The Effects of Local Taxes and Charges Assignment Policy on The Local Governments' Fiscal Autonomy and Local Economy in Indonesia

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Purwandi Santoso
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Members of the Examining Committee:
Dr. Sylvia I. Bergh
Prof. Dr. S. Mansoob Murshed

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Inquiries:

Postal address:
Institute of Social Studies
P.O. Box 29776
2502 LT The Hague
The Netherlands

Location:
Kortenaerkade 12
2518 AX The Hague
The Netherlands

Telephone: +31 70 426 0460

Fax: +31 70 426 0799

Dedication Page

For my beloved wife Siti Nurmayanti,

for my *mama* Susilowati and *bapa* Sarya,

You are my everything…

Terimakasih…

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Abstract

Since several decades, decentralization has been implemented in many countries including Indonesia. Not only devolving expenditure-related authorities, but Indonesia also devolved some revenue collection authorities. By using Law 28/2009 regarding local taxes and charges, central government wants to enhance local fiscal autonomy without burdening local economy excessively. The central government believes that local taxes and charges assignment policy is needed to achieve the purpose of the decentralization system, i.e., the prosperity of the people. As stated in its general elucidation, this policy is crucial in providing the local governments ability to manage and match their budgets and public goods/services provision choices. Furthermore, this law claimed that this policy can increase the accountability due to the closer link between revenues collection and its benefits to the people.

After seven years, an evaluation of the implementation of Law 28/2009 is imperative. Therefore, this study tries to evaluate its basic objective achievement, i.e. enhancing local fiscal autonomy without harming the local economy. This study utilizes a mixed method through combining qualitative interview, statistics descriptive, and panel data regression. This study finds that this policy has increased local fiscal autonomy across government levels and regions. Furthermore, this study reveals three findings regarding the qualitative aspects of local fiscal autonomy after the implementation of Law 28/2009. Firstly, there is a wider disparity/gap between government levels and regions than before. Secondly, there is evidence on how conscious provincial governments have tried to utilize their tax/charge rates discretion as a manifestation of fiscal decentralization. Lastly, there are some "classics problems" that affected the performance of local revenue collections in the interviewed local governments, i.e. human resources, the quality of regulations, and public awareness. On the quantitative analysis, the result of regression shows that the local fiscal autonomy produced by Law 28/2009 has significant positive effect on local economic growth. In conclusion, although there are some deficiencies, this paper reveals that this law has achieved its main objective to increase the local fiscal autonomy and prevent the negative effects on the local economy.

Relevance to Development Studies

The effects of decentralization on local development and economy have been argued for years. However, there are mixed findings in this regard. Since this study tries to evaluate the effects of Law 28/2009 as the local revenue assignment policy in Indonesia, it may enrich the discussion by giving a new empirical evidence on how decentralization policy on the revenue side can affect the local economy. Furthermore, as an evaluation of the implementation of Law 28/2009, this study may contribute to further policy improvement. Through a better local revenue assignment policy, it may help the central government achieves the purpose of the decentralization system, i.e. the prosperity of the people.

Keywords

Decentralization, Fiscal Decentralization, Local Taxes and Charges Assignment Policy, Local Fiscal Autonomy, Local Economy, Indonesia

Chapter 1
Introduction

Decentralization has been well known and implemented in many countries around the world. According to Litvack et al. (1998), many developing countries in Africa, Eastern Europe, Latin America and Asia, have acknowledged that decentralization has been a significant issue in their countries. This phenomenon occurred because of different reasons, such as Eastern Europe's transition to market economy and the implementation of multiparty democracy in Africa (Litvack et al. 1998).

Indonesia started to implement the decentralization policy in 2001 after the enactment of Law 22/1999. Based on this law, most of the central government's responsibilities have been devolved to lower government levels. Therefore, local governments have bigger responsibilities compared to prior the decentralization era. Consequently, local governments need large funds to conduct these responsibilities.

As a response to this condition, besides the intergovernmental transfer system, the central government has implemented a local taxes and charges assignment policy. Through Law 34/2000, the central government assigned authority to the local governments to collect 11 taxes and 27 charges. Also, they could create new local taxes and charges as their own revenue sources for financing the expenditures. Hence, local governments had a broader discretion in collecting their own revenue to finance the public services. However, they must send their regulations regarding these revenues to the central government which will examine whether they fulfill the good tax/charge criteria or not. The local governments' new taxes/charges must meet the good tax/charge criteria that are set in the Article 2 and 18 of Law 28/2009 (see Appendix I).

However, this policy was a "nightmare" for the local economy. Most of the new taxes/user charges created by local governments had a negative impact on economic growth (Barnes et al. 2005). This finding also was confirmed by Ismail and Hamzah (2006) who revealed that revenue assignment in Indonesia produced an adverse effect on economic growth. Even though the new taxes and user charges did not have a significant contribution to local revenue, these taxes and charges caused obstacles in local business development such as many different required licenses for establishing a business (Lewis and Suharnoko as cited in World Bank 2007:136). In addition, research conducted by the Regional Autonomy Watch/KPPOD (2004) revealed that more than a quarter of surveyed businessmen felt distortions in their business activities and almost a third of the local regulations were economically distortive[1]. The local regulations contained many unclarities regarding time standards and procedures. Furthermore, this research also found a corruptive trend in license-based revenue

[1] According to Deardorff (n.d.), distortion is defined as "any departure from the ideal of perfect competition that therefore interferes with economic agents maximizing social welfare when they maximize their own". In their survey, KPPOD (2004) classified the distortions in the local tax collections in several types of violations, such as impeding the public access and goods distribution, causing negative economic impact, and violating the national economic integrity.

collection. The businessman had to pay, on average, 64.25% more than the official fare of a license (KPPOD 2004). These bad effects of excessive taxes and charges had been expected by Saad (2001). His study estimated that the excessive local revenue raising would generate higher distribution cost for producers[2], lower prices at farmer/producer level, high-cost economy[3], social unrest, weaker local competitiveness, and overlapping taxation (Saad 2001).

Because of these experiences, the central government has changed the revenue assignment policy, especially regarding local taxes and user charges, through the enactment of Law no. 28/2009. Based on this law, there is no more chance for creating and collecting any new type of local taxes and charges. The local governments are only assigned to choose and collect only local taxes and charges stated in the law or the so-called closed list system. As a compensation to lesser discretion for local revenue collection, the central government gives 4 new taxes and 4 new charges so there are 16 types of local taxes (5 taxes for provinces and 11 taxes for municipality/regency level) and 30 types of local charges (14 general services charges, 11 commercial services charges, and 5 license services charges). In 2012, the central government gave two other new charges (see Appendix II for the detail of local taxes and charges). Furthermore, the central government also gives taxes/charges base expansion and some discretions in setting the tax rates to the local governments.

As implied on the general elucidation of Law 28/2009, this policy aims to increase fiscal autonomy without making excessive negative effects on the economy. Through this policy, the central government wants to increase the local revenue generation without neglecting the local economy. So, the local governments can enhance their fiscal autonomy or their ability to finance their spending. This condition also would lead to better accountability for the local people. In the end, it would increase the level of public service delivery and local economy.

However, there is no clear evidence of the result of this new policy in terms of local autonomy and local economy. Hence, this research tries to find out the condition of local fiscal autonomy and its effects on the local economy after the implementation of this new policy.

1.1. Research Strategy

This research's objective is to evaluate the achievement of the basic objectives of local taxes and charges assignment policy (Law 28/2009), i.e. enhancing local fiscal autonomy without burdening local economy excessively. Based on this main objective, firstly, this paper aims to evaluate the local fiscal autonomy after the implementation of Law 28/2009. This paper tries to evaluate not only the quantity/level of local fiscal autonomy but also the quality of local fiscal autonomy such as the consciousness or awareness of local governments regarding their local fiscal instruments and the imbalance among regions that may occur after the implementation of Law 28/2009. Secondly, this

[2] One common type of charges in the Law 34/2010 era was additional charge on goods distribution. It was often collected at weighing station. Initially, weighing station was used for protecting the roads from overload trucks, but it was misused by local governments to collect additional charge on goods distribution (Saad 2001:11-12).

[3] Many type of taxes and charges were directly and indirectly levied on production activities. The producers added these additional "costs" to their production, so it increased the market price. Hence, the market price did not reflect the real production cost (Saad 2001:13).

paper also attempts to go deeper into investigating the effect of local fiscal autonomy on the local economy after Law 28/2009 was implemented. To get a holistic picture, this research gathers different points of view from stakeholders, i.e. central government as the policymaker and local governments as the policy executor.

Hence, this paper is expected to contribute to improving the local taxes and charges assignment policy formulation in Indonesia. Moreover, it could also give more evidence on how decentralization of the revenue (local fiscal autonomy) affects the local economy.

1.2. Research Questions

To achieve its objective, the research question to be answered is "to what extent has the implementation of local taxes and charges assignment policy (Law 28/2009) affected local fiscal autonomy and local economy?". Furthermore, it is divided into two sub-questions as follows:

1. How has the implementation of Law 28/2009 affected local fiscal autonomy?
2. How has local fiscal autonomy after the implementation of Law 28/2009 affected the local economy?

1.3. Methodology and Data Selection

This research applies a mixed method. Descriptive statistics and qualitative interview are used to find out how the implementation of Law 28/2009 affects the local fiscal autonomy. On the other hand, panel data regression is utilized to investigate the effect of local fiscal autonomy on the local economy after Law 28/2009 was implemented.

The first part is descriptive and explorative. This research tries to discover how the implementation of Law 28/2009 has affected the local fiscal autonomy. This analysis relies on local budgets (APBD) realization data issued by the Ministry of Finance to conduct the descriptive statistical analysis regarding the level local fiscal autonomy across regions and government levels. This data consists of data from the budget year 2009-2015 in all government levels.

Furthermore, the interviews were conducted with various stakeholders to study the qualitive aspects of the local fiscal autonomy. This research used a purposive method to select the interviewee candidates, i.e. they were selected because of their position in the related organization. This study planned to interview the policymakers in central government, the policy implementers in local governments, and business associations as the representatives of the business sector. The policymakers come from the Ministry of Finance. Then, based on the local fiscal autonomy level, three provincial government officers are interviewed as representatives of the local governments which have the highest, the average, and the lowest local fiscal autonomy level. Even though this selection will not totally represent the voices from all local governments, this diverse selection strategy can be utilized to capture the variation of interest dimensions in this paper (Gerring 2007:97-99). Based on the calculation (see Appendix III), the selected provincial governments are Jakarta, Bangka Belitung Archipelago, and West Papua Provinces. Here are the interviewees' details:

Table 1 List of Interviewees

No	Name	Position	Date of Interview	Description
1.	Hendra Gunawan	Head of Local Charges and Other Local Own-source Revenues Section (Ministry of Finance)	28 August 2017	Policymaker
2.	Utomo Satriarso	Head of Local Taxes I Section (Ministry of Finance)	04 September 2017	Policymaker
3.	Perwana Auliant	Head of Planning and Development of Tax Potential Sub-Division (Province of Special Capital Region Jakarta)	05 September 2017	Policy Implementer
4	Amran	Head of Tax Division (Province of Bangka Belitung Archipelago)	06 September 2017	Policy Implementer
5.	Ahmad Fadillah	Head of Local Revenue Board (Province of West Papua)	26 September 2017	Policy Implementer

Source: Own construction

Unfortunately, the author failed to interview the business associations. The author tried to contact Indonesian Business and Commerce Chamber (KADIN Indonesia) as a national level business association by using a formal letter. However, the author failed to get access to this association. Therefore, the author changed the targeted interviewee to the Indonesian Hotel and Restaurant Association (PHRI). This decision was made because the hotel and restaurant sector is one of the main objects of local taxes and charges collection. The author tried to contact three offices at different organization levels, i.e. PHRI Indonesia (National Level), PHRI Province of South Sulawesi (Provincial Level), and PHRI Regency of Badung (Regency/Municipality Level). The interviewee candidates for the provincial level and regency/municipal level were selected by means of snowball sampling. The author obtained the contact information of these two associations from a Ministry of Finance officer since they were involved in a focus group discussion conducted by Ministry of Finance in the past. However, only the interviewee candidate from PHRI Province of South Sulawesi replied and was willing to be involved in this research. Unfortunately, after several attempts to communicate with the candidate via SMS, telephone, and email, until the end of this study, PHRI Province of South Sulawesi did not reply the interview form.

The interviews were conducted by using structured interview via email because of the distance between the interviewees and researcher. The interview forms were made in two types based on the different roles of the interviewees, i.e. national policymakers and policy implementers at the local level (see Appendix IV). However, due to the interviewee's request, the interview with West Papua Province was conducted via WhatsApp by using a semi-structured interview.

Moreover, to get more in-depth understanding of how the local governments use their fiscal instruments, this paper also gathers and analyzes all provincial regulations regarding local taxes (see Appendix V). Then, this paper tries to compare all provincial tax rates, so it can describe the behavior of local governments in setting their tax tariffs. These provincial regulations are collected from the Ministry of Home Affairs and Provincial Governments' websites.

