FISCAL DECENTRALIZATION SURABYA_CHECK TURNITIN 10012022

by Budi Supriyatno

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Fiscal Decentralization of the Government of the City of Surabaya Indonesia

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Abstract

Surabaya City Government is part of the regional government system in Indonesia which adopts a decentralized system. In line with these various regulations, regional fiscal or financial management consists of three main components, namely Regional Revenue, Regional Expenditure, and Regional Financing. This study aims to calculate the fiscal potential of the City of Surabaya for the 2017-2021 period. Furthermore, to obtain and complete optimal results, research uses a quantitative approach. The results showed that the economic growth of Syria showed good performance. However, in terms of inflation, the numbers also continue to increase. It is recommended to the Surabaya City Government that inflation control must be carried out through various policies that can increase economic growth that can improve people's welfare.

Keywords: government, economic, growth, potential, fiscal

1. Introduction

Surabaya City is the capital of East Java Province, Indonesia as well as the largest metropolitan city in the province. Surabaya is also the second largest city in Indonesia after Jakarta. Surabaya has an area of approximately ± 326.81 km², and 3,158,943 residents in 2019. (Note 1)

Surabaya City Government is part of the regional government administration system in Indonesia, which adopts a decentralized system in regulating and managing government affairs by itself.

The Surabaya City Government is led by a democratically elected Mayor. Meanwhile, as an autonomous region, the Government of the City of Surabaya must be able to provide regional finance consisting of three main components, namely Regional Revenue, Regional Expenditure, and Regional Financing. In this context, the fundamental question is the extent to which the fiscal capacity of the Surabaya City Government, whose mayor is **Tri Sri Rismaharini (Risma)** for the 2017-2021 period.

Research Purposes

This study aims to calculate the fiscal potential of the Surabaya City Government for the 2017-2021 period.

Problem

1. Is the effectiveness and efficiency of fiscal decentralization in the City Government of Surabaya?
2. Is fiscal decentralization in the City Government of Surabaya able to improve the welfare of the people?

2. Literature Review

2.1 Fiscal Decentralization

Fiscal decentralization in Indonesia is still often debated, especially in terms of its effectiveness and efficiency when compared to previous policies or with a centralized system. In this connection, ***Martinez-Vazquez and McNab (2001)*** suggest that some of the fundamental reasons that governments in developing countries choose to do fiscal decentralization are: (Note 2)

1. With fiscal decentralization, it is expected that government spending will be more efficient.
2. With fiscal centralization recognized as having experienced a failure.

3. The role of local governments will be greater and local govemments will not be dictated by the central government.

Jn I ndonesia, fisca l decentra lizat ion is based on Law of the Republic of Indonesi a Number 33 of 2004 conce rning Fin ancial Balance between Central and Regional Govemment. (Note 3) This law describes decentralization as the transfer of aut hority of the Central Govemment to the Government to autonomous Regions to regu late and manage government affairs in the system.

Rodrigue z-Po. e danKmijer (2009) stated that fiscal decentralization is expected to impmve people's we lfare. Thu s, what deserves spec ial attention in re lation to fisca l decentra lizat ion polic ies in order to be success ful is that this policy must be followed by clear and effective autho rity between the central govemment and reg ional governments. The polic y must be fair and transparent, especially in tenns of transfer of funds fi-om the central government to local governments. (Note 4)

Tiebout's research (1956) found drnt one of the advantages of fisca l decentralization is that decentrali zat ion will increase the economic efficiency oflocal governments because the government will be better ab le to provide better services to its citizens. (Note 5*)*

According to ***PranadBardhan*** *(1001)* , a study on fisca l decentra li zation states that many decent rali zation policie s are not success ful, especially in improving the welfare of the community. (Note 6)

Based on the Law of the Republic of Indonesia Number 33 of 2004, regional revenue in the implement ation of decent ralizat ion consists of regiona l income and financ ing, (Note 7) and Other Legitimate Reg ional Revenue. (Note 8)Meanwhi le, the financ ing comes from the excess of the reg ional budget calculation; receipt of reg ional loans, reg ional reserve funds; and proceeds from the sale of separated reg iona l assets. (Note 9) The amount of this regiona l revenue will largely dete rmine government spending.

Regiona l Original Inco me

Regional Orig inal Income consists of reg iona l taxes , regiona l lev ie s, proceeds from the management of separated regiona l assets and other legal reg ional income.

Balancing flmd

Balanc ing funds consist of profit shar ing fund s, gene ral allocation funds and spec ial allocat ion funds. This balancing fond aims to reduce the fisca l gap between the government and local governments. This balancing fund consists of: Product ion Sharing Funds, General Allocation FLmds, and Special Allocation Funds. The amount of the balance fund for each fisca l year is stipulated in the State Budget.

Local Government Expendit1Jres

Regional government spend ing is inseparab le from regional revenue, because theoretically, spend ing is a function of regional revenue. The higher the regional income, the higher the level ofr egional spending. For this rea son, the regions try to increase their own local revenue with local governments try ing to increase their own local revenue and the balance fund.

lnvestation

Inves tment is defined as the accumulate d form of an asset with the hope of obtain in g future benefits. ***Budi Supriyaflw (1018)*** said that investment in the economy has a very impo rt ant role, especially in moving the economy. According to *Huan g (1009)* states that private investment has a positive impact on economic growth. (Note 10)

Economic Growth

Todaro and Smith (1006) stated that in this case there are three main factors or components that are important in the economic growth of a country or region. *The first* is what is the leve l of capital accumulation which inclu des all forms or types of new inve stment allocated in the economy. *Second* is how much the population growth rate will increase the number of labor force, and *Third* is the leve l of techn ological progress that will directly affect the production process and ulti mately increase the quantity of product ion. (Note 11)

Simil ar to Todaro, Romer's (200 I) growth theory focuses on four variable s, namely output (Y), capital (C), labor (L) and Knowledge or the effectiveness of labor (K) (Note 12).

