income originating from other sources, such as central government assistance or from loans. Based on this understanding, this indicator of regional financial independence is measured by using the ratio of regional original income divided by total regional income. Knowing the financial independence of this region can show how much local taxing power a region has, as well as how much PAD is capable of funding regional expenditures that are budgeted for providing public services to the community.

The ratio will show the level of health is getting better if it continues to increase, but it should also be noted if there is a continuous increase in interest income, because this can mean that there is an increase in local government funds that are kept in banks and not spent (Penulis et al., 2021). The ratio of regional financial independence, if the results are higher, the number of regional dependence on other parties (central government in particular) will be smaller and vice versa.

The independence ratio can also describe the level of community participation in regional development. The higher the independence ratio, the higher the community participation in paying regional taxes and levies so that it will describe a high level of community welfare.

Regional Financial Independence Relationship Pattern

Paul Hersey and Kenneth Blanchard (Abdul Halim, 2017) suggest the relationship between the central government and the regions in implementing regional autonomy policies, the most important of which is the relationship between the implementation of the law on financial balance between the central government and regional governments, namely:

1) The Instructive Relationship Pattern, is that the central government's role is more dominant than the independence of regional governments (regions are not able to implement regional autonomy financially).
2) Consultative Relations Pattern, which is the intervention of the central government which has begun to decrease and provides more consultation, this is because the regions are considered to be slightly more capable of implementing regional autonomy.
3) Participatory Relationship Pattern, is a pattern in which the role of the central government is decreasing considering the level of independence of the autonomous region concerned has approached its capability in carrying out autonomous affairs. The role of providing consultation will shift to a participatory role of the central government.
4) Delegative Relationship Pattern, is the intervention of the central government which no longer exists because the regions have been able and independent in carrying out regional autonomy affairs. The Central Government will always be ready with full confidence to delegate financial autonomy to regional governments.

Factors Affecting Regional Financial Independence

In an effort to achieve regional independence, it seems that PAD (an indicator of regional financial independence) is still not reliable as a source of financing for decentralization for several reasons, namely:

1) The relatively low base of regional taxes/retributions,
2) Its role is relatively small in total regional revenue,
3) The ability of collection administration in the regions is still low,
4) Planning and monitoring capabilities are still low.

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(Badan Pusat Statistik, 2020) suggests that there are factors that affect regional financial independence, including:

1) Regional economic potential, an indicator that is widely used as a benchmark for regional economic potential is the Gross Regional Domestic Product (GRDP).
2) The ability of the Regional Revenue Service, meaning that regional financial independence can be improved in a planned manner through the ability or performance of innovative institutions or institutions and the use of the Dispenda institution to increase regional revenues.
3) Referring to the theory proposed by Nogi, it can be concluded that the factor that influences regional financial independence is regional potential.

Economic Disparity

According to (Susanti et al., 2021) there is an area that experiences low output growth but at the same time experiences high output growth per worker if there is out-migration of non-workers. The quote means that each worker will have a greater workload (output) when other workers who are not working have to leave the job. In general, there is a tendency for a high correlation between output growth and per capita output growth but a lower correlation between output per worker and other measures. The problem is which measure is more appropriate to use in an analysis. It really depends on what the size is used for. Output growth is used as an indicator of productive capacity growth which depends on what factors the area is more attractive in terms of capital or labor than other regions. Output growth per worker is often used as an indicator of changes in the level of competition in the region compared to other regions, while output growth per capita is used as an indicator of changes in economic welfare. In this case, the per capita output growth approach used in this study is generally known as regional income per capita.

Starting from this fact, (Amirudin, 2019) argues that the gap/inequality between regions is a logical consequence of development and is a stage of change in development itself. According to (Myrdal, 2010) excessive differences in the level of economic progress between regions will cause backwash effects to dominate the beneficial effects (spread effects) on regional growth, in this case resulting in an imbalance process. Actors who have power in the market normally tend to increase rather than decrease, resulting in inequality between regions (Syairozi & Susanti, 2018) .

Measurement of Disparity

An indicator that can show changes or improvements in the economy is the Gross Regional Domestic Product (GRDP). From the changes in the amount of Gross Regional Domestic Product from year to year, it is obtained that the economic growth rate shows an increase in the economy. To measure the level of economic disparity between regions, various approaches can be used.

Economic Inequality

Economic Inequality Theory

Inequality/disparity between regions is a common thing in the economic activities of a region. This is due to differences in the content of natural resources and differences in

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demographic conditions in each region. This difference makes the ability of a region to encourage the development process also to be different. Therefore, in each region there are usually developed regions and underdeveloped regions (*Pertumbuhan Ekonomi Dan Ketimpangan Regional Wilayah Indonesia Bagian Barat*, 2018).

According to , inequality refers to the relative standard of living for the entire community, due to the gap between regions, namely the difference in the endowment factor. This difference makes the level of development in various regions and regions different, resulting in a gap or gap in welfare in these various regions (Sadono, 2010).

Inequality between regions was raised by Douglas C. North in his analysis of Neo Classical Growth Theory. In this theory, a prediction of the relationship between the level of national economic development of a country and the inequality of development between regions is raised. This hypothesis is then known as the Neo-Classical Hypothesis .

According to the Neo-Classical Hypothesis, at the beginning of a country's development process, development inequality between regions tends to increase. This process will continue until inequality reaches its peak. Then, if the development process continues, the development inequality between these regions will gradually decrease. Based on this hypothesis, development inequality between regions tends to be higher in developing countries, and the opposite will happen in developed countries. In other words, the development inequality curve between regions is in the shape of an inverted U. The validity of this Neo-Classical Hypothesis was tested by Williamson (1966) through a study of development inequality between regions in developed and developing countries using time series and cross section data. The results show that the Neo-Classical Hypothesis is empirically proven. This means that the development process of a country can indirectly reduce the level of development inequality between regions, but at the initial stage the opposite happens (Handoko, 2003).