Secondly, this research tries to investigate the effect of local fiscal autonomy after the implementation of Law 28/2009 on the local economy (2010-2015). This study uses and modifies the model proposed by Ismail and Hamzah (2006:137-139) to investigate the impact of Law 28/2009 on the local economy. Even though it may not be a perfect measurement, this research follows Ismail and Hamzah (2006) in using nominal Gross Regional Domestic Product (GRDP) per capita to proxy the local economy. In their model, Ismail and Hamzah (2006) try to measure the impact of local fiscal autonomy on local economic growth by using the multiple regression method with a balanced panel model. Similar to the research of Ismail and Hamzah (2006), this paper also uses consolidated provincial level data. It was chosen because of data availability. The modified model is as follows:

$$Y_{it} = \alpha_{0i} + \beta_1 LFA_{it} + \beta_2 INV_{it} + \beta_3 EXIM_{it} + \beta_4 INF_{it} + \beta_5 URBAN_{it} + \beta_6 GRDPP2010_{0i} + \beta_7 MYS2010_{0i} + \varepsilon_{it}$$

Where

Y	: Ratio of Nominal Gross Regional Domestic Product (GRDP) over population
LFA	: Ratio of ratio of local taxes and charges over total local revenue (Local Fiscal Autonomy Indicator)
INV	: Ratio of Foreign and Domestic Direct Investment over GRDP
EXIM	: Ratio of net Exports and Imports over GRDP
INF	: Inflation per Province
URBAN	: Ratio of Urban Population over Total Population
GRDPP2010	: Initial Nominal GRDP per capita in 2010
MSY2010	: Initial Mean Years of Schooling in 2010

Source: modified from Ismail and Hamzah (2006:137-139)

Different from the original model, this paper modifies three variables, i.e. local fiscal autonomy, ratio of investment over GRDP, and ratio of net export-import over GRDP. Because of its main objective, this research only uses total local taxes and charges revenue divided by total local revenue to represent the Local Fiscal Autonomy. Instead of using four separate ratios of foreign direct investment, domestic direct investment, export, and import values like in the original model, this paper uses the ratio of total direct (foreign-domestic) investment and the ratio of net export-import. Also, there are three new variables compared to the original model, i.e. ratio of urban population over total population, initial GRDP per capita and initial mean years of schooling.

As mentioned earlier, the objective of Law 28/2009 is enhancing local fiscal autonomy without neglecting/harming the local economy. Therefore, the hypothesis of this research paper (H1) is *local fiscal autonomy after the implementation of Law 28/2009 has a positive effect on local economic growth*.

To run the model, the data was collected from Ministry of Finance, Indonesian Statistics Bureau, and Bank Indonesia (Central Bank). The author calculated the local fiscal autonomy indicator based on 542 local governments' budgets (APBD) realization data issued by Ministry of Finance. It was consolidated into 33 provinces. Then, the other variables were compiled and calculated from the Indonesian Statistics Bureau (BPS) data[4]. Since there is no publication regarding the provincial inflation (year on year) data, the author requested the Statistics Bureau to break down the national inflation data into provincial inflation. In converting the foreign direct investment value, the author calculated the average of mid exchange rate issued by Bank Indonesia (central bank) and used it as the exchange rate[5].

The position of the author as a civil servant in Ministry of Finance has given some benefits and challenges in conducting this research. Even though all data used in this paper are open data or publicly accessible data, the author's position gives faster and easier access to the data and some interviewees. However, the author's position may also lead to subjective bias. Therefore, even though it may be impossible to totally avoid the bias, the author tried to use other previous studies and conduct interviews with other stakeholders such as local governments and business associations as triangulation technique. Furthermore, the author used the multiple regression method that is relatively "free" from bias to investigate the implication of the policy towards local economy.

1.4. Scope and Limitation

This research is conducted to analyze the effectiveness of local taxes and charges assignment policy as regulated in Law 28/2009. Because of data limitation, this paper analyzes the achievements of the year 2010-2015. This study covers data from all the Indonesian provinces, i.e. 33 provinces. It means that the North Kalimantan Province that proliferated in 2012 was merged with the parent region, i.e. East Kalimantan Province. In most part of this paper, this study analyzes the data on province level, i.e. consolidating all data from the province and the lower government levels (*Kabupaten*/*Kota*) in the same province. This province/state level analysis was also conducted by other researchers such as Ismail and Hamzah (2006) and Akai and Sakata (2002).

This study has several limitations. First, due to data availability, this paper cannot provide a before and after analysis. Second, the strategy to use province as the level of analysis may give this study more options of data, but this condition may hinder this study to reveal any evidence in lower government levels. Third, this study failed to provide an interview with any business associations, so this study cannot explore more on how the business sector reacts on the policy. Last, this paper does not include the local governments' institution factor in its analysis due to the lack of data at the local level.

1.5. Organization of the Research Paper

There are six chapters in this research paper. The first chapter contains the introduction and description of this research's design. The second chapter gives explanations regarding the theoretical framework and literature review on decentralization, fiscal decentralization, revenue assignment, and economic growth. Then, the third chapter explains about the background condition in Indonesia, i.e. governmental and geographical division, decentralization, and revenue (local taxes and charges)

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[4] The data are collected from BPS (2012, 2015a, 2015b, 2015c, 2015d, 2015e, 2015f, 2015g, 2015h, 2015i, 2015j, 2015k, 2015l, 2015m, 2015n, 2015o, 2015p, 2015q, 2015r, 2015s, 2015t, 2015u, 2015v, 2015w, 2015x, 2015y, 2015z, 2015aa, 2015ab, 2015ac, 2015ad, 2015ae, 2015af, 2015ag, 2015ah, 2015ai, 2016a, 2016b, 2016c, 2016d)

[5] The exchange rate is derived from Bank Indonesia's database (Bank Indonesia, n.d.).

assignment policy. After that, the fourth chapter discusses the achievements of Law 28/2009 on enhancing the local fiscal autonomy level, followed by the fifth chapter that provides the evidence on how local fiscal autonomy affects local economic growth after the implementation of Law 28/2009. The last chapter presents the conclusion of this paper and some recommendations.

Chapter 2
Decentralization, Revenue Assignment, and Economic Growth

2.1. Concept of Decentralization and Fiscal Decentralization

Decentralization is a popular terminology in recent decades. According to Rondinelli (1981:137), "decentralization is defined […] as the transfer or delegation of legal and political authority to plan, make decisions and manage public functions". Furthermore, Rondinelli (1981) classifies three forms of decentralization: deconcentration, delegation, and devolution. These three types of decentralization have their own degree of decentralization and characteristics (Rondinelli 1981).

Furthermore, Rondinelli (1981) classify a devolution as the strongest level of decentralization. Rondinelli (1981) explains there are five characteristics of a devolution. First, the local governments are given the authorities and autonomy without direct control from the central government. Second, there are clear geographical boundaries between regions. Third, the local governments are given the power to collect sufficient revenue for conducting their functions. Fourth, the local governments should become good public service providers and influential governmental units. Last, there is reciprocity and mutual benefit relationship among different government levels (Rondinelli 1981).

Due to the expanding concept of governance, Cheema and Rondinelli (2007:7) argue that the concept of decentralization also has developed beyond its basic definition as the transfer of legal and political authority within government levels. It has been expanding to "the sharing of authority and resources" with the other stakeholders, including the fiscal affairs (Cheema and Rondinelli 2007:7). Fiscal decentralization covers the public revenue sharing, revenue-expenditure authority delegation, and fiscal autonomy among all levels of government (Cheema and Rondinelli 2007:7).

2.2. Fiscal Federalism and Revenue Assignment

The basic question on what kind of taxes/revenues should be collected by which level of governments or the "tax-assignment problem" has been one of the focuses in fiscal federalism theory (Oates 2005:352). In the literature, there are two main models about how revenues (taxes and charges) should be delegated or assigned (Bird 2010). They are as follows:

1. The first fiscal federalism model
   The essential focus of this model is on how a highly decentralized taxation can result in distortion in the economy, especially the non-benefit taxation on mobile objects such as the tax on capital (Oates 2005:352). Therefore, there are several basic rules on assigning the revenue to local governments. Based on fiscal federalism theory, Oates (as cited in Bird 2010:3-4) summarizes that lower level government only can collect non-benefit taxes on immobile objects and benefit taxes. On the other hand, the central government should collect the non-benefit taxes on mobile objects, such as personal/corporate income tax (Oates as cited in Bird 2010:3-4). Given by these rules, local governments only eligible to collect limited option of revenues.

There are several reasons why the proponents of this model believe in limited revenue assignment to local governments. Bird (2010) explains that this model places the local governments as decentralized public service providers for which they are receiving intergovernmental transfers. Hence, they do not need a strong revenue-raising authority. The proponents of this model argue that an excessive revenue assignment on various tax bases, like consumption, trade, and capital, to the lower levels of government would produce distortion on the economy and, in the end, would erode the national prosperity (Bird 2010). Moreover, there are several additional reasons why we need to limit the revenue assignment to the lower levels of government, such as fear of a "tax war" among regions and the capacity of local governments issues (Bird 2010).

2. The second-generation model

   This model is based on a fundamental rule that "tax assignment should follow expenditure responsibilities" (Warren as cited in Bird 2010:8). This model emphasizes that the revenue assignment policy must consider the size and cost of the responsibilities that must be delivered by the local governments (Bird 2010). If the local governments are only assigned small and cheap responsibilities, such as cleaning the roads, a property tax might be enough to finance these responsibilities (Bird 2010).

   Furthermore, this model believes that the local governments only could manage their expenditure properly, if they also have control on their revenues (Bird 2010). The local governments should be given authority to choose their revenue policy, such as tax rate and tax base, so they could predict and manage their revenues effectively and efficiently to finance their expenditures (McLure as cited in Bird 2010). It also means that the local governments must be aware of the effect of the decision they made because their decision to increase or decrease the revenue will affect the people economically and politically (Bird 2010). Hence, in the end, it would increase the accountability (Bird 2010).

   However, this model does not give a defined rule on what revenues to be assigned to the local governments. The country's specific context and path dependency should be considered in assigning the revenue sources (Bird 2010).

In practice, fiscal delegation in revenue raising can be found in several types. According to McLure and Martinez-Varquez (2005), there are at least four types of revenue assignment: independent subnational taxes, subnational surcharge, tax sharing, and revenue sharing. Every country has its own choice on how to assign the revenues to the local governments.

2.3. The Relationship between Decentralization, Revenue Assignment, and Economic Growth

Government as an institution can play an important role in the economic development (Krugman and Wells 2012). The government can affect the economy directly through their budgets such as subsidies, or indirectly affect the economy through creating and maintaining a condition to foster economic growth (Krugman and Wells 2012). One of the government's policies that claimed can foster a good environment for the economy is fiscal decentralization.

The proponents of fiscal decentralization believe that local revenue assignment as part of fiscal decentralization may create a supportive condition for economic growth (Jin and Zou 2005). Ebel and

Yilmaz (2002) summarize that the fundamental logic is that the local governments are closer to the people, so they can provide public services as preferred by the people efficiently. The local governments can manage in balancing benefits and costs for public services provision (Ebel and Yilmaz 2002). Hence, local governments need an authority to exercise their own revenue to do so (Ebel and Yilmaz 2002). Furthermore, revenue assignment, as argued by the second-generation model, also can increase the accountability at the local level (Bird 2010). According to Eckdart and Shah (2006:248), "accountable local governance requires that local governments be largely self-financed, so that tax burdens and the benefits of local services are obvious to local residents."

Furthermore, fiscal decentralization also can provide another aspect of a conducive condition at the local level. Tranchant (2010) argues that fiscal decentralization can decrease ethnic conflicts in a country. By giving a local fiscal authority, the local majority that is a minority at the national level will benefit from this policy so that the conflicts can be decreased (Tranchant 2010). However, the condition will be different for local minorities, since they do not largely benefit from this policy (Tranchant 2010). Nevertheless, the communal violence in both conditions decreases (Tranchant 2010). In the context of Indonesia, Murshed and Tadjoedin (2008) find that the fiscal decentralization can also decrease routine social violence which occurs at the local level. Moreover, the local revenue assignment as part of the fiscal decentralization policy also does have effects on the social condition in Indonesia. Saad (2001) finds that the excessive local revenue collection, due to relatively loose-control from the central government in the past (based on Law 34/200), has created a social unrest. In many cases, the payers of local revenues try to refuse to pay and be united to protest the bad local revenue collections, e.g. distortive or discriminative taxes/charges (Saad 2001).

There is some research investigating the relationship between fiscal decentralization and economic growth such as those done by Davoodi and Zou (1998), Akai and Sakata (2002), Ismail and Hamzah (2006) and Aisyah (2008). In conducting those research, the researchers come with different decentralization measurement units, e.g. the ratio of total local governments' expenditure over the aggregate (central and local government) expenditure as used by Davoodi and Zou (1998).

Furthermore, there are several researchers who use local fiscal autonomy as decentralization indicator. Local fiscal autonomy is one option to measure the degree of decentralization. Basically, this measurement shows how independent a local government finances their spending by their own revenues. Here are several researchers who investigate the fiscal autonomy and its effects on the economy.

1. Ebel and Yilmaz (2002)
   Ebel and Yilmaz (2002) use local fiscal autonomy measurements to investigate the correlation between decentralization and economic growth in six countries (Czech, Hungary, Poland, Estonia, Latvia, and Lithuania) from 1997-1999. From the analysis, Ebel and Yilmaz (2002) find that there is a positive relationship between fiscal decentralization, as measured by subnational tax autonomy and subnational non-tax autonomy, with economic growth. In contrast, this positive result does not occur in the other decentralization indicator, i.e. subnational tax sharing indicator (Ebel and Yilmaz 2002).

2. Akai and Sakata (2002)
   Akai and Sakata (2002) study how fiscal decentralization affects the economic growth in the USA by using state-level and cross-section data in 1992. This research finds that fiscal decentralization, as measured by revenue indicator and production/expenditure indicator, has a positive relationship with economic growth in the USA. On the other hand, the autonomy indicator has no significant correlation with the economy (Akai and Sakata 2002).

3. Meloche et al. (2004)
   Meloche et al. (2004) try to study the effects of fiscal decentralization as measured by several fiscal autonomy indicators on economic growth in 10 European transition countries, like Czech and Bulgaria, from 1997 to 2000. Meloche et al. (2004) use several local fiscal autonomy measurements to calculate the degree of decentralization, namely subnational revenue autonomy, subnational own revenue ratio, and subnational dependent revenue ratio. Based on the result of the regressions, this research finds that fiscal decentralization, as measured by subnational revenue autonomy and subnational own revenue ratio, can affect the economic growth positively. In contrast, the subnational dependent revenue ratio has a different result, i.e. there is a negative relation with economic growth (Meloche et al. 2004).