Romer's growth model formu lation is: (No te 13)

$Yt = F(Ct, Kt, Lt)$
t: represe nts time

Econom ic growth can be seen from the demand side and the supp ly side. In this contex t, from the side of aggregate demand, an increase in domestic outp ut can be ide ntified by four compone nts of t he econo my, namely:

C = househo ld cons LUn ption expend itu res,

J = investme nt spending by businesses and househo lds,

G = govemment spending on goods and services, and

X-M = ne tt expoit (X-M) by Dornbusch , Fis cher and S tartz, (2004). (Note 14)

T his fonnula was adapted by McCann (2006) for a reg iona l ec ono my known as the Keynes ian standard aggregate demand for the reg ion which can be described as follows. (Note 15)

Yr= r + Ir + G1· + Xr - I\fr
'i\11erc
Yr: Regional inco me
Ir: Regional investment
Cr: Regional consu mption
Gr: Local govenuuent e.', pe nclit ure
Xr: Regional expo11
1r: Imports of the region.

T he above form ula im pli es that economic growth in the regions is hig hly dependent on the four components above. T his mem1s that econo mic growth will increase if cons LUnpt ion, investment , government spend ing, and net exports also increase or the total value of the four components is positi ve.

3. Research Meth ods

T he data used in this study m·e secondary data obtained from various source s. This study uses data series for the 2017-2021 pe rio d.

The ana lysis used can be grouped into two, namely descr ipt ive and quantitative ana lysis.

T he quantitative approach used is to use a simult aneous equat ion mode l. The structured simultaneous equat ion mode l is divided into five blo cks cons is ting of33 equations, of wh ich 1 9 eq ua tions are st rutctu ral e quat ions and 1 4 e quations are identity equations. T he complete equat ion can be descr ibed as follows:

Fiscal Block Regional Revenue

a. l oca l/y-G e11e ra ted Reve11u e

$T_t = a_0 + a_1 GRDP_t + a_2 BL_t + a_3 TP_t + a_5 T_{t-1} + \varepsilon_{1,1}$
$RET_t = b_0 + b_1 GRDP_t + b_2 TP_t + b_3 RET_{t-1} + \varepsilon_{2,2}$
$LGR_t = T_t + RET_t + RGWM_t + LGR_{t3}$
l11e estimated values and marks of the expected parameters : a_1, 61, a_2, b_2, a_3> 0; b , a.< 0; dan 0 < b. , a_5< 1.
Info rmat io n:
T = Tax
GRDP = Gross Regiona l Domestic Product
BL = Business License
TP = Total Population
LGR = Locall y-Generated Revenue
RET = Regional Retribut ion
RGWM= Results of Regional Wealth Mrurngeme nt
LGR = Lag. Locally-Generated Revenue

b. Bala11ci11g Fu11d

$TPS_t = \alpha_0 + \alpha_1 PCC_t + \alpha_2 NV_t + \varepsilon_t TPS_{t-1} + \mu_{1,t1}$

$NTPSE_t = d_0 + d_1 GRDP_t + d_2 TP_t + d_3 NTPSE_{t-1} + u_{t1}$

$GAF_t = e_{0} + e_1 GRDPC_t + e_2 FC_t + e_3 GAF_{t-1} + \mu_{15,3}$

$PSF_t = TPS_t + NTPSE_{t4}$

$MF_t = GAF_t + SAF_t + PSF_{t5}$

$FC_t = LGR_t + PSF_{10}$

$TR_t = LGR_t + MF_t + U_t + F_{t1}$

Tlle estimated values and marks of the eiq1ected parnmeters: $c1, d_1, e1, c_2$ $d_2 > 0$; $e_2, c_i, d_3, e_3 < O$; and $O < c, , d, e, < 1$.

[nforniation:

NTPSE = on-Tax Profit Sharing Equat ion
TP = Tax Profit Sharing
PCC = Per Capita Consumption
NV = umbero f Vehi cles
GRDPC = Gro s Regional Domestic Product Per Capita (IDR)
GRDP = Gross Regional Domestic Product
MF = Maintenance Fund
PSF = P rofit Shru·ing Fu nd
FC = Fis cal Capacity
TR = Total Revenue PDRB
LI = Lag. Income
F = Financing
GAF = Genera l Allocation Fund
SAF = Special Allocation Fund

c. Fiscal Gap

$FC_t = TE_1 - FC11$

Regional ExpenditrJre Fiscal Block

$ES_t = lo + J_t FC_t + jiNE_t + h\ ES_{t-1} + 116_{t1}$

$SG_t = \alpha_{t-O} + \alpha_{t-1} FC_t + RZ\ SG_{t-1} + II\ 7_{11}$

$TE_t = ES_t + SG_t + OS_{t1}$

$HGRDP_t = GRDPC_t \cdot J\ 00 / CPI_{t4}$

$EG_t = (HGRDP_t - HGRDP_{t-1} \cdot 100_5$

Thee timated values and marks of the expected parameter :

$f_{t}, g1, f1 > O$; & , $f1 < O$; dan $O < g_3, f, < l$.