3. Research Methods

The research method used in this study is a quantitative descriptive method using secondary data analysis, namely processing data published by the BPKAD of the Regional Financial and Asset Management Agency of East Java Province in 2016-2018.

Research Flow

Analysis of regional development disparities in cities in East Java Province in 2016-2018 by requiring secondary data for further analysis with the ratio of financial independence in each city. is the basis for knowing the financial independence of the region. Regional developments in East Java Province can be known by using the ratio technique of Regional Original Income and Balancing Funds. To find out the disparity in regional development, it can be known by using the criteria for financial independence. Meanwhile, to determine the development of the region. The following is a flow chart in research

4. Results and Discussion

Narrative Descriptive Analysis.

Descriptive analysis is used to describe the results of data analysis that has been tested based on previous quantitative data. So that the results of the analysis can be described more

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descriptively so that it is easy to understand. Descriptive method is used to answer questions in the formulation of problems related to the pattern of economic growth in East Java Province. Quantitative Analysis.

Regional financial independence ratio

The level of regional financial independence is a measure that shows the financial capacity of the regional government in self-financing government activities, development, and services to the community, which is measured by the ratio of Regional Original Income (PAD) to the amount of central government assistance and loans (Abdul Halim, 2018). The following is the formula for measuring the level of Regional Financial Independence:

Independence Ratio = (Regional Original Income (PAD) / (Balancing Fund) The criteria for determining regional financial independence can be categorized as follows:

The results of the research analysis are described following the flow of the research method described previously. The translation of the analysis results is divided into ratio analysis tools. A detailed explanation of the research results is as follows. Regional disparity patterns based on financial independence in cities in East Java Province by establishing these six criteria, namely: very poor, lacking, moderate, sufficient, good and very good.

1) Very poor: if the independence ratio is between 0%-10%
2) Less: if the independence ratio is between 10.01%-20%
3) Moderate: if the independence ratio is between 20.01%-30%
4) Enough: if the independence ratio is between 30.01%-40%
5) Good: if the independence ratio is between 40.01%-50%
6) Very Good : if the independence ratio > 50.01%

Criterion 1	Criterion 2	Criterion 3
Very less	Not enough	currently
		-Kediri City -Pasuruan City -Probolinggo City -Batu City -Blitar City -Mojokerto City
Criterion 4	Criterion 5	Criterion 6
Enough	Well	Very good
-Madiun City	-Malang city	-City of Surabaya

Cities in East Java Province on average during 2016-2018 financial capacity were still in self-financing of government activities, development, and services to the community there were 6 cities that were in the third criterion for the ratio of financial independence. In criterion four, there is 1 city which is sufficient to finance its own government activities, development, and services to the community at the ratio of financial independence. In criterion five, there is 1 city that is good at financing its own government activities, development, and services to the community at the ratio of financial independence. And on criterion six, there is 1 city that is very good at financing its own government activities, development, and services to the community at the ratio of financial independence.

On the three criteria for the ratio of financial independence, namely the cities of Kediri, Pasuruan, Probolinggo, Batu, Blitar, and Mojokerto the average is <30% which is said to be moderate financial independence. For the City of Madiun, there are criteria 4, namely financial independence on average <40%. While in criteria 5 with good financial independence <50%, namely in the city of Malang. And on this criterion 6 the average is > 50.1% with very good financial independence, namely in the city of Surabaya. So in each city in the province of East Java, financial independence is different from each local original income, for existing financial independence it can be seen that the growth rate in each city, with regional disparities, each city has regulations that different to get the original regional income.

From the financial independence of each city, the level of economic growth can be carried out properly for the movement of the economy in East Java Province. With the level of independence of each City, Gross Regional Domestic Product can be used as a benchmark for how the economic growth rate shows an increase in the economy. To measure the level of economic disparity between regions in East Java Province.

For cities where the level of economic growth is still lacking, it will increase the existing sectors in each city because the sectors in each city are different, therefore the income or income of each city is different with the existing regulations. To support local revenue, the level of regional disparity can be used for the benefit of each city to increase income or income so that the level of the economy in each city can be maximized and can measure the level of economic inequality.

Based on the analysis of Financial Independence, the city of Surabaya gets the largest local revenue in the province of East Java because the city of Surabaya is the economic center of East Java as well as the center of government in East Java and includes the capital city of East Java, therefore the financial independence of the city of Surabaya is very good.

5. Conclusion

Based on the descriptive analysis, during the 2016-2018 research cities in East Java Province, it can be concluded that each city's financial independence is different with each financial independence criteria. , Blitar, and Mojokerto Average <30% which is said to be moderate financial independence. For the City of Madiun, there are criteria 4, namely financial independence on average <40%. While in criteria 5 with good financial independence <50%, namely in the city of Malang. And on this criterion 6 the average is > 50.1% with very good financial independence, namely in the city of Surabaya. So in each city in the province of East Java, financial independence is different from the original income of each region, to measure the level of economic disparity between regions in the province of East Java.

Suggestion

The suggestions that need to be given are as follows:

1) For local governments, it is better if in preparing and realizing the APBD it is necessary to pay attention to financial ratios for the next period so that they can increase regional income,

one of which is through optimizing the intensification and extensification of the collection of regional taxes and regional levies.

2) For further researchers, they can expand the place and time of research, as well as by using other measurement tools/ratio as a tool for analyzing local government financial performance.

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