4. Uchimura and Suzuki (2009)
   Uchimura and Suzuki (2009) examine the impacts of fiscal decentralization on local governments' finance in The Philippines from 1991 to 2006. Uchimura and Suzuki (2009) find that after the decentralization, the local governments have a big number of responsibilities but with limited own revenue resources. Hence, the local governments have a heavy dependence on intergovernmental transfer (Uchimura and Suzuki 2009).

However, there is no consensus on how to measure fiscal autonomy technically. The differences are located on what kind of revenue is calculated in this measurement unit. Here are several technical definitions for measuring local fiscal autonomy:

Table 2 Local Fiscal Autonomy Measurement

No	Researches and Measurement Units	Definitions
1	Ebel and Yilmaz as cited in Meloche et al. (2004:26)	
	Subnational Tax Autonomy	"Ratio of subnational tax revenue on which subnational governments have control over total subnational government revenue"
	Subnational Non-Tax Autonomy	"Ratio of subnational non-tax revenue over total subnational government revenue"
	Subnational Tax Sharing	"Ratio of subnational tax revenue on which subnational governments have no control on total subnational government revenue"
	Subnational Fiscal Dependency	"Ratio of subnational grant revenue excluding general purpose grants with objective criteria and unconditional specific grants over total subnational government revenue"

2	Akai and Sakata (2002:99)	
	Autonomy Indicator (real fiscal independence)	"Ratio of local government's own revenue to total revenue, excluding federal grants"
	Autonomy Indicator (actual financial independence)	"Ratio of local government's own revenue to total revenue, including federal grants"
3	Meloche et al. (2004:26)	
	Subnational Revenue Autonomy	"Ratio of own source revenues over total revenues of subnational governments"
	Subnational Own Revenue Ratio	"Ratio of subnational own source revenue over aggregate central government revenue"
	Subnational Dependent Revenue Ratio	"Ratio of subnational dependent revenue over aggregate central government revenue"
4	Uchimura and Suzuki (2009:8-9)	
	Local Fiscal Autonomy	Ratio of local governments' own revenue excluding fiscal transfer and non-control local taxes over the local government's total revenue

Source: Compiled from Akai and Sakata (2002), Meloche et al. (2004), and Uchimura and Suzuki (2009)

Another different definition of local fiscal autonomy also can be found in research by Ismail and Hamzah (2006). Ismail and Hamzah (2006:139) use "ratio of local government revenue less grants-in-aid to total central government revenue" to measure local autonomy. They use the autonomy indicator and three other indicators (expenditure indicator, revenue indicator, and production indicator) to measure the impacts of Indonesian decentralization policy on local economic growth from 1992-2002. They consolidate the financial data from local governments (municipality, regency, and province) in a province (Ismail and Hamzah 2006).

Ismail and Hamzah (2006) reveal that fiscal decentralization on the expenditure side has a positive effect on economic growth in Indonesia. In contrast, the revenue and the autonomy indicator show a negative implication to economic growth (Ismail and Hamzah 2006). Furthermore, they argue that this condition is caused by excessive local taxation, so they suggest non-tax revenue raising as the solution (Ismail and Hamzah 2006).

However, this conclusion has a misleading interpretation because they use the total local revenue excluding grants-in-aid as their local autonomy variable. In fact, local revenue does not only consist of local taxes, but also other sources of revenue such as tax sharing, natural resources revenue sharing, and local government-owned enterprises' dividend. Hence, they cannot directly put the blame on the local taxes collection.

Given the differences in defining the local fiscal autonomy above, this paper tries to use a different definition. Since this paper focuses on how Law 28/2009, as the local taxes and charges assignment policy, affects the local economy, this research uses the ratio of total local taxes and charges revenue over total local revenue. This indicator is consolidated at the province level, i.e. by calculating the total local taxes and charges revenue divided by total local revenue from all local governments (province, municipalities, and regencies) within a province. This indicator is more focused and suitable to measure the local taxes and charges autonomy than the previous research by Ismail and Hamzah (2006).

In researching the implementation of Law 28/2009 as local revenue assignment policy, there are, at least, four studies which try to evaluate the implementation of Law 28/2009. Here are the studies:

1. Suratman et al. (2013)
   Suratman et al. (2013) conducted a research on the evaluation of implementation of the Law 28/2009 in several sample local governments. This research has three main research questions i.e. a) What are the obstacles faced by local governments in implementing Law 28/2009? b) How does the implementation of Law 28/2009 affect the local revenue? c) What kind of policy should local governments apply to optimize the implementation of Law 28/2009? However, this research only focuses on the regency or municipal level, especially in seven sample municipalities/regencies (Suratman et al. 2013). This strategy allows this study to get a deeper understanding and uncover findings on how this policy has been implemented in practical or "real" situations. However, by using this strategy, this study cannot cover the provinces and other regencies/municipalities outside the sample area. Therefore, it cannot be used to depict the national condition after the implementation of Law 28/2009.

   In general, this study is divided into two parts, i.e. qualitative and quantitative analysis. In the qualitative part, Suratman et al. (2013) shows that there are several problems in the implementation such as misinterpretation by local government's officers as the implementer of Law 28/2009, human resources, and coordination. Furthermore, the quantitative research shows that even though the elasticity[6] of several local taxes increases after the implementation of this policy, the total tax ratio and tax per capita is still low (Suratman et al. 2013). Unfortunately, this study does not try to evaluate the effect of the local taxes and charges assignment policy on local economy.

2. Rheza et al. (2014)
   Rheza et al. (2014) also conducted desk study and case study on the implementation of Law 28/2009. They focused on evaluating the quality of local regulations regarding local taxes and charges after the implementation of this policy. This focus is divided into three research questions, i.e. a) Do the local regulations regarding local taxes and charges follow the Law 28/2009? b) How is the typology of the problems in these local regulations? c) How does the implementation of these problematic local regulations affect the local economy? (Rheza et al. 2014).

   Rheza et al. (2014) combined two methodologies in answering the research questions. They conducted a desk review to sample local regulations, i.e. 383 local regulations based on the Law 28/2009 and 1117 local regulations based on the past policy or Law 34/2000. They reviewed these regulations and categorized the problems into three aspects, i.e. juridical, substantial, and economic aspect. Then, they compare the quality of local regulation based on new law and local

[6] Suratman et al. (2013) explain that local tax elasticity illustrates the effect of change of local tax base on the local tax revenue.

regulation based on past law. Furthermore, out of 383 local regulations, they picked three most problematic local regulations. Then, this study conducts the case study analysis using these three local regulations (Rheza et al. 2014).

Since this research is dependent on case studies, its findings regarding the effect of Law 28/2009 on local economy cannot be generalized. The case studies are the implementation of the regulation of Cirebon Municipality regarding the prohibition of the sale and distribution of alcoholic beverages, the regulation of Samarinda Municipality regarding mineral and coal mining, and the regulation of Cirebon Municipality regarding the implementation and local charge on fishery auction. However, these cases may help to understand how the bad local regulations affect the local economy after the implementation of Law 28/2009.

This study reveals some interesting findings. Rheza et al. (2014) find that the collection of local taxes and charges based on new law is less problematic than the previous regime (Law 34/2000). Law 28/2009 gives a legal certainty for the businessmen regarding the local revenue collection (Rheza et al. 2014). However, Rheza et al. (2014) also find that Law 28/2009 has two main deficiencies. First, there is no guidance/rule and limitation for local governments in setting their charges' tariffs. This condition still potentially burdens the businessmen. Second, there are still several attempts by local governments to collect distortive revenues by using the non-tax and non-charges terminology (Rheza et al. 2014).

3. Ananda et al. (2012)

   Instead of evaluating the general aspect of Law 28/2009, Ananda et al. (2012) try to evaluate the implementation of one specific part on this law, i.e. the devolution of Land and Building Transfer Tax (BPHTB). They focus on how the devolution of this tax affects local revenue and the obstacles and strategies needed in the collection process.

   By combining focus group discussions in six municipalities/regencies and statistical calculation, i.e. paired sample t-test and multiple regression, Ananda et al. (2012) find three main findings. Firstly, local governments have capacity and internal challenges on collecting Land and Building Transfer Tax, namely human resources, technology, regulations, and cooperation with stakeholders. Secondly, the revenue of this tax has been increased after it was devolved. Lastly, the revenue of this tax is significantly affected by density, local/regional economy, and construction price index. Therefore, local governments cannot only focus on solving the capacity and internal issues, but they need to focus on developing the local condition and its economy so that the potential of this tax will be increased (Ananda et al. 2012).

4. Haldenwang et al. (2015)

   Haldenwang et al. (2015) study the devolution of Rural and Urban Land and Building Tax as part of the implementation of Law 28/2009. They try to find out whether this devolution creates a better use of this tax potential or not. They combine statistical descriptive and qualitative interviews with stakeholders in seven local governments.

   Haldenwang et al. (2015) find that there is still an underuse of tax potential after the devolution policy. Even though many stakeholders say that the capacity issue is the main cause, Haldenwang et al. (2015) argue that the political cost also has an important role in this condition. Also, they find that the local elites are reluctant to use policy instruments to enhance the tax collection, so local governments focus on using the inherited tax administration. Unfortunately, the inherited tax administration has many problems to be solved (Haldenwang et al. 2015). On the other hand, the tax revenue that will be obtained if the local governments remedy the system is not bigger than the cost, particularly for remote regions with a low or sparse population (Haldenwang et al. 2015). These problems hinder the optimum use of tax potential after the devolution (Haldenwang et al. 2015).

From the explanation above, there is a research gap in this topic. The previous researchers above did not evaluate the achievement of the basic objectives of Law 28/2009, namely to increase the local fiscal autonomy without generating harmful effects for the local economy. On the other hand, the empirical study by Ismail and Hamzah (2006) on how fiscal autonomy affects economic growth in Indonesia was conducted before the implementation of Law 28/2009. Therefore, this research attempts to fill this research gap.

Chapter 3
Background Situation in Indonesia

3.1. Governmental System and Geography of Indonesia

Indonesia is a big decentralized country in Southeast Asia. According to Article 18 Constitution 1945, Indonesia is a unitary state divided into provinces and these provinces consist of several Kabupaten/Kota (Regency/Municipality). Each of these levels has its own governmental system. In this paper, all those sub-national governments will be referred to as local government. Now, Indonesia has 34 provinces, 93 municipalities, and 415 regencies (Ministry of Home Affairs 2015). The provincial division of Indonesia is displayed in the figure below.

Figure 1 The Provinces of Indonesia

Source: Modified from Lewis (2016)

In this paper, the provinces of Indonesia will be divided into seven clusters based on the geographical condition to help create a better analysis and understanding. These clusters are Sumatera, Java and Bali, Nusa Tenggara, Kalimantan, Sulawesi, Maluku Archipelago, and Papua.

3.2. The Dynamics of the Decentralization Policy in Indonesia

Indonesia has implemented decentralization policy for almost 17 years. It was started by the full implementation of Law 22/1999 in 2001. Now, Indonesia has transformed from a very centralized country to a decentralized country. However, Indonesia has amended its decentralization policy several times. Hence, decentralization should be seen as a dynamic phenomenon and continuum (Rondinelli 1981:139).

Figure 2 The Change of the Legal Basis of Decentralization in Indonesia

Timeline	*2001*	*2004*	*2009*	*2014*
General Aspects of Decentralization	Law 22/1999	Law 32/2004		Law 23/2014
Fiscal Decentralization	Law 25/1999	Law 33/2004		
Local Taxes and Charges Assignment	Law 34/2000		Law 28/2009	

Own construction, source: Law 22/1999, Law 25/1999, Law 34/2000, Law 32/2004, Law 33/2004, Law 28/2009, Law 23/2014

Since 2001, Indonesia has implemented a devolution type of decentralization (Noor 2012). The transfer of authorities was based on Law 22/1999 as a further regulation of Article 18 Constitution 1945. Now, it has been replaced by Law 23/2014. Similar to the previous law, Chapter IV Law 23/2014 regulates that there are 6 absolute affairs that are assigned to the central government, i.e. a) foreign affairs, b) national defense, c) national security, d) judicial system, e) religious affairs, and f) monetary and national fiscal policies or macroeconomic policies such as printing money and controlling the circulation of money. Aside from these affairs, the local governments are given various responsibilities, such as primary and secondary education provision.

However, Law 23/2014 still has differences with Law 22/1999. It gives more restrictions in implementing the decentralization. As stated in Chapter III Law 23/2014, the central government has stronger authority than before to do supervision and create the guidance for implementation of the decentralized authority. For instance, in the past, local regulations only could be canceled by the President and it can be appealed to the Supreme Court, but based on this Law, the Minister of Home Affairs can cancel the provincial regulation and it can be appealed to the President, whereas the Governor can cancel the municipal/regency regulation and it can be appealed to Minister of Home Affairs.