Infonna tio n:

ES = Employee Spending
FC = Fiscal C apacity
NE = NumberofEmployees
TE = Total Expenses
SG = hopping for Goods
OS = = Other Shoppin g

Block GRDP

$C_t = h_0 + hi(GRDP_t - TJ + h_1 ES_t + h_3 TP_t + h_t C_{t-1} + u_{8.1}$
$PCC_t = C_t I TP_{t1}$
$I_t = i_0 + i_t GRDP_t + i_2 IR_t + i_i CS_t + i_4 I_{1-1} + ll_{913}$
$GE_t = }_0 + j_1 TI_t + u_1 or_t$
$E_t = k_0 + k_1 G RDP_t + k_2 E RAD_t + k_1 E_{t.1} + 11_1 J_{rJ}$
$I_t = 1_0 + 1_1 GRDP_t + 1_2 ERAD_t + 11_{12.6}$
$GRDP_t = C_t + J_t + GE_t + E_t - Ir_1$
GRDPC, = GRDP.J TP,8
TI1e estimated values and marks of the expected pa.rameters :h1, i1, j,, k1, 11, h_2. k,, h_3. i, > O; i, ,J ,, 1_2. k_3. 1_3. h_4. i,< O; dan O < k., h,, i, < I.
Infmm ation:
C = Cons umption
LGR = Locally-Generated Revenue
TOTREV = Total Revenue PDRB,
EG = EconomicGrowtl1
T = Ta.x
I = [nve tation
IR = In terest Rate (Percen t)
CS = Conum mity Savings
GE = Go venunen t Ex pendinm:
E =Expo rt
ERAD = T he Exchange Rate of Rupial1against Dollars
I = Impo11

Block Inflation and Exchange Rates

$CPI_t = m_0 + m_t MS_t + m_t ERAD_t + m_t RPFO_t + m_t BET_t + m_t CPI_{t-1} + 11_{t,t}$
$INF_t = (CPI_t - CPJ_{t-1} J I CPI_{t-1} \cdot 100_1$
$ERAD_t = n_0 + 11_1 FER_t + 11_t IN F_t + n_3 ERAD_{t-1} + 11 w_t$
$MS_t = 00 + o_t AGRDP_t + o_1 BIC_t + u rn_t$
T11e estimated values and marks of the ex-peered pa.rameters: m_{t-0} 1, m_2, 112, m,, in. > O; 111, o_2, o_3, m_5 < O; danO < n_3, n < l.
Info1m ation:
CPI = Consmner Price Index
MS = MoneySupply (Million Rupiah)
RPFO = Retail Price off ue l Oil
BET = Ba sic Elech i cityTari ff
FER = Forei gn exchangerese1ves
INF = Inflation
AGRDP = Average Gross Regional Domestic Product
B[C = Bank i ndones iaCe 11i ficate

Block HD/, Pover ty, and labor

HD!, = $P_0 + p_t ASE_t + p_2 PMW_{11}$
PP, = $Q_0 + Q_1$ GRDPC, + Q_2 INF, + q_3 NPP,.1 + $u_{t,1,2}$
P W, = PP, / TP, * JOO,
A E, = $r_0 + r_t$ GRDPC, + r_3 ASE,_, + $u_{t,.,,}$
L, = $s_0 + s_1$ GRDPC, + $s_2 L_{1-1} + u_1 ru$
The estimated values and marks of the expected parameters: p1, li , s1, p2, q2, q3 > O; qi , r2, s2 < O; and O < r3, s3, q4 < + $u_{16.}$
Info1mat ion:
HDI = Human Development Index
ASE = Average School Entry
PMW = Provincial Min imum Wage
PP = Numbero f Poor Population
PW = Poor Workforce
L = Labor

Identifica tio n of Estim ation Models and Methods

Accordi11g 1, 1 Koutsoyimiis (1978), an econome tric approach using a system of simultaneous equa tions requires that the number of equat ions be equal to the number of endogenous variables. This requires a complete mode l identifica tion. (Note 16)

Acco rding to ***Gujarati (1995)*** the cond itions that must be met in the identification process are the order condition of identificat ion, name ly that the numb er of endogenous and exogenous variables tha t are not inc luded in the equa tion but are inc luded in other equat ions in the simu ltaneo us equat ion system mus t be equal to or gre ater than the munber of endogenous variab les in the equa tion in the model minus one. (No te 17) T he description can be form ulated as follows:

(K - M) :,; (G - !)
lufon.nation:
K = mmJberof variablesin the model (endogenous and predetennined variable)
M= thenumber of endogenous and exogenousvariables contained in the identified equation,
G = the number of equations in the model, which is equal to the munber of endogenous varia les in Model.
1. Based on the order conditions:
2. If (K - M) > (G- M) = then the equation is said to be said to be overidentified.
3. [f (K - M) = (G - M) then theequation is said to be exactly / exactly identified.
4. If (K - M) < (G - M) then tJ1e equa tion is said to be unidentified (unidentified).

4. **Result s** of Discussion

Surabaya City Govem me 11t Fina11cial Perfi1rma11ce

The es timation results from the model that have been compiled are then tested based on economic, statistica l and econometr ic criteria. From the results of the six blocks under study, the following are discussed in detail as follows:

a. Based on economic crite ria, the parameter estimation resu lts of each struc tural equat ion in the mode l comp iled are as expected. This is ind icated by the sign and the value of the paramete r estimation to describe the relationsh ip between endogenous variab les and their exp lanato ry variables. Based on this ex planation, then sta tistical cr iteria are used to test the equa tions that have been compil ed . l11e e stima tion results of the mode l also showed quite good results. The coefficien t of dete rmina tion (R2) for each structura l equation is betwee n 0.73 and 0.99, except for the Non-Tax Profit Shar ing Equation and the general allocation fond, which are 0 .4 1 and O respec tive ly. , 6 1 . T his shows drnt in genera l the ex planato1y va riables used in this study are able to explain between 73 percent and 99 percent of the dive rsity of the endogenous variables.

b. The value of the F-test statistic that is generated to test whether the explanatory variables used have a sign ificant effect on the endogenous va ri ables are all less than 0.0 I. This means that the explanatory va riables used in the model together have a sign ificant effect on the endogenous variables. Statistical results oft-test to test whe ther an i nd ividua l ex plana tory var iab le affects the endogenous variable or not. With an error rate of (a) up to 20 percent, it ind icates that most in dividual exp lanatory vari,ables have a sig nificant effect on the endogenous var iables. However, there are several exp lanatory variables in the model that do not stat istically affect the endogenous variables. Based on the results of testing these parameter estimates, the mode l used in th is study is quite good in exp laining the behavior of economic variables on tl1e finance and economy of the Surabaya City Govern ment.

Fiscal Block Regional Revenue Original Regional Revenue

Orig inal reg ional income comes from local taxes, levies, separated reg ional assets management, and other leg itima te local revenue.

a. *Local Tax*

The results of the es timat ion of tl1e 1eg ional tax revenue equation parameters are presented in Table I No. I . II can be seen that local tax revenue in the Surabaya City Government is signi ficant ly influenc ed by the Gross Regiona l Domes tic Product (GRDP).

The es timated parameter of GRDP is 0.007324 and has a positi ve relationship, which indic ates that the incr ease in GRDP is Rp. 357 mill ion has the potential to in crease tax revenue for die SlU·abaya City Government by Rp. 7.33 million. TI1is shows that the greater the econom ic capacity of a reg ion, the greate r the revenue re ceived by the government in that area. This is reinforced by the business facto r of the Surabaya City Governme nt which has

become a business center and business center.

Table I. Parameters of estimated results of region al tax revenue, reg iona l o rig ina l inco me, for taxes, for non-tax resu lts, genera l allocat io n funds, employee expend it LLre, and household consumpt ion, surabaya 201 7 -202 1

N0	Variable	Estimate Parameter	Prob > I	Informa tio n
	Inte rcept	-3233481	0,453 7	Estima tion Res ults Parame ters of the Equat io n of Local Tax Reve nue Origi na l Loca l Income.
	GRDP	0,007324	0,0053	GRDP = Gross Re g ional Domest ic Product
	BL	60,28327	0,2892	Amount of BL- Business Lice nse
	TP	281,5803	0,5817	TP = To ta l Population (000 people)
	LT	0,318601	0,1936	Lag. T= T1x Adj-R^2 = 0,96832 ; F-Stat = 146 ,52; Pr > F = < 0,0001; OW = 1,9701 4 6
2	Inte rce pt	-21 0423	0,7159	Estima tion Resu lts ofE,tirnated Parame te rs of the Equat ion of Origina l Local Income
	GRDP	0,000134	0,2225	GRDP = Gross Reg iona l Domest ic Product (M illio n !DR)
	TP	34,813 72	0,6170	TP = Tota l Populatio n (000 people)
	LRET	0,559503	0,0194	Lag. RET = Regional Retribut ion Adj-R^2 = 0,96832; F-Stat = 146,52; Pr> F = <0,0001; OW = 1,970146
3	Inte rce pt	-3816 04	0,3573	Results of Est1ma11on Parameters of the Tax Profit Shanng Equation.
	PCC	4,976617	0,9487	PCC = Per Cap ita Consumpt io n (000 !DR)
	NV	0,239028	0,2625	Number Of Motorized Vehicles (unit)
	LTPS	0,755666	0,0169	Lag. TPS = Tax Profit Shanng
				Adj-R2 = 0,96707; F-Slat = 18 1,25; Pr > F = < 0,000 I ; OW = 1,66267
4	Inter ce pt	-1 4 290,1	0,9599	Estima tion of Non-Tax Profit Sharing Equation Parameters
	GRDP	0,000052	0,3891	GRDP = Gross Reg ional Domest ic Produc t (M illio n !D R)
	TP	4,456 293	0,8939	T P = To ta l Population (000 people)
	LTPS	0,517 442	0,0231	Lag. T PS = Tax Profit Sharing
				Adj-R2 = 0,44813; F-Stat = 5,68; Pr > F = 0,0034; OW = 2,174885
5	Inte rce pt	87091,78	0,2496	Est ima tion Res ults of the Genera l Allocat ion Fund Equat io n Parameters.
	GRDPC	9,706076	0,2798	GRD per capita (000 !DR)
	FC	-0,04239	0,2375	Fisca l capacity (Million !DR)
	LGAF	0,751911	<0,0001	Lag. GAF = Genera l Alloc atio n Fund
				Adj-R2 = 0,64141 ; F-Slat = 11,28; Pr> F = < 0,0001; OW = 2, 153374
6	Inte rce pt	-1, 0 34707	0,1997	Estima tio n Res ults of Emp loyee Expen di tu re Equation Parame ter s.
	FC	0,246921	0,0326	Fisca l Capaci ty (Milli on !DR)
	NE	134996,3	0,2037	Number of employe es (000 people)
	LES	0,356995	0,1647	Lag Emp loyee Spending
				Adj-R2 - 0,97853; F-Stat - 276,34; Pr> F- < 0,0001; OW - 2,130631
	Inte rcept	-44174,1	0,6527	Est ima tion Res ult Parame ter Expendi tu re Equation.
	FC	0,064450	0,0880	Fiscal Capaci ty (Milli on !DR)
	LSG	0,966878	<,0001	Lag Shopping for Goods
				Adj-R2 = 0,98963; F-Stat = 741,62; Pr > F = < ,0001; OW = 2,838366
	Inte rce pt	-1, 49 3706	0,6051	Est ima tio n Res ult of Ho useho ld Consumptio n Equat ion Parame ters.
	DISP (GR DP-T)	0,4 11 206	<0,0001	Dispo sable I ncome (M illion IDR)
	PE	0,5392 45	0,7 274	Personnel Exp end itu re (Mi llion !DR)
	TP	849,9433	0,8012	Tola! Popu lation (000 people)
	LC	0,323081	0,0177	Lag. C= Consumpt ion
				Adj-R2 = 0,9990; F-Siat = 5099,77; Pr> F = < ,0001; OW = 2, 150053

*Note: F-Stat = The F-stat ist ic; Adj-R 2 = Ad justed R-Square.