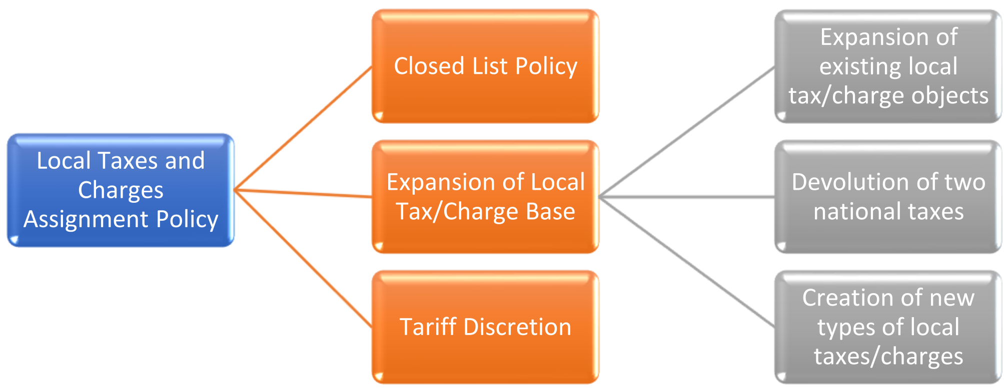
As a logical consequence of the transfer of responsibilities, the central government also made a fiscal decentralization policy. This policy is regulated in Law 25/1999 as replaced by Law 33/2004. It regulates the fiscal relationship between central government and local governments, including the intergovernmental transfer, local financing, and general aspect of local taxes and charges. Furthermore, because of its complexity, the specific regulation regarding local taxes and charges assignment are regulated in a different law.

In the early phases of decentralization, local taxes and charges assignment policy were based on Law 34/2000. In order to support the finance of local public service delivery, this law allowed local governments to collect 11 local taxes and 27 charges. Moreover, the municipality and regency level can make their own levies as long as they follow the criteria of good levies as stated in the law. This policy was called the open list policy. Unfortunately, as mentioned in chapter 1, this policy led to excessive taxation and gave a bad effect to the economy, such as high cost economy, social unrest, and barriers for investment (Saad 2001, KPPOD 2004, Barnes et al. 2005, Ismail and Hamzah 2006, and Lewis and Suharnoko as cited in World Bank 2007:136). In the end, the central government realized this bad experience and tried to fix it with new local taxes and charges assignment policy in Law 28/2009.

3.3. Law 28/2009 as the existing local taxes and charges assignment policy

As a corrective action for previous policy, the central government tried to design Law 28/2009 differently compare to the previous policy. Based on the elucidation of Law 28/2009, there are several key instrument policies to solve the problem of excessive local levies and low local fiscal autonomy. They are illustrated below.

Figure 3 The Key Instruments of Indonesian Local Taxes and Charges Assignment Policy



Own construction, source: Law 28/2009

The first policy instrument is the closed list policy. This policy is the opposite of the open list policy. In the general elucidation of Law 28/2009, the central government acknowledges that almost all of the new local taxes and charges developed by local governments in the past policy did not follow the mandatory criteria of good levies. Furthermore, the levies created bigger negative effects on the economy compared to their revenues. Through the closed list policy, the central government tries to prevent the excessive levies by local governments. In this policy, local governments are only allowed to collect local taxes and charges listed in Law 28/2009. However, the central government can still add new charges (not taxes) by issuing central government regulation (*Peraturan Pemerintah*/PP). The collectable levies can be seen in Appendix II.

In order to prevent local governments collecting the levies outside the list, the central government applies a preventive and repressive mechanism through executive judicial preview and executive judicial review. According to Law 28/2009 and renewed by Law 23/2014, the draft of local tax/charge regulations must be checked and approved by the higher-level governments or executive judicial preview, i.e. Governor for municipal/regency regulation and Minister of Home Affairs for provincial governments. In checking and processing the drafts, these parties must coordinate with the Minister of Finance as the chief financial officer of the national fiscal system. After local governments issue the local regulations, the Minister of Home Affairs and Governors still have authority to check the issued local regulations or do an executive judicial review. Furthermore, if there is a dispute, local governments still have a chance to appeal to the Minister of Home Affairs for the municipal/regency government and the President for provincial governments. If the local governments disobey the decision of executive judicial review, the central government will hold or even cut their intergovernmental transfer funds, i.e. General Allocation Funds (DAU) and Revenue Sharing Funds (DBH).

This system was appealed by local governments in Constitution Court in 2015 and 2016. These appeals were quite reasonable since by using this system, the position of municipalities and regencies was reduced. Furthermore, in the Indonesian judiciary system, there is also another judicial review mechanism by the Supreme Court to examine any regulations lower than national Law. These attempts were successful, and based on the Constitutional Court Decrees No 137/PUU-XIII/2015 and 56/PUU-XIV/2016, the Constitution Court annulled the executive judicial review but maintained the executive judicial preview. These decrees assert that Indonesia has only one centralized judicial review conducted by the Supreme Court, but the central government still has an executive judicial preview authority.

The second policy instrument in Law 28/2009 is the expansion of local tax/charge bases. Even though the central government limits the local governments' authority to collect taxes and charges through closed list policy, the central government still has an eagerness to enhance the local fiscal autonomy. As compensation for the closed list policy, the central government design several instruments:

a. The expansion of the existing local tax/charge objects base
   In Law 28/2009, the central government expand the regulation regarding existing local tax objects, i.e. Motor Vehicle Tax and Motor Vehicle Transfer Tax for government-owned vehicles, Hotel Tax for all hotel tenancies, Restaurant Tax for catering services. Furthermore, there is also an expansion of the object of nuisance permit charge.
b. The creation of new local taxes and charges
   There are several new local taxes in this law, i.e. Swallows' Nest Tax[7] (regency/municipal tax) and Cigarette Tax (provincial tax). Moreover, there are four new local charges, i.e. Educational Service Charge, Fishing Permit Charge, Telecommunication Tower Supervision Charge, and Calibration/Recalibration Service charge.
c. The devolution of national taxes to the local government level
   As a breakthrough in decentralization in Indonesia, since 2011, central government transfers two national taxes, i.e. Rural and Urban Land and Building Tax (PBB P2) and Land and Building Transfer Tax (BPHTB). These taxes are delegated to regency/municipal government level.

The third policy instrument is restricted tax rates setting discretion for all local government levels. The local governments' discretion to set their tariff is a vital authority because with this discretion they can manage and match their revenue and expenditure. In the previous law, there was no discretion at the provincial level, so the provincial tax rates were set by the central government. In contrast, Law

[7] Based on Law 28/2009, Swallow's Nest Tax is a Regency/Municipal Tax for the edible bird's nest cultivation business. Edible bird's nest is a high valued culinary in Asia, particularly in China.

28/2009 gives all local government levels the discretion to set their tax rates within the limit set by central government. The limitation is used to prevent an excessive taxation and tax rate war at the local level. However, this is still a new fiscal instrument for provincial governments. Below is the comparison of the main provincial taxes tariffs setting.

Table 3 The Provincial Tax Tariffs Setting

No	Name of Provincial Taxes	Tariff	
		Law 34/2000[1]	Law 28/2009 [2]
1	Motor Vehicle Tax[3]	1.5%	1-2%
2	Motor Vehicle Transfer Tax[4]	10%	0-20%
3	Fuel Tax[5]	5%	0-10%
4	Surface Water Tax	10%	0-10%
5	Cigarette Tax	N/A	10%

Own construction, data source: compiled from Law 34/2000 and Law 28/2009

[1] The central government determined the tax rates (definitive rates).

[2] Provincial governments can determine their own tariff in the restricted range of tariff, except cigarette tax which is set on 10%.

[3] Tax-rate for the first private motor vehicle ownership

[4] Tax-rate for the first transfer of ownership or buying new vehicle

[5] Tax-rate for the unsubsidized fuel consumption

Through these three main key policies, central government believes that Law 28/2009 can increase local fiscal autonomy and accountability at the local level without giving bad effects to the local economy. However, there is no exact targeted level of fiscal autonomy stated in the law. Based on the interviews with Ministry of Finance officers, Law 28/2009 was not designed to make the local government fully self-funded by local taxes and charges. Through this law, central government wants to create an adequate fiscal autonomy, but there is no clear definition of the adequate level. Furthermore, according to the interview with Mr. Satriarso, in the long-term and not only using this law, ideally, the portion of local revenue should be higher than the intergovernmental transfers. Because of these unclear and theoretical answers, this paper tries to use the prognosis stated by Minister of Finance in 2009 before the enactment of Law 28/2009. The Minister of Finance estimated that if all the local governments implement the maximum tax rates, this law will make the nationally-consolidated contribution of local own-source revenue to total local revenue up to 29% in 2014 (Detik 2009, JPPN 2009).

3.4. Local Governments' Revenue Structure

In the context of Indonesia, the central government implements all types of revenue assignment as explained by McLure and Martinez-Varquez (2005) in Chapter 2, i.e. independent sub-national taxes, subnational surcharge, tax sharing, and revenue sharing. Moreover, local governments have the authority to collect non-tax revenue such as user charges and dividend from local government's enterprises.

Here are the local revenue sources based on Law 23/2014:

1. Local own-source revenue:
   a. Local Taxes and Local Charges
   These kinds of revenues are regulated under Law 28/2009. In addition to independent local taxes, this law also allows one local surtax i.e. cigarette tax as an additional tax of national excise on tobacco products. See Appendix II for the types of local taxes/charges.
   b. Revenue from restricted local asset management, e.g. dividend from local government's companies.
   c. Other legitimate local own-source revenues, e.g. sale of local government's assets and current account revenues.
2. Intergovernmental Transfers:
   a. Central government's transfers
      1) Balancing funds
      These funds are transferred from the central government to the local governments to finance the decentralized authorities. According to Law 33/2004, there are three types of funds. First is *Dana Alokasi Umum*/General Allocation Funds (block grants). It is designed as an equalization fund for supporting the provision of decentralized authorities. The second is *Dana Alokasi Khusus*/Special Allocation Funds (specific grants). It is designed to finance the implementation of local government's duties that align with national priority sector. The third is *Dana Bagi Hasil*/Revenue Sharing Funds from national taxes, excises, and natural resources. All these funds are allocated by using their own formula.
      2) Special autonomy funds
      These funds are transferred from central government to special autonomous regions, i.e. Papua, West Papua, and Aceh Province.
      3) Privilege funds
      It is a fund transferred from central government to special regions, i.e. the Special Region of Jogjakarta. This region is a sultanate in Indonesia. It has existed before the independence of Indonesia and it gave many contributions in gaining the independence of Indonesia. Based on this condition, it has been acknowledged as a special region in Indonesia. Therefore, it has several special/privilege authorities such as in culture and spatial planning. According to Law 12/2013, the privilege fund is designed to finance the implementation of these special/privilege authorities.
      4) Village funds
      Since 2015, with the enactment of Law 6/2014, the central government transferred this fund to village governments via municipal/regency governments. The purpose of this fund is to finance the village governments' budget. Villages and cultural villages have existed since before the independence of Indonesia. The central government acknowledges these social units in Constitution 1945. Hence, village and cultural villages have their own authorities including in finance. Therefore, the village fund was designed to finance the implementation of their authorities.
   b. Inter-local government's transfer
      1) Revenue sharing
      It is a mandatory fund transfer from one local government to another local government as a sharing from certain tax or revenue. For instance, as mandated by Law 28/2009, the

provincial government must share their vehicle tax revenue to the lower governments (municipalities and regencies) in its region.

2) Financial assistance

These funds are given by the local government to another local government on a voluntary basis, such as to finance a regional partnership between neighboring local governments.

3. Other legitimate local revenues, e.g. grant from central government.

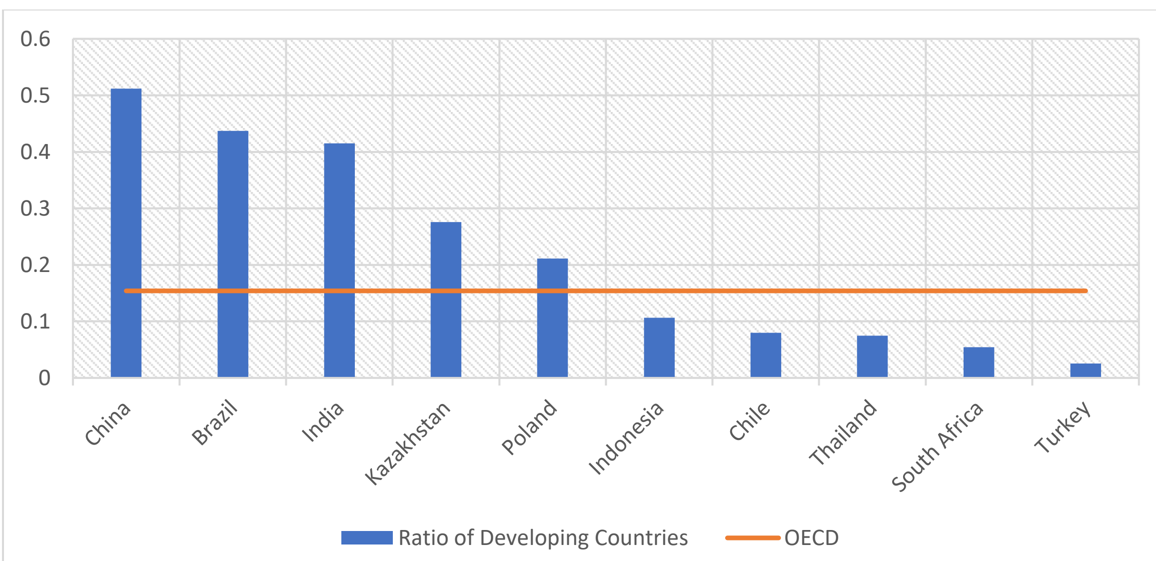
From the revenues above, Law 28/2009 regulates the revenues from local taxes, local charges, and local tax revenue sharing. The other types of revenue are under different regulations.

3.5. Indonesian Tax Autonomy Level

Tax autonomy varies among countries around the world. Despite this condition, OECD tries to classify the tax autonomy into six main categories based on local government's taxing power: a) "full power over tax rates and bases", b) "power over tax rates", c) "power over tax bases", d) "tax sharing arrangements", e) "no power on rates and bases", and f) others (Blöchliger and Nettley 2015:3-4). Each type of category reflects a different level of tax autonomy.