**Data SOLtrce: D ata p rocess in g by Researchers 17 August 2020

b. Regional Retribution

The results of the est imat ion of the pa rameters of the reg iona l levy acceptance equation are presented in Table I No. 2. It can be seen that the loca l retr ibution rece ipts in the Smabaya City Government are below.

c. ***Balancing Fund***

Apart from originating from local revenues, the Surabaya City Government also receives transfers of funds from the central government in the form of balance funds consisting of tax and non-tax revenue sharing and gene ral allocat ion fonds.m Tax Profit Shar ing The results of the est imation of the tax revenue sharing equat ion parameters are in T able I No. 3.

Non-Tax Profit

Sharing T he est imation results of the non-tax profit sharing equat ion parameters are presented in Table I No. 4. It can be seen that the non-tax revenue shar in g of the SLtrabaya City Government.

Gen eral Allocation Fund

T he results of the est imat ion of the pa rameters of the gene ral allocation funds equation are presented in Table I No. 5. It can be seen that the rece ipt of genera I alloca tion funds. Local capacities and needs usua lly will not change drast ica lly over time. Aprut from that, the relatively stab le gene ral allocat ion funds from time to time will also help the sustain ability and ce1t ainty of development financ ing in a region . Genera l Allocat ion FLmd. See ta ble I No. 5. SLirabaya City Govemment Surabaya City Government 201 7-202 1.

Regional Expendil!Jre Fiscal Block

The structure of reg ion al governmen t spend ing in this study blo cks reg io nal e xpend itu res divided into personnel spend ing, goods and services expenditures and od1er expend itu res.

a. Employee Spending

T he results of the est imat ion of the employee expend itu re equat ion pa rameters are presented in Table I No. 6. It can be seen that the expendit ure for ernp lo yees of the SLtrabaya City Government is sign ificantly influenced by the fisca l capacity and the number of employees owned by the Surabaya City Government. The estimated parameter of fisca l capacity is 0 .246 92 1 and has a positive relationsh ip, which means that the increa se in the financia l capacity of the Slirabaya City Government has the potent ial to increase expenditure for emp lo yees. Meanwh ile, the est imated number of emplo yees is 1 34 996.3 and has a pos itive relat io nsh ip, which means that an increase i n the number of emp loyees in the Surabaya City Government will increase spending to pay employees. This is understandab le because each new employee recruitment must be followed by a budget to pay the employees.

b. Shopping for goodsand services

The res ults of the estimat ion of the parameters for the goods and services expend it ure equat ion are presented in Tabl e I No. 7. It can be seen tha t the expend iture of goods and services by the Smabaya City Government. The est imated parameter of fisca l capacity is 0.064452 and has a positive relations hip, which means that an increase in the financ ial capacity of the Surabaya City Government has the potential to in crease spending on goods and services.

Block GRDP

In the economy, gross region al do mest ic product (GRDP) is very imprn1ant because this indicator can be used to measLire the econom ic condition of a reg ion. In addition, GRDP is also an ind icator that can be used to measure the econom ic growth of a country, reg ion or reg io n. In macroeconom ic theory, GRDP is the identity e quation of househo ld consumption, investment, government spending, expo11s and imprnt s.

a. Household Crmsumptitm

The results of the est imat ion of the tota l househo ld consumpt ion equat ion parameters are prese nted in Tab le I No. 8. It can be seen that the total househo ld cons LUnp tion is sign ificant ly influenced by disposab le in come and consumption in the prev ious year.

The estimated disposab le income paramete r is 0.4 11 206 and has a positive relationsh ip, wh ic h means that an increase in dispos able income has the potent ial to increase its consumpt ion val ue. From the value of these parameters, it can also be seen that the average city of SLirabaya on ly spends about 41 percent of their disposable income for conSltmption.

b. In vestatimi

The results of the estimation of the investment equation parameters are presented in Table 2 No. 9. It can be seen that the investment value in the Surabaya City Govemment is s ignificant ly affected by the GRDP and the ammmt of publi c savings stored in bai ks. The estimated parameter of GRDP is 0.253026 and has a positive relationsh ip, which means that an increase in GRDP has the potent ial to increase die value of the investment tha t occurs.

The estimation results of these parameters also indicate that the greater the eco nom ic capacity of a region, it will encourage investment in that a,ea. One of the smirces of funds for investment is from banks, whil e the cred it provided by bai ks is ve1y much influenced by the amount of public savings they save.

The estimated parameter of public savings is 0.329854 and has a pos itive relationsh ip, which means that the greater the public savings funds deposited in banks have the potential to increase the value of invesnnent that occurs.

c. ***Govermnent Expenditur e***

Even though the value is relative ly sma ll, government spend ing has a very importan t role in tu rn ing the economy in the Surabaya Cit y Government. ll i is is due to the pa1t icipat ion of the governmen t as a regulator and contro ller of all econom ic activ ities that occur , as well as distr ibuting the requ ir ed aspects to all leve ls of so cie ty. See T able 2 No. 10. Estimat ion Resu lts of t he Surabaya City Governmen t Govemment Expend itu re Equation Parameters for 201 7-202 1.