The figure below shows the ratio of sub-central tax revenues to consolidated tax revenues of several developing countries including Indonesia. As seen in the figure below, Indonesia has much lower ratio compared to some big developing countries like China, Brazil, and India. Furthermore, Indonesia also has a slightly lower ratio than the OECD countries. In 2011, the unweighted average of tax autonomy level of OECD's countries was 15.4% (Blöchliger and Nettley 2015).

Chart 1 Ratio of Sub-Central Tax Revenues to Consolidated Tax Revenues



Own construction, data source: Government Finance Statistics International Monetary Fund (IMF, n.d.) and Blöchliger and Nettley (2015)

Note: The data are the latest available in GFS IMF database, i.e. China (2014), India (2011), and other countries (2015). The unweighted average of OECD countries in 2011 is derived from Blöchliger and Nettley (2015).

Since the tax assignment policy varies among countries, the figure above only shows a simple comparison regarding the share of local taxation in Indonesia and other developing countries. Due to data limitation, this paper cannot decompose the data into different categories/types of local tax autonomy as made by OECD. Hence, this paper only depicts the ratio of total sub-central tax revenues over the consolidated tax revenues.

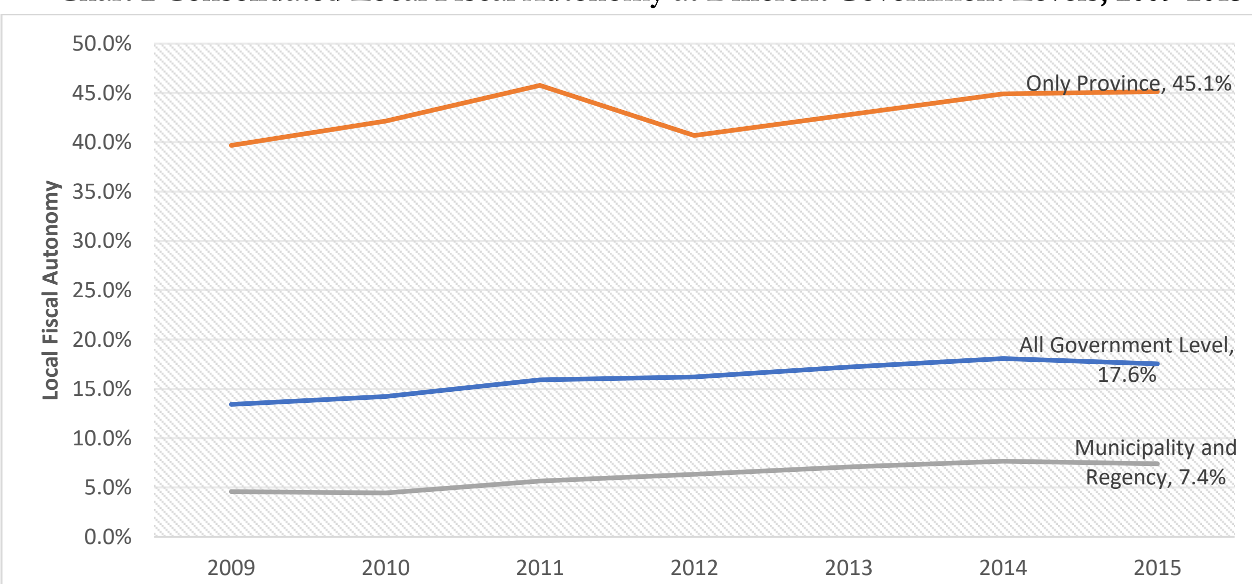
Chapter 4
Local Fiscal Autonomy after the Implementation of Law 28/2009

4.1. General Effect on Local Fiscal Autonomy

In investigating the general effect of implementation of Law 28/2009 on local fiscal autonomy, this paper uses a ratio of consolidated local taxes and charges revenue to total local revenues as an indicator. The analysis is also conducted by comparing different government levels and regions. This paper tries to cluster Indonesia into seven regions based on geographical proximity, i.e. Sumatera, Java-Bali, Nusa Tenggara, Kalimantan, Sulawesi, Maluku, and Papua. Hence, it may give a clearer and more in-depth understanding on this issue.

In general, the implementation of Law 28/2009 has increased the local fiscal autonomy on the national level. As seen in Chart 2 below, the local fiscal autonomy indicator increased from only 13.4% in 2009 to 17.6% in 2015. This is a consolidated calculation of all local governments' levels in Indonesia. Thus, this policy has been successful in improving the local taxes and charges revenue in total. It also can be compared with the initial prognosis made in 2009. As estimated by the Minister of Finance, if all local governments apply the maximum tax rate, the nationally-consolidated contribution of local own-source revenue (not only local taxes and charges) to total revenue in 2014 will be 29% (Detik 2009, JPPN 2009). This prognosis was not achieved in 2014 where the ratio of local own-source revenue to total revenue was only 24% (see Appendix VI for the full result). This condition may occur because not all the local governments set the maximum tax rates.

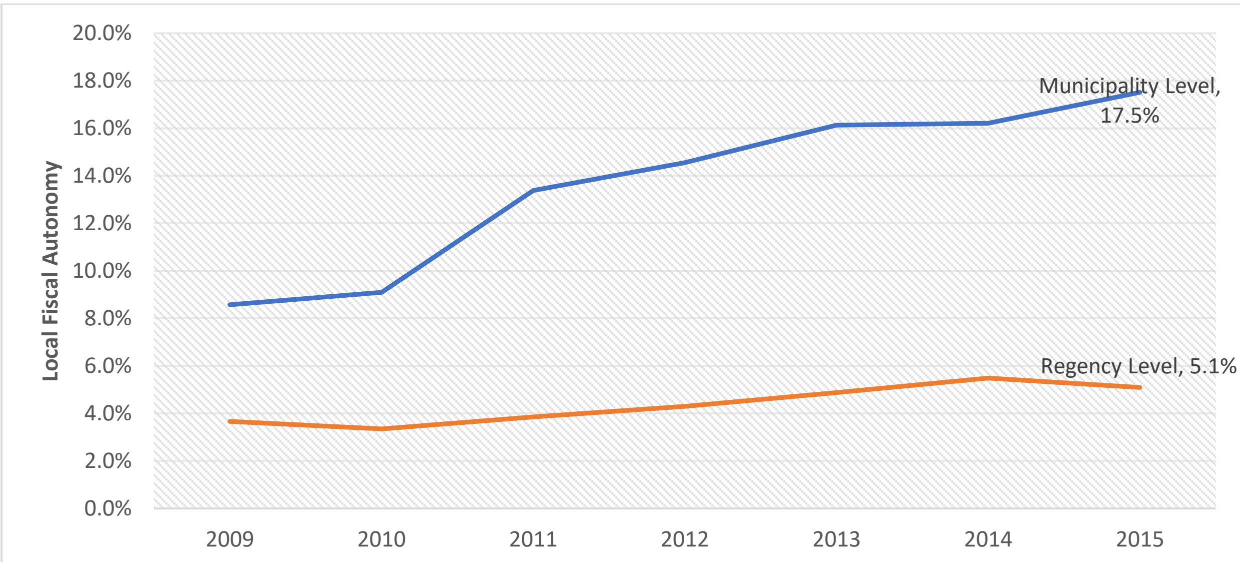
Chart 2 Consolidated Local Fiscal Autonomy at Different Government Levels, 2009-2015



Own construction, data source: Ministry of Finance

However, this study finds a wide disparity of local fiscal autonomy between different government levels as seen in Chart 2. The consolidated local fiscal autonomy at the province level is 45.1%. It means the provincial taxes and charges revenue contributed almost half of total revenues in 2015. On the other hand, the consolidated local fiscal autonomy at the regency/municipality level is only 7.4%. It shows how dependent the regency/municipal governments are on other revenue sources, such as intergovernmental transfer.

Chart 3 Consolidated Local Fiscal Autonomy at Municipal and Regency Levels, 2009-2015

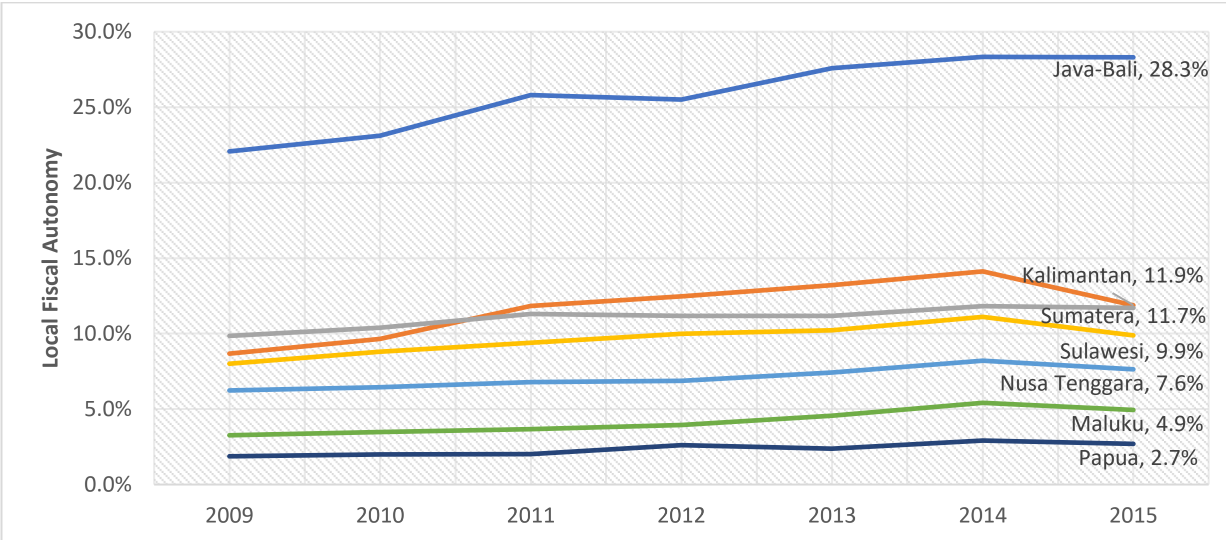


Own construction, data source: Ministry of Finance

Furthermore, as depicted in Chart 3 above, a high imbalance also occurred between regency and municipal government levels. After the implementation of Law 28/2009, the consolidated local fiscal autonomy in municipal governments jumped from 8.6% in 2009 to 17.5% in 2015. In contrast, the consolidated local fiscal autonomy in regency governments slightly increased from 3.7% in 2009 to 5.1% in 2015. This finding shows how the implementation of Law 28/2009 is more aligned to the municipalities and produces higher disparity between municipal level and regency level.

The disparity of local fiscal autonomy level between regions across Indonesia also has been wider than before. The Chart 4 below shows that after the implementation of Law 28/2009, Java-Bali still had the highest local fiscal autonomy level by 28.3% in 2015. Even though all regions have increased their local fiscal autonomy, this region has experienced the highest growth compared to other regions (see Appendix VI). Hence, this condition leads to a wider gap between Java-Bali and other regions since the execution of this policy. In addition, Kalimantan has increased its local fiscal autonomy quite significant and has overtaken Sumatera.

Chart 4 Consolidated Local Fiscal Autonomy per Clustered Regions, 2009-2015



Own construction, data source: Ministry of Finance

Confirming the findings of the wider imbalances between regions, the interviews reveal different reactions/effects because of the enactment of Law 28/2009. Based on the interviews with three provincial officers, i.e. Jakarta, Bangka Belitung Archipelago, and West Papua Provinces, all interviewees acknowledge a loss because they cannot collect any local taxes/charges outside the list in the law. However, only the interviewee from Jakarta expresses that the expansion of local tax/charge base policy is sufficient to compensate the loss. In contrast, the interviewees from other provincial governments (outside Java) reveal different reactions. The interviewee from Bangka Belitung Archipelago Province states that the compensation policy in Law 28/2009 is not enough to cover their loss. Meanwhile, the interviewee from West Papua cannot compare the condition because this province was proliferated in 2006, so it was very dependent on intergovernmental transfers and not able to collect their taxes/charges in the era before 2009. Hence, this condition may lead to a wider disparity between local governments in Java-Bali and local governments outside this region.

4.2. The Effect of Local Tax/Charge Base Expansion Policy

With the different reactions of interviewed provincial governments towards the implementation of local tax/charge base expansion policy, it is necessary to explore the performance of this specific policy. As explained in the previous chapter, this policy is a compensation of the enactment of the closed list policy. In general, at the national level, this policy can cope with the negative effects of the closed list policy on local revenue collection sustainability. It can be observed by the growth of local fiscal autonomy level across regions and government levels. However, the increasing gap between regions reveals a negative sign regarding the implementation of this policy instrument.

As there are three ways to expand the local levies object base in Law 28/2009, i.e. the expansion of the existing local tax/charge objects base, the creation of truly new local taxes and charges, and the devolution of national taxes to local government level, it would be more useful if this study could investigate deeper regarding the performance of each instrument. However, due to the availability of data, this paper can only analyze the performance of new local taxes and charges either the completely newly created or the devolved ones. They are Swallows' Nest Tax, Rural and Urban Land and Building Tax, Land and Building Transfer Tax, Cigarette Tax, Educational Service Charge, Fishing Permit Charge, Telecommunication Tower Supervision Charge, and Scale Calibration/recalibration Service Charge.