SLtrabaya City Government expenditure is influenced by the total e xpend in1re budgeted in the reg ional e xpendin1 re budget. The estimated parameter of tota l e xpe ndit ure is 2.5308 1 3 and has a posit ive relationsh ip, which means that an increase in government spend ing has the pote ntial to increase the role of government spend ing in the economy.

d. Export of Good. and Service s

The results of the estimation of the expo1t equat ion parame ters are presented in T able 2 No. 11 . It can be seen that the export value of the Surabaya City Government is s ign ifican tly influenced by GRDP, the rup iah exchange rate against the US do llar and the expo 1t va lue of the previous year.

The es timated parameter of GRD is 0.3 1 34 11 and has a positive relationsh ip, which means that an incre ase in G RD has die potential to in crease the value of exports of goods and se rvices . Tiie results of the est imat ion of the se parameters also indicate that the greater the econom ic capacity of a region, it will boost the reg ion's exports.

The est imated parameter of the rup iah exchange rate agains t the US dollar is 0. 31 34 11 and has a positi ve relationsh ip, which means that the weaken ing of the rup iah exc hange rate aga inst the US dollar has the potential to increase the value of expm t s of goods and services. This OCCLtrS because the weaken in g of the rup ia h aga inst the dollar causes domestic goods to be cheaper than abroad, so producers tend to sell the ir goods abroad to get bigge r profits.

e. Import. of Good.·,a,id Service.

T he results of die estim ation of the impo1t e qua tio n parameters are presented in T ab le 2. No. 1 2. In T ab le 1 2, the estimated GRD parameter is 0.56832 and has a positive relat ions hip, which means that an increase in G RD has the potent ial to increase the value of impmt ed goods and services. Tiie est imat io n results of these parameters also indicate that the greater the eco no mic capacity of a reg ion , it will encourage impo rts of that reg ion. T his occurs because some products are high ly dependen t on impo rted goods, so that when demand inc reases, impmt s of raw mater ials will increase.

T he est imated parameter of the rup iah exchange rate aga inst the US dollar is 3249 .55 and has a negat ive relationsh ip , which means that the weaken i ng of the rup iah ex change rate aga inst the US do llar has the potential to reduce the value of impo1t s of goods and services. This occurs because the weakening of the rup iah against the dollar causes domestic goods to be more expens ive tha n abroad so that producers tend to sell their goods domestically to get bigger profits.

Block Inflation, Interest Rates and Exe/range Ratesa.

a. Consumer Price /Jidex

The results of the estimation of the parameters of die Consume r Price Index (CPI) equa tion are presented in Tab le 2 No. 1 3. It ca n be seen that the CPI is sign ificantly influenced by the money supply, the rupiah excha nge rate against the Un ited States dollar, and the retai l p rice of fuel.

T he est imated money supply parame ter is 9.99 x I 0 -6 and has a posit ive relatio nsh ip, which means that the increase in the money supp ly triggers an increase in the CPI and thus tr iggers inflat ion. Meanwh ile, the estimated

parameter of the rupiah exchange rate against the US dollar is 0.001294 and has a positive relationship, which means that the weakening of the rupiah exchange rate against the US dollar can trigger inflation. This is because the weakening of the rupiah against the US dollar causes domestic prices to be more expensive than foreign goods, or in other words, domestic prices increase.

The estimation parameter for the retail price of Fuel oil is 0.002287 and has a positive relationship, which means that the increase in li.te l prices can trigger an increase in the CPI and thus trigge r inflation. 111is is because Fuel oil is one of the main ener[,,y sources for the business world, so that the increase in fuel prices will cause an increase in production costs.

As a result, the price of the product also tends to rise to cover production costs.

b. TIie Exc flu 11ge Rate of R11piuh ugui11st U11ited Stutes Dollar

The results of the estimation of the parameter of the rupiah exchange rate equation against the US dollar are presented in Table 2 No. 14. In Table 14, the estimated inflation rate parameter is 51.78111 and has a positive relationship, which means that inflation can trigge r a weakening of the rupiah exchange rate against the US dollar.

Table 2. Estimation results of parameters of the investment equation, government expenditure, exports of goods and services, imports of goods and services, consumer price index, and rupiah exchange rate against united states dollar surabaya city government 2017-2021

No	Variable	Estimate Parameter	Prob>t	Information
	Intercept	-9066592	0,4545	Estimation Results of Government Investment Equation Parameters
	GRD	0,253026	0,0005	GRD (Million Rp)
	IR	-57973,4	0,9275	Interest Rate (Percent)
		0,329854	0,0917	Public Savings (Million Rp)
	LI	0,128068	0,6133	Lag nvestation
				Adj-R2 = 0,9903; F-Stat = 480,35; Pr> F = <,0001; DW = 1,634143
10	Intercept	-1008995	0,7477	Estimation Results of Expenditure Equation Parameters
	TE Total Expenses	2,530813	<0,0001	Total expenditure (Million !DR)
				Adj-R2 = 0,81364; F-Stat = 58,63; Pr> F = <,0001; DW = 0,335896
II	Intercept	-696127	0,8699	Results of the Estimated Parameters for Exports of Goods and Services
	GRD	0,313411	0,0006	GRD (Million Rp)
	ERAD	2962,680	0,0043	ERAD = The Exchange Rate of Rupiah against Dollars S
	LE	0,385694	0,0305	Lag Export
				Adj-R^2 = 0,99574; F-Stat = 1380,45; Pr > F = <,0001; DW = 1,741443
12	Intercept	6943440	0,2626	Estimation Results of the Parameter of the Import of Goods and Services Equation
	GRD	0,56830	<,0001	GRD (Million Rp)
	ERAI	-3249,55	0,0208	ERAD = The Exchange Rate of !DR against Dollars $
				Adj R^2 = 0,99142; F-Stat = 909,14; Pr> F = <,0001; DW = 2,372878
13	Intercept	2,060536	0,0302	Estimation Results of the Consumer Price Index Equation Parameter.
	MS	9,99x 10-06	0,0562	MS = Money Supply (Million Rupiah)
	ERAI	0,001294	<0,0001	ERAD = The Exchange Rate of Rupiah against Dollars S
	RPFO	0,002287	0,0002	RPFO = Retail Price of Fuel Oil (IDRO.
	BET	0,003272	0,4654=3	BET = Basic Electricity Tariff
	L CPI	0,675463	<0,0001	Lag CPI = Consumer Price Index
				AdJ-R2 = 0,9975; F-Stat = 2950,32; Pr > F = <,000 I; DW = 1,700095
14	Intercept	20,30756	0,9605	Estimation Results of the Equation Parameter for the Rupiah Exchange Rate against the US Dollar.
	FER	-0,00195	0,8612	FER = Foreign exchange reserves (Million US $).
				Inflation rate
	INF	51,78110	0,0010	(Percent)
	LERAD	0,966386	<0,0001	LagERAD = The Exchange Rate of Rupiah again,t Dollars
				AdJ-R2 = 0,92794; F-Stat = 116,88; Pr > F = <,0001; DW = 2,258540

*Note: F-Stat= The F-statistic ; Adj-R2 = Adjusted R-Square.

**Data SOLtrce: Data processing by Researchers 17 August 2020

*c. **Mo11ey Supply***

The results of the estimation of the money supply equat ion parameters are presented in Tab le 3 No. 1 5. It can be seen that the money supply in the Surabaya City Government in 201 7- 2021 is influenced by the real GRD of the City of Surabaya.

The es timate d parameter of rea l GRDP is 0.0 0 3 71 0 6 and has a positive relat io nsh ip, wh ich means that an increase in rea l G RDP can trigge r an increase in the money supply. This is due to the increase in GDP, which means that an increase in econom ic capacity will requ ire more 1mney, so th at the money supply a lso increases.

S. HDI Bloc k, Povert y, and Length of Schoo lin g

a. H111na11 Deve lopm e11t /11d ex

The results of the estimation of the parameters for the human development index (HDI) equation are presented in Tab le 3 No. 16. It can be seen that the HDI in Surabaya is influenced by the average len gth of school ing.

The est imated parameter of average length of schoo ling is 2.203457 and has a positive relationsh ip, which means that an increase in the average leni:,>th of schooling will increase d1e HD I. This is because the average leni:,>h of schoo ling is one componen t of the HDI ca lculat ion.

b. Numb er of Poor Populatio11

T he results of th e es timation of the parameter of the equation for the number of poor people are presen ted in Tab le 3 No 1 7. It can be seen that the munber of poor people in the city of Surabaya is influenced by the inflat ion rate and the number of poor people in the prev ious year.

The est imated inflat ion rate parameter is 0.8 61 54 7 and has a positive relationsh ip, wh ic h means that infla t ion will trigge r an increase in the munber of poor people. This is because if the re is inflat ion, the rea l income of the community will decrease, so that people who are slightly above the poverty line can fall into pove rty.

*c. **Average Le11gth of Schooli11g***

The resu lts of the estimation of the paramete r equat ion for the average len i:,>ht of schoo ling are presented in Tab le 3 No. 18. It can be seen that the average len gth of schoo ling for residents of Surabaya Cit y is 0.933656. This can happen as people's income improves, **in** addition to the tendency for parents to want their chil dren to have a better educat ion than them.

d. Labor Ab.rnrpthm

The results of the estimation of the parame ter of the equation for the number of workers are presented in T able 3 No. 1 9. It can be seen that the number of wo rke rs in the Surabaya City Govemment is 0.933656. TI1is is influenced by the real GRDP. The measurement standard with the estimated real GRDP parameter has a positive relations hi p with the amount of labo r absorbed. Where an increas ing economy will be followed by rapid workforce growth. This im plies that an inc rease in rea l G DP will increase the amount of labor absorbed. TI1is is because the i ncrease in econom ic capacity will require more labo r. TI1is absorptio n is a positi ve aspect in itse lf when viewed from the standard measurement of the estimated GRDP parameters.

Table 3. Estimated results of the government of surabaya city government estimated amount of money equation, human development index, number of poor populations, school average, and manpower absorption of surabaya city government, 2017-2021

NO	Variable	EstimateParameter	Prob > t	Information
15	Intercept	-991728	<0,0001	Estimation Result of Parameter of Amount of Money Equation.
	AGRDP	0,0037106	<0,0001	Average Gross Regional Domestic Product
	BIC	-3691,86	0,4658	BIC= Bank Indonesia Certificate
				Real GRDP (Million IDR)
				Adj-R2 = 0,97658; F-Stat = 320,65; Pr > F =
16	Intercept	43,99171	<0,0001	Estimation Results of Human Development Index Equation Parameters
	ASE	2,203457	<0,0001	ASE = Average School Entry (year)
	PMW	0,006164	0,2326	PMW = Provincial Minimum Wages
				(000 IDR)
				Adj-R2 = 0,72955; F-Stat = 32,01; Pr > F = < ,0001; DW = 0,166576
17	Intercept	133,8098	0,0173	Results of Estimation Parameters for the Equation of the Number of Poor People
	GRDPC	-0,00011	0,6811	Gross Regional Domestic Product Per Capita (000 IDR)
	INF	0,861547	0,1788	Inflation rate (Percent)
	LNPP	0,625289	0,0003	LagNPP = Number of Poor Population
				Adj-R2 = 0,71214; F-Stat = 15,94; Pr> F = < ,0001; DW = 1,696704
18	Intercept	0,652145	0,2104	Estimation Results of Parameters for the Equation of Average Years of Schooling.
	GRDPC	3,54E-06	0,4706	Gross Regional Domestic Product Per Capita (000 IDR)
	LASE	0,933656	<0,0001	Lag ASE = Average School Entry
				Adj-R2 = 0,98482; F-Stat = 498,23; Pr> F = < ,0001; DW = 2,944845
19	Intercept	100,8531	0,4130	Estimation Results of Labor Absorption Equation Parameters.
	AGRDP	781,521.2	0,0747	GRDP = Gross Regional Domestic Product
				Real (Million IDR)
	LL	0,718245	0,0002	Lag. L= Labor
				Adj-R2 = 0,96269; F-Stat = 198,81; Pr> F = < ,0001; DW = 2,6218

*Note: F-Stat = The F-statistic; Adj-R2 = Adjusted R-Square.