Table 4 The Consolidated Revenue of New Local Taxes/Charges 2015

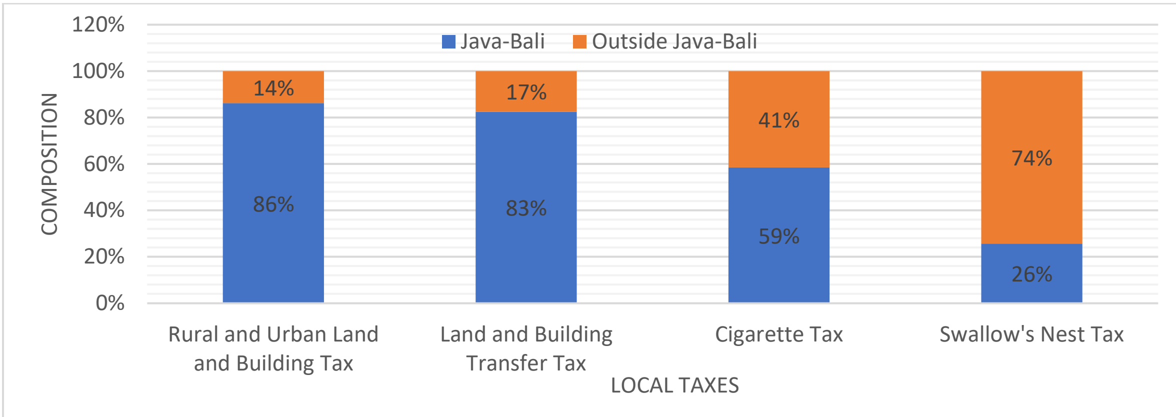
No	New Local Levies	Total Revenue (Rupiah)	Percentage of Total New Tax/Charge Revenues
1	Rural and Urban Land and Building Tax	15,219,784,582,723	35.53%
2	Cigarette Tax	13,953,638,544,298	32.57%
3	Land and Building Transfer Tax	13,396,972,132,904	31.27%
4	Swallow's Nest Tax	9,952,195,473	0.02%
Total New Tax Revenues		42,580,347,455,398	99.39%
5	Telecommunication Tower Supervision Charge	133,329,777,638	0.31%
6	Educational Service Charge	72,253,355,304	0.17%
7	Fishing Permit Charge	27,410,182,185	0.06%
8	Calibration/recalibration Service Charge	26,253,261,177	0.06%
Total New Charge Revenues		259,246,576,304	0.61%
Total New Tax and Charge Revenues		42,839,594,031,702	100%

Own construction, data source: Ministry of Finance, consolidated data per 12 September 2017

As displayed in Table 4 above, the performance of new local levies varies. The new local taxes are far more dominant than local charges. Hence, this paper tries to focus on the performance of the new local taxes. There are three new taxes with relatively good performance, i.e. the Rural and Urban Land and Building Tax, Land and Building Transfer Tax, and Cigarette Tax. On the other hand, the Swallow's Nest Tax has the least performance compared to other new taxes/charges.

By going deeper into the composition of the new local taxes revenues, this paper reveals that the tax/charge base expansion policy contributes to the wider disparity between Java-Bali and outside this region. It can be observed in Chart 5 below.

Chart 5 The Composition of New Local Taxes Revenues 2015



Own construction, data source: Ministry of Finance, consolidated data per 12 September 2017, Cigarette Tax composition is based on the Decree of Director General of Fiscal Balance No. 66/PK/2014.

Firstly, the revenue of Rural and Urban Land and Building Tax and Land and Building Transfer Tax are highly concentrated on Java-Bali regions. Chart 5 shows that more than 80% of the total consolidated revenues of these taxes are collected by local governments in Java-Bali regions.

However, this condition should be predictable, since these two taxes are taxes on property or the transfer of property. These taxes are highly influenced by the amount/density of population in each area (Ananda et al. 2012, Christovina 2016). Thus, it is not surprising that the proportion of these taxes is more inclined to the Java-Bali region which has more population than other regions.

This is exacerbated by the policy options formulated in Law 28/2009. Based on article 77 of Law 28/2009, the central government only devolved the rural and urban sectors of Land and Building Tax to local governments without the forestry, estate/plantation, and mining sectors[8]. In fact, the urban and rural sectors are highly concentrated on Java-Bali, whereas the majority of other three sectors are spread outside Java-Bali (DJPK 2014). Moreover, in the implementation of Land and Building Transfer Tax, article 87 of Law 28/2009 set a higher non-taxable land and building value than the previous regulation when it was collected by the central government. This has made the regencies lose their tax revenue potential (Ananda et al. 2012).

The decision to devolve Rural and Urban Land and Building Tax is quite reasonable. There are four reasons why central government devolve this tax, i.e. a) based on theory, it fulfills the criteria as local tax, e.g. its locality and immobile objects, b) it can increase local fiscal autonomy, c) closer and better tax administration, and d) international best practices (MoF 2014). Moreover, this devolution also indirectly benefits the central government. Due to this devolution, the Directorate General of Tax is detached from the complex administration of this tax which has millions of objects; then it can focus on managing other national taxes, e.g. income tax and VAT (Supriyanto 2011).

[8] Land and Building Tax has five sectors, namely rural, urban, forestry, estate/plantation, and mining sectors.

However, as discussed before, this decision has benefitted the populous/dense regions. This condition has been questioned by many local governments that have not benefitted from this decision. They are reluctant in improving the Rural and Urban Land and Building Tax administration because the cost is higher than their tax potential (Haldenwang et al. 2015). As a response, the central government plans to devolve Land and Building Tax for plantation, forestry, and mining sector without the body of the earth (Suratman et al. 2014). It means local governments will only collect property tax of the land and buildings without taxing the minerals, gas, and oil productions. Nevertheless, this plan still need further discussion and study, e.g. at which government level will this tax be assigned? Or, how will this plan affect the regions with minor potential in those sectors?

Secondly, a rather similar condition also occurred in Cigarette Tax collection. According to Part Six of Law 28/2009, this tax is a provincial surtax of national excise on tobacco products which is collected by central government and then divided based on the population proportion in a province. This population-based model also leads to advantages for the populous regions in Java and Bali as shown in Chart 5. However, the disparity between Java-Bali and other regions is not too wide compared to two previous taxes.

Lastly, the Swallow's Nest Tax is the least performing tax compared to other new local taxes. As seen in Table 4, in 2015, its revenue is far lesser than the other taxes. Based on the composition of its revenue in Chart 5, it should be a potential revenue source for local governments outside Java-Bali. However, the collected revenue was not big enough compared to its potential. For instance, according to BPS (2016d), the export value of edible bird's nest from Indonesia is US$ 99,819,511 or Rp1,336,782,891,312. Hence, the revenue from this tax is only 0.74% of the export value in 2015. The tax rate of Swallow's Nest Tax is 10% of the transaction value at the cultivator level. Even though there may be a different price between the cultivator and exporter level, the revenue of this tax is far from its potential. However, this study has limitations in investigating why the performance of this tax is very low.

Based on the findings above, this paper reveals that the local taxes/charges base expansion, particularly the new taxes, has a direct contribution in increasing the disparity of local fiscal autonomy between regions in Indonesia. This issue should be a concern in future policymaking.

4.3. The Performance of Tariff Discretion Policy

Besides the quantitative achievements of the implementation of Law 28/2009, this paper also discusses the quality of the local taxes and charges collection. One aspect of quality related to the quantitative attainment is the disparity between regions as discussed in the previous section. Furthermore, this section discusses another quality aspect of the implementation of Law 28/2009, i.e. how local governments use tariff discretion as a fiscal instrument at the local level. For this purpose, this paper collects all provincial tax regulations (see Appendix V for the full list) and analyzes how the provinces use these new instruments.

This paper analyzes only four provincial taxes. The cigarette tax is excluded from this analysis since its rate is determined by central government. Furthermore, since some of the provincial taxes rate structures are very variative and complex, this paper tries to collect only the main tax rates structures so that this paper can display how the provincial governments use this new fiscal instrument. Firstly, the tax rate for Motor Vehicle Tax in Table 5 is the rate for the first private motor vehicle ownership. Secondly, the tax rate for Motor Vehicle Transfer Tax below is the tariff for the first transfer of ownership or buying a new vehicle. Lastly, because of central government's intervention in the subsidized fuel price, the Fuel Tax's rate below is the rate for unsubsidized fuel.

Table 5 The Compilation of Provincial Tax Rates Structure

Cluster	Province	Motor Vehicle Tax (1-2%)		Motor Vehicle Transfer Tax (0-20%)	Fuel Tax (0-10%)	Surface Water Tax (0-10%)
Sumatera	Aceh	Progressive	1.5%	13%	5%	10%
	West Sumatera	Progressive	1.5%	10%	5%	10%
	Riau	Progressive	1.5%	10%	10%	10%
	Jambi	Progressive	1.5%	10%	7.5%	10%
	South Sumatera	Progressive	1.5%	10%	7.5%	10%
	Bengkulu	Progressive	1.5%	10%	5%	10%
	Lampung	Progressive	1.5%	10%	7.5%	10%
	Bangka Belitung	Progressive	1.5%	10%	7.5%	10%
	North Sumatera	Progressive	1.75%	10%	10%	10%
	Riau Archipelago	Flat	1.5%	10%	10%	10%
Java-Bali	Banten	Progressive	1.5%	10%	5%	10%
	Central Java	Progressive	1.5%	12.5%	5%	10%
	Yogyakarta	Progressive	1.5%	10%	5%	10%
	East Java	Progressive	1.5%	15%	10%	10%
	Bali	Progressive	1.5%	15%	5%	10%
	West Java	Progressive	1.75%	10%	5%	10%
	Jakarta	Progressive	2%	10%	5%	-
Nusa Tenggara	West Nusa Tenggara	Flat	1.5%	15%	10%	10%
	East Nusa Tenggara	Flat	1.5%	15%	5%	10%
Kalimantan	West Kalimantan	Progressive	1.5%	12.5%	7.5%	10%
	Central Kalimantan	Progressive	1.5%	15%	7.5%	10%
	South Kalimantan	Progressive	1.5%	10%	7.5%	10%
	East Kalimantan	Progressive	1.5%	15%	7.5%	10%
Sulawesi	North Sulawesi	Progressive	1.5%	12.5%	7.5%	10%
	Central Sulawesi	Progressive	1.5%	12.5%	7.5%	10%
	South Sulawesi	Progressive	1.5%	12.5%	7.5%	10%
	Southeast Sulawesi	Progressive	1.5%	12.5%	7.5%	10%
	West Sulawesi	Progressive	1.5%	12.5%	7.5%	10%
	Gorontalo	Flat	1.5%	12.5%	7.5%	10%
Maluku	North Maluku	Progressive	1.5%	15%	7.5%	10%
	Maluku	Progressive	2%	15%	7.5%	10%
Papua	Papua	Progressive	1.5%	10%	7.5%	10%
	West Papua	Progressive	1.5%	10%	5%	10%

Own construction, data source: compiled provincial regulations (see Appendix V)

The table above reveals how provincial governments consciously use their new local fiscal instrument in maximizing their revenues. There are at least four findings in supporting this statement. Firstly, all the tax rates above are higher than the past taxes rates as determined in Law 34/2000. The past tax rates have been explained in the previous chapter. This condition shows that the provincial governments consciously use the past taxes rates as their baseline, so they try to prevent a revenue shortfall. The interviews with Bangka Belitung and Jakarta Provinces also fit with this finding that they consider the revenue and policy continuity when they determine the taxes rates. For instance, as said by Mr. Amran from Bangka Belitung Province in the interview: "The considerations on tariff setting are […] Do not create adverse effects on efforts to increase local revenue."

Secondly, all provincial governments who collect Surface Water Tax apply the maximum tax rate, i.e. 10%. This maximum rate imposition is understandable and reasonable. This tax is imposed to surface water (e.g. lakes and rivers) utilization for commercial purposes, so the object of this tax is relatively immobile. Therefore, the tax payers have less tendency to go out of the region because of the maximum tax rate imposition.

Thirdly, the vast majority of provincial governments set a progressive tax rate for motor vehicle tax. In the previous law (Law 34/2000), all motor vehicle tax rates are in a flat rate structure, but now there are only four provincial governments who apply the flat rate system. Many provincial governments design varied and complex progressive tax rate structures based on the type of vehicle and level of ownership. Unfortunately, due to the complexity, the structures cannot be compiled in a simple table. However, using the number of provincial governments who apply the progressive tax rate system, it can show the innovation and creativity of provincial governments in using their fiscal instrument.

Lastly, there is a tendency among provincial governments to apply conformity with the other regions in the surrounding. This phenomenon can be observed in the tax rate system of Motor Vehicle Tax, Motor Vehicle Transfer Tax, and Fuel Tax. The conformity of Motor Vehicle Tax rate can be observed among provinces in the Nusa Tenggara (Flat-1.5%), Kalimantan (Progressive-1.5%), and Papua (Progressive-1.5%). Then, the conformity also occurred in Sumatera (10%), Nusa Tenggara (15%), Sulawesi (12.5%), Maluku (15%), and Papua (15%) clusters for Motor Vehicle Transfer Tax. Also, there is a Fuel Tax rate conformity in Kalimantan (7.5%), Sulawesi (7.5%), Maluku (7.5%), and Java-Bali (5%) clusters.

The findings of conformity tendency are confirmed with the result of the interviews. According to the interviews with three provincial governments, all of them acknowledged that they considered the condition of the regional economy as one of their considerations. For instance, Mr. Fadillah, the interviewee from West Papua, said, "basis of tariff setting, we adjust with Papua Province because West Papua Province is its proliferation and in the same cluster." Also, they consider the tax payers' ability to pay and the harmony and consistency with the existing local governments' programs/policies.

The findings in this study regarding the awareness of provincial governments in using tariff discretion are contrary to the findings of previous research. Suratman et al. (2013) find that there is a tendency among local governments (sampled municipalities/regencies) that the maximum tariff in Law 28/2009 is the best tariff so no longer need to consider their real conditions. These different findings may be due to different levels of analysis, i.e. this study examines provinces whereas past studies examine districts level. Furthermore, it also can indicate a difference in the capacity/quality of human resources or organization between different government levels.

4.4. The Challenges in Implementing the Law 28/2009

Law 28/2009, particularly the closed list policy causes a limitation for local governments in expanding the potential levies in their region. They can only maximize or intensify the collection of local taxes/charges as listed in the law. This condition should be a good opportunity for local governments to focus their existing capacity to maximizing the collection process.

However, in practice, local governments still have several obstacles/challenges in collecting the listed taxes/charges. Based on the interviews with the policymakers and the policy implementer, there are three common obstacles/challenges faced by local governments, i.e. the quantity and quality of tax/charge officials at the local level, the quality of regulation regarding local taxes and charges, and the low awareness of local people.

The first obstacle is the human resources at the local level. All interviewees reported that human resources, both in terms of quality and quantity of local taxes/charges officials, are still a constraint in the local taxes and charges collection. Even the provincial government of Jakarta which is the region with the highest tax revenues revealed that they still need more qualified human resources to manage the potential of existing taxation.

Furthermore, the interviewee from the Ministry of Finance[9] acknowledged that the effect of this condition can be observed clearly in the performance of local taxes. The performance of local taxes using the withholding system[10] is relatively better than the local taxes purely using self-assessment or official assessment system. There are several parties (non-local government officials) who involve in and help several local tax collections, i.e. National Police in Motor Vehicle Tax and Motor Vehicle Transfer Tax, PT Pertamina (State-own Oil and Gas Company) in Fuel Tax, Directorate General of Custom and Excise in Cigarette Tax, Land Deed Official in Land and Building Transfer Tax, and PT PLN (State-own Electricity Company) in Street Lightning Tax.

The human resources problem is a classic problem in local tax/charge collection activities because it also appeared in previous research like Ananda et al. (2012), Suratman et al. (2013) and Haldenwang et al. (2015). Local governments need qualified officials to manage many taxes and charges, especially

[9] Interview with Mr. Hendra Gunawan

[10] Formally, based on Law 28/2009, there are only two local tax collection system in Indonesia i.e. self-assessment (taxpayers count, pay and report their tax payable) and official assessment (tax officers count and determine the tax payable). However, in practice there are some self-assessment local taxes that use/involve other parties (not the taxpayers or the tax officers) in the tax collection process such as National Police in Motor Vehicle Tax collection. This mechanism is called the withholding tax system.

the new levies. As found by Ananda et al. (2012), local governments had to face a capacity problem in managing the new-devolved tax. This issue should become a concern when devolving any authorities and building a local taxation system. However, capacity development is not a universal cure for low-performance tax collection. As found by Haldenwang et al. (2015), the low revenue potential can cause reluctance among local governments to optimize their collection system. Hence, it is imperative to consider other factors including the tax potential of each region. By knowing this, we can build a better and fair local taxation policy.

The second challenge is the quality of local tax/charge regulations, such as Law 28/2009 and provincial/municipal/regency regulations. Almost all interviewees admitted that there are still some deficiencies in the local tax/charge regulations. These deficiencies can be clustered into three aspects, i.e. multiple interpretations, potential overlapping taxation, and unconformity with the related sector regulations. According to interviews with the Ministry of Finance and provincial governments' officers, there are some parts in Law 28/2009 that are still unclear and cause different interpretations among local governments and tax/charge payers. For instance, how to count the taxable value of self-produced electricity consumption in the Street Lightning Tax[11]. Although there is a strict closed list policy, the interviewees from the Ministry of Finance acknowledged that there are still some cases of the potential overlapping taxation between local taxes and national taxes. One of the cases is the imposition of Entertainment Tax (Municipality/Regency Tax) and Value Added Tax (National Tax) for golf. The constitutional court through Decree 52/PUU-IX/2011 annulled the imposition of Entertainment Tax for golf because the constitutional court argued that golf is not an entertainment but a kind of sport, and the imposition of entertainment tax can cause the potential of double taxation. Furthermore, the interviewees from the Ministry of Finance admitted that there are some disconnections/unconformity between tax/charge regulation and the related sector regulation. The latest case is the transfer of authority in determining the value/price of groundwater utilization to the provincial government based on Law 23/2014, whereas the Groundwater Tax is still a municipal/regency tax. Hence, the municipal/regency government has no authority in determining the value/price of groundwater utilization as a base for calculating the amount of Groundwater Tax.

All the findings regarding regulation issues are consistent with the findings of previous studies. This paper adds different regulation deficiencies aspects from those found by Rheza et al. (2014). There are two main deficiencies found by Rheza et al. (2014), i.e. the absence of charges tariff regulation and the tendency among local governments to avoid the closed list policy through using non-taxes/charges revenue mechanism. Furthermore, the multi-interpretative regulation issue found in this paper confirms the previous studies by Suratman et al. (2013). Even though there is no such perfect regulation, these findings should be considered in improving the quality of regulations. The quality of regulation is important for ensuring an efficient and effective local tax and charge collections.

The third obstacle is low public awareness of local taxes and charges. The interviewees form the Ministry of Finance and three provincial governments acknowledged that the awareness of local

[11] According to Law 28/2009, Street Lightning Tax is a municipal/regency tax that collected from the electricity consumption. Part of its revenue is used to finance the public road lightning.

people is still low. Based on Government Regulation 55/2016 regarding General Provisions and Procedures of Local Taxes, the majority of local taxes (10 out of 16) use a self-assessment system. It means the taxpayers must be active in calculating, paying, and reporting their tax payable by themselves. Consequently, the participation of local people is imperative; otherwise the effective and efficient local taxes collection will be difficult to be conducted. Suratman et al. (2013) also find that low level awareness of local people is one of the obstacles faced by the local tax officials.

4.5. Summary

Based on all the analysis above, even though it has not achieved the maximum prognosis, this chapter finds that the implementation of Law 28/2009 has achieved its main purpose in increasing the level of local fiscal autonomy. However, there are some qualitative issues regarding local fiscal autonomy after the implementation of Law 28/2009. Firstly, as contributed by the implementation of the local tax/charge base expansion policy, there is a wider disparity among regions and governmental levels. Secondly, this paper shows positive findings on how the provincial governments are aware of using their tariff setting discretion. Lastly, the interviewed local governments still must face some basic problems/challenges in collecting the taxes/charges, i.e. lack of qualified human resources, deficiencies in the regulations, and low level of public awareness.

After analyzing how Law 28/2009 has affected the quantity and quality of local fiscal autonomy, this paper, in the next chapter, tries to investigate the effects of the local fiscal autonomy on the local economy.

Chapter 5
The Effect of Local Fiscal Autonomy After Implementation of Law 28/2009 on the Local Economy

5.1. Data and Statistical Descriptive

In analyzing the effect of local fiscal autonomy that was produced by Law 28/2009 on the local economy, this paper utilizes panel data. The data used in this analysis are data from all provinces (33 provinces) in 2010-2015, so there are 198 observations for each variable. As explained in the methodological section, this study was conducted at the province level, so it also calculated/merged all regencies and municipalities within the same province. In this analysis, North Kalimantan as a new province proliferated in 2012, was merged with East Kalimantan as its parent region.

There are eight variables in this paper, i.e. GRDP per capita (GRDPP) as dependent variable and seven independent variables namely local fiscal autonomy (LFA), Ratio of Foreign and Domestic Direct Investment over GRDP (INV), Ratio of net Exports and Imports over GRDP (EXIM), Inflation per Province (INF), Ratio of Urban Population over Total Population (URB), Initial GRDP per capita in 2010 (GRDPP2010), and Initial Mean Years of Schooling in 2010 (MYS2010). GRDPP as the dependent variable and GRDPP2010 variable are transformed into natural logarithm. The full descriptive statistics can be seen in Appendix VII.

LFA is the interest variable in this paper. LFA is calculated by using local budget realization data published by the Ministry of Finance. Its minimum and maximum values are 0.016334 and 0.6681044 respectively. Whereas its mean and standard deviation value is 0.132687 and 0.1098553 respectively. The Province of Jakarta has the highest LFA while West Papua has the lowest LFA ratio. Since Jakarta is the capital city and center of Indonesia's economy, it is obvious that they have the largest local tax/charge potential, so it has the highest LFA score. On the other hand, West Papua is one of the least developed regions in Indonesia, so it has less local tax/charge potential. Furthermore, it also has a high dependency on central governmental transfer and special autonomous fund. Thus, it has the lowest LFA compared to other regions in Indonesia.

5.2. Correlation Test

This paper tries to provide a correlation test to detect multicollinearity. According to Ragnar Frisch as cited in Gujarati (2003:342), multicollinearity is "the existence of a 'perfect', or exact, linear relationship among some or all explanatory variables of a regression model". The existence of this phenomena may cause several problems, such as difficulty in making a precise estimation or even the goodness of fit (R^2) of the model is very high, but the coefficients of independent variables tend to be statistically insignificant (Gujarati 2003:350). There are several techniques to detect the multicollinearity, but this study only used pairwise correlation. The result is as follows:

Table 6 Pairwise Correlation Test

Variables	LN_GRDPP	LFA	EXIM	INV	INF	URB	MYS2010	LN_GRDPP2010
LN_GRDPP	1							
LFA	0.478	1						
EXIM	0.6102	0.0451	1					
INV	0.0429	0.0128	0.0139	1				
INF	-0.0233	-0.0055	0.0068	0.0605	1			
URB	0.5748	0.8365	0.2184	-0.0461	-0.0186	1		
MYS2010	0.5339	0.5187	0.0886	-0.1714	-0.0403	0.6197	1	
LN_GRDPP2010	0.9131	0.4402	0.6844	0.008	-0.0411	0.5623	0.5047	1

Own calculation, source: STATA outputs

Based on the test, the pairwise correlation values between LFA & URB and LN_GRDPP & LN_GRDPP2010 are more than 0.8. Hence, there are high correlations between those variables. The correlation between LFA and URB variables fits with the finding in Chapter 4 that the municipality regions, which are urban, have higher LFA than the regencies which are mainly rural. Furthermore, the correlation between LN_GRDPP and LN_GRDPP2010 is inevitable since LN_GRDPP2010 is the initial GRDP per capita in 2010.

As explained by Gujarati (2003:363) there are two options to deal with multicollinearity, i.e. “do nothing” or take remedial actions. There are several remedial methods such as omitting the collinear variable(s), adding new data, combining cross-section and time series data, and transforming data (Gujarati 2003:375). However, the author decided to keep all high-correlated variables since those variables are important in a growth model, namely URB represents the effect of population factor and LN_GRDPP2010 represents the baseline economic condition of regions.

5.3. Hausman Test

According to Gujarati (2003), there are three techniques for analyzing panel data, i.e. Pooled OLS, Fixed Effects, and Random Effects. The pooled OLS regression does not consider “the space and time dimensions” (Gujarati 2003:641). Hence, it does not fit with the characteristic of panel data in this paper. Furthermore, in determining whether it is fixed effects or random effects, this study used the Hausman test. The summary of the result is as follows:

Table 7 The Summary of Hausman Test

Chi2	Prob>chi2
101.52	0.0000

Own calculation, source: STATA outputs

Since the value of Prob>chi2 is less than 0.05, so the null hypothesis is rejected. Therefore, this study used the fixed effect model rather than the random effect technique. The full result of the Hausman test can be observed in Appendix VII.

5.4. Results

This subsection presents the result of multiple regressions. In running the fixed effect model, this study tries to regress it gradually to investigate the change of LFA’s coefficient while adding other control variables. Even though the fixed effect model has been selected based on the Hausman test, this paper still tries to provide the result of random effect model as an additional comparison. Furthermore, this study uses robust standard error or White's (Huber) procedure. The results are as follows:

Table 8 Result of Regressions

VARIABLES	Fixed Effect							Random Effect
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	LN_GRDPP	LN_GRDPP	LN_GRDPP	LN_GRDPP	LN_GRDPP	LN_GRDPP	LN_GRDPP	LN_GRDPP
LFA	5.372***	5.404***	5.077***	5.066***	2.621***	2.621***	2.621***	0.476**
	(1.110)	(1.099)	(0.980)	(0.977)	(0.369)	(0.369)	(0.369)	(0.188)
EXIM		-0.211	0.116	0.109	0.290	0.290	0.290	0.162
		(0.301)	(0.322)	(0.337)	(0.236)	(0.236)	(0.236)	(0.0996)
INV			1.988**	1.977**	0.283	0.283	0.283	0.789*
			(0.784)	(0.803)	(0.474)	(0.474)	(0.474)	(0.412)
INF				0.178	0.623	0.623	0.623	0.255
				(0.556)	(0.562)	(0.562)	(0.562)	(0.514)
URB					10.49***	10.49***	10.49***	-0.0583
					(0.992)	(0.992)	(0.992)	(0.149)
o.MYS2010						-	-	
o.LN_GRDPP2010							-	
MYS2010								0.0695**
								(0.0278)
LN_GRDPP2010								0.812***
								(0.0415)
Constant	16.56***	16.55***	16.52***	16.51***	12.28***	12.28***	12.28***	2.793***
	(0.147)	(0.146)	(0.123)	(0.126)	(0.444)	(0.444)	(0.444)	(0.649)
Observations	198	198	198	198	198	198	198	198
R-squared	0.160	0.162	0.194	0.195	0.405	0.405	0.405	
Number of REGION	33	33	33	33	33	33	33	33

Robust standard errors in parentheses
*** p<0.01, ** p<0.05, * p<0.1
Own calculation, source: STATA outputs

Based on the estimation result above, this paper finds that Local Finance Autonomy (LFA) has a significant positive relationship with GRDP per capita (GRDPP) at the 1% level of significance. Even though the coefficient of LFA decreases when other independent variables are added gradually, it still shows a consistent significant positive relationship (column 1-7). The full fixed effect model's result (column 7) shows that if the local fiscal autonomy ratio increases 1%, GRDP per capita will increase 2.621%, while the other variables are constant. Since this study uses logarithm natural value of the GRDP per capita, the coefficients of LFA show the relative change of GRDP per capita divided by the absolute change of LFA variable. Moreover, the result of random effect model also shows the significant positive relationship between LFA variable and GRDP per capita (column 8). However, the LFA's coefficient resulted from the random effect model is smaller than the fixed effect model.

The positive result of the LFA variable indicates that the local fiscal autonomy produced by the Law 28/2009 gives positive effects on the local economy. It means the objective of this law has been achieved, i.e. enhancing the local revenue without giving negative effects on the local economy. This result confirms the qualitative findings of the previous study by Rheza et al. (2014) that this law has better quality, and it is friendlier to the business sector than the previous policy. Furthermore, this result also corresponds to the theory that local revenue assignment as part of the fiscal decentralization policy can create a supportive and conducive condition for economic growth (Jin and Zou 2005). As summarized by Ebel and Yilmaz (2002), through the decentralization of local revenue collection, the local governments can manage and match their budgets. Also, it can increase the accountability due to a closer link between tax/charge payers and the benefits (Eckdart and Shah 2006, Bird 2010). Furthermore, the local revenue assignment also may strengthen the fiscal decentralization which can decrease conflicts at the local level as argued by Murshed and Tadjoedin (2008) and Tranchant (2010). Furthermore, in this empirical evidence, the local fiscal autonomy is created by devolving only "good" taxation/charge authorities to local governments through a closed list policy and restricted tariff discretion. This policy can prevent the local governments implementing a bad local tax/charge collection, e.g. distortive and discriminative taxes/charges. Therefore, it also can decrease the potential social unrest or conflict due to misuse of local tax/charge collection authority as found in the past policy by Saad (2001). Hence, the result may differ if the local governments have full discretion in creating their taxes/charges. In the end, fiscal decentralization is like an art in balancing and keeping the regions together in a united, prosperous, and safe country.

Furthermore, Table 8 (column 7) gives some findings regarding control variables. It shows that the ratio of urban population also has a significant positive correlation with GRDP per capita at the 1% level of significance. If the ratio increases 1%, the GRDP per capita will increase 10.49%, while the other variables are constant. Even though it is not statistically significant, the coefficients of other variables, i.e. EXIM, INV and INF, are also positive. Moreover, the initial GRDP per capita (GRDPP2010) and initial Mean Years of Schooling (MYS2010) variables were omitted because of collinearity (see Appendix VII). These variables are constant or not time-variant. Furthermore, the fixed effect technique may not be able to identify the impact of this type of variable that is time-invariant (Gujarati 2003:646).

5.5. Summary

Based on all the analysis above, this chapter reveals that the local fiscal autonomy has a positive effect on local economic growth. This finding shows that the local fiscal autonomy produced by Law 28/2009 can hinder the negative effects as found in the past policy era. In the past, local revenue collection generated bad effects to the economy, such as high-cost economy and barriers for investment (Saad 2001, KPPOD 2004, Barnes et al. 2005, Ismail and Hamzah 2006, and Lewis and Suharnoko as cited in World Bank 2007:136). Hence, the positive findings in this chapter can give further empirical evidence that the implementation of Law 28/2009 has been successful in encouraging fiscal autonomy without generating negative effects on the local economy.

Chapter 6
Conclusion and Recommendations

6.1. Conclusion

Decentralization has been spread out across the world. It is not only about how to decentralize the political authorities to the local governments but also about the public finance including expenditure and revenue authorities (Cheema and Rondinelli 2007). In assigning local revenue collection, Indonesia has bad experiences. In the era of Law 34/2000, local tax/charge collection has harmed the local economy by resulting in high cost economy, social unrest, and barriers for investment (Saad 2001, KPPOD 2004, Barnes et al. 2005, Ismail and Hamzah 2006, and Lewis and Suharnoko as cited in World Bank 2007:136).

Even though there were bad experiences on assigning taxes/charges to the local governments in the past, the central government still believes that local governments should have adequate local owned-revenues to support the provision of devolved authorities and foster accountability at the local level. Therefore, the central government of Indonesia tries to compromise the need for higher local fiscal autonomy and avoid economy distortion because of excessive local revenue collection. Thus, the central government issued Law 28/2009 as corrective action for Law 34/2000. To achieve its main goal, this law has three main instruments, namely closed list policy, tax/charge base expansion, and restricted tariff setting discretion.

This paper aims to evaluate the implementation of Law 28/2009 in enhancing the local fiscal autonomy without giving excessive negative effects on the local economy. By using mixed methods, this paper tries to answer two sub-questions and one main research question:

First sub-question: '*How has the implementation of Law 28/2009 affected local fiscal autonomy?*'. Based on the analyses in Chapter 4, this paper finds that after the implementation of Law 28/2009, the consolidated local fiscal autonomy at the national level has increased from 13.4% in 2009 to 17.6% in 2015. However, there are some qualitative issues regarding the local fiscal autonomy produced by Law 28/2009. Firstly, there is a wider local fiscal autonomy gap between different government levels and between Java-Bali and other regions. This paper finds that the tax/charge base expansion policy, as compensation for the closed list policy, gives more benefits to the more populous/denser regions, so it contributes to widening the gap. Secondly, this paper reveals a positive finding that the provincial governments have utilized their tax rate discretion consciously. This finding is crucial since it can indicate how the local governments try to manage their fiscal instruments and how a local fiscal autonomy has been utilized in real situations. However, it contrasts with the previous research by Suratman et al. (2013) that find that municipal/regency governments tend to use the highest tariff in Law 28/2009 as their best option without any further considerations. These different findings may appear due to the capacity level gap between province and municipality/regency governments. Thirdly, based on the interviews, this paper finds that there are three common challenges for local governments in implementing Law 28/2009, i.e. human resources, the quality of regulation, and low public awareness. Confirming the previous study like Ananda et al. (2012), Suratman et al. (2013) and Haldenwang et al. (2015), this paper reveals that human resource issue, in terms of quality and quantity, still has been acknowledged as a classic challenge in the local revenue collection. Furthermore, the findings about the quality of regulation can be clustered into three main issues, i.e. multiple interpretations, potential overlapping taxation, and unconformity with the related sector regulations. With these findings, this paper can add different aspects of deficiencies of Law 28/2009 beside the deficiencies found by Rheza et al. (2014). Moreover, the multi-interpretative regulations as a challenge in the local revenue collection is also found in the previous studies from Ananda et al. (2012) and Suratman et al. (2013).

Based on the explanation above, this paper discovers that the first aim of Law 28/2009 has been achieved, i.e. enhancing the local fiscal autonomy in Indonesia. However, there are several issues as stated above that need to be considered and solved in the next policy. The effect of the local fiscal autonomy on local economy can be answered through the second sub-question.

Second sub-question: '*How has local fiscal autonomy after the implementation of Law 28/2009 affected local economy?'*. Based on the analyses in Chapter 5, this research finds that the local fiscal autonomy created after the implementation of Law 28/2009 has a positive effect on local economy. Based on the regression result, the 1% increase of local fiscal autonomy ratio, the GRDP per capita will increase 2.621% while the other variables are constant. This positive result confirms the previous qualitative finding found by Rheza et al. (2014) that the structure/design of Law 28/2009 can give more legal certainty and better conditions to the business sector than the previous policy. Also, this finding corresponds with the theory as summarized by Jin and Zou (2005) that the fiscal decentralization policy can create a supportive and conducive condition for the local economy. According to Ebel and Yilmaz (2002), a local revenue assignment policy can give an ability to the local governments in managing and matching the public goods/services provisions and the cost that is paid by the local people through taxes/charges. This condition leads to higher accountability since the tax/charge collection is closer to the people (Eckdart and Shah 2006, Bird 2010). Furthermore, the decentralization of local revenue collections can strengthen the fiscal decentralization which can decrease conflicts at the local level (Murshed and Tadjoedin 2008, Tranchant 2010). Moreover, the local fiscal autonomy in this empirical evidence is produced by devolving a restricted discretion in determining the types and tariff of local taxes/charges. This policy is crucial in preventing distortive, discriminative, and excessive local revenue collections since it can cause bad effects including social unrest and conflicts as found in the past policy by Saad (2001). Hence, the results of this study may differ if the local governments are granted a full authority on local revenues. Overall, the empirical evidence in this paper may show how a well-designed revenue assignment policy as part of the fiscal decentralization policy can maintain a balance between the need of higher local fiscal autonomy and sound local economy.

Furthermore, the empirical evidence in this study can enrich the discussion on how the fiscal decentralization on the revenue side can affect the economic growth. The positive relationship found in this paper correspond with previous studies, e.g. Ebel and Yilmaz (2002) and Meloche et al. (2004).

In conclusion, this paper has been able to answer the main research question: '*to what extent has the implementation of local taxes and charges assignment policy (Law 28/2009) affected local fiscal autonomy and local economy*?'. By combining the answers and findings of the sub-questions above, it can be seen clearly that even though there are some deficiencies, this research finds that Law 28/2009 as a local tax/charge assignment policy has generated higher local fiscal autonomy without giving extra negative effects to the local economy. Therefore, the fundamental objective of Law 28/2009 has been achieved.

In the end, fiscal decentralization is about how to hold the regions together in a peace, prosperity, and unity. Therefore, the central government should create a further policy to remedy the main deficiency of Law 28/2009, i.e. the local fiscal autonomy imbalance among regions. This imbalance can cause a high dependency on the central government and disparity of the local governments' ability in providing public goods/services. However, the central government still must consider the national fiscal sustainability and economy.

6.2. Implications and Recommendations

6.2.1. Implications for Theory

This study may provide new empirical evidence on how to conduct a local revenue assignments policy. The policy conducted by Indonesia is between the first fiscal federalism model and the second-generation model. Unlike the first fiscal federalism model, Law 28/2009 provides the local governments a relatively wide authority in collecting local taxes/charges to support the funding of the implementation of the decentralized authorities. Moreover, the local governments may use their discretion in using the local taxes/charges as their fiscal instrument, such as setting a low tariff or even tax relief to attract investments. However, unlike the second-generation model, this law also still has the restrictions of both the type and the tariff of local revenues. This restriction prevents the bad effects of excessive tax/charge collections on the local economy. Thus, this model can be an alternative besides two common theoretical models of local revenue assignments, especially for the developing countries where the decentralization system and their local governments' capacity have not been fully developed yet.

6.2.2. Recommendation for Future Policy

Although it has shown improvements, there are still several deficiencies in the implementation of Law 28/2009 that require change. One of the most striking is the imbalance of inter-region local fiscal autonomy levels which is contributed by the implementation of local tax/charge base expansion policy as compensation for the closed list policy. Indeed, it is not possible to make policies that benefit the whole regions, but at least the future policy must pay attention to this disparity. Furthermore, it is imperative to conduct a further study on the poor performance of many new local taxes/charges that are introduced by the expansion policy, e.g. Swallows' Nest Tax. It will help in designing the future policy on strengthening the local fiscal autonomy particularly for the regions outside Java and Bali. Also, there are some classic problems, i.e. human resources, the quality of regulation, and public awareness, that need to be improved to create an effective and efficient local revenue collection.

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Appendix I

The Criteria of Good Local Taxes and Charges Based on Law 34/2000

No	Local Taxes	Local Charges		
		General Services Charges	Commercial Services Charges	License Services Charges
1	Fulfil tax's characteristic/ it is not a user fee/charge	It is not a tax, commercial service charge, or license service charge	It is not a tax, general service charge, or license service charge	The licenses are under the local governments' authority
2	Local/low mobility objects	the services are under the local government authority	The commercial services have not been sufficiently provided by the private sector, or the local governments have unutilized equities	The licenses are used for protecting the public interest
3	Do not contrary to the public interest	Give special/certain benefit for the payers		The cost for the local government to issue the licenses and mitigate the negative impact of these licenses are quite big, so it should be covered by the charges
4	Do not overlap with province and central government taxes	The services are reasonable to be paid		
5	Adequate potential	Do not contradict with national policy		
6	Do not have negative economic impact	The charge can be collected effectively and efficiently, also it can be a potential source of local revenue		
7	Consider the aspect of fairness and people's ability to pay.	Improve the quality of services by collecting the charges		
8	Preserve the environment			

Source: translated from Article 2 and Article 18 Law 34/2000

Appendix II

List of Local Taxes and Charges Based on Law 28/2009

<table>
<tr><th rowspan="2">Local Taxes</th><th colspan="3">Local Charges</th></tr>
<tr><th>General Services Charges</th><th>Commercial Services Charges</th><th>License/Permit Charges</th></tr>
<tr><td>Province Taxes:

1. Vehicle Tax
2. Vehicle Transfer Tax
3. Fuel Tax
4. Surface Water Tax
5. Cigarette Tax</td>
<td rowspan="2">1. Health Service Charge
2. Waste/Cleaning Charge
3. Civil Registration Service Charge
4. Crematorium and Cemetery Service Charge
5. On-street Parking Service Charge
6. Traditional Market Service Charge
7. Vehicle Testing Service Charge
8. Fire Extinguisher Inspection Service Charge
9. Maps Printing Service Charge
10. Toilet Service Charge
11. Liquid Waste Management Charge
12. Calibration and Recalibration Service Charge
13. Educational Service Charge
14. Telecommunication Tower Supervision Charge
15. Traffic Restriction Charge*</td>
<td rowspan="2">1. Local Asset Utilization Charge
2. Wholesale and Shops Service Charge
3. Auction Service Charge
4. Bus Station Service Charge
5. Off-street Parking Service Charge
6. Lodgings/Villas Service Charge
7. Slaughterhouse Service Charge
8. Port Service Charge
9. Recreational and Sport Center Service Charge
10. Ferry Service Charge
11. Local Government's Product Sales</td>
<td rowspan="2">1. Building Permit Charge
2. Alcohol Sales Permit Charge
3. Nuisance Permit Charge
4. Public Transport Route Permit Charge
5. Fishing Permit Charge