**Data source: Data processing by Researchers 17 August 2020.

FISCAL POTENTIAL PROJECTIONS

Based on the calculations and models described in the previous description, the results of the projected fiscal potential of the Surabaya City Government for 2017-2021 can be described as in the following table.

Table 4. Basic value of proposal variables of endogen the government of Surabaya city in 2017-2021

No	Endogenous	Information	2017	2018	2019	2020	2021
1.	LGR	LGR = Locally-Generated Revenue (Billion IDR)	15,709	16,712	17.193	18.732	19.213
2.	FC	FC = Fiscal Capacity (Billion IDR)	20,578	22,828	23,528	32,228	40,828
3.	TR	TR = Total Revenue PDRB (Billion IDR)	31,321	32,821	34,821	35,821	42,821
4.	Fiscal Gap	CelahFiskal (Billion IDR)	6,875	7,921	8,213	8,652	9,134
5.	TE	TE = Total Expenses (Billion IDR)	30,293	34,372	35,723	40,213	43,672
6.	GRDP	GRDP = Gross Regional Domestic Product (Billion IDR)	954,714.48	1, 187,333.1	1,413,241.2	1,735.423.2	1,462.352.2
7.	AGRDP	AGRDP = Average Gross Regional Domestic ProductReal (Billion IDR)	781,521.2	98,324.5	1.016,123.12	1,217,212.2	1,391,821.1
8.	*EG*	*EG= Economic Growth* (Percent)	5.45	6.72	6.52	6.63	6.67
9.	INF	INF = Inflation Inflation Rate (Percent)	4.32	5,15	5.32	5.47	5.58

Source: Processed data by Researchers 20 August 2020.

The data in Table 4 is the result of economic projections without any policy intervention, either by the Central Government or the City Government of Surabaya. Thus it can be said that the economic condition is a non-policy condition or a Business As Usual condition.

The results of the analysis show that the economic conditions of the Surabaya City Government in 2017-2021 tend to improve. This can be seen from the development of several factors, including: Local Own Revenue, Fiscal Capacity, Total Revenue, GRDP, Economic Growth tends to increase, as described below:

1. Local Own Revenue tends to continue to increase. In 2017 the Surabaya City Government reached Rp. 15.709 trillion and in 2021 it will increase to Rp. 19,213 trillion. This shows that the City Government of Surabya has quite good potential in managing its revenue.

2. The GRDP of Surabaya City reached Rp. 954,714.48 billion and in 2021 it will increase to Rp. 1.391 trillion. This indicates that the economic growth of Surabaya City continues to be sustainable. This means that the policies taken by the Surabaya Government must be pro-growth so that the economy remains in quality and is able to bring maximum benefits to the people of Surabaya.

3. The economic growth of Surabaya City for the 2017-2021 period shows quite good growth. Economic growth in 2017 is estimated to grow in the range of 5.45 percent, while in 2021 economic growth will reach 6.67 percent.

4. Inflation turns out that the Surabaya City Government continues to increase. In 2017 it was only 4.32 percent but in 2021 inflation is estimated to reach 5.58 percent. Of course, this requires holistic management so that inflation in the City of Surabya can be managed properly so that the ever-increasing economic growth is not eroded by rising inflation.

5. In 2017 the Fiscal Capacity of Surabya City only amounted to Rp. 20.578 trillion while the projection for 2021 increases to Rp. 40.828 trillion. This shows that the fiscal potential of the Surabya City Government is very pro towards growth.

6. In 2017, the total revenue of Surabya City amounted to Rp. 31.321 trillion while the projection for 2021 will increase to Rp. 42.821 trillion. This shows that the revenue management in the City Government of Surabya is very smart in taking advantage of the moment of economic growth.

7. In 2017 the total expenditure of the City Government of Surabya reached Rp. 30.293 trillion, while the projection for 2021 will increase to Rp. 43,672 trillion.Fiscal Gap in the City of Surabaya for the 2017-2021 period also shows an improved performance in 2017 Rp. 6.875 trillion and will increase in 2021 to Rp. 9,134 trillion because in 2021 the gap is projected to decrease when compared to 2020. This shows that the revenue performance earned by the Surabaya City Government has increased.

6. Conclu sio ns and Suggestion s

Conclusion

I. Fisca l decentralizat ion in the City Government of Surabaya has been effective and effic ient, th is can be seen in the 2017- 2021 eco nom ic growth.

2. Fisca l decentralizat ion in the Sltrabaya City Government has been able to improve commun ity welfare. This is in dicated by the total revenue rece i ved by the Surabaya city government which cont inues to increase.

Suggestion

I. The econom ic growth of the Surabaya City Government in 201 7- 2021 shows a fairly good performance. However, in terms of inflation, it also con tinues to show imp rovement. For th is reason, it is recommended that inflation conh·ol shou ld be ca1Tie d out through various policies.

2. In order for the fisca l capacity of Surabaya City to continue to grow well, it is suggested that the formulation of region al e xpend iture policies be directe d at activities that can increase economic growth and improve the welfare of the community.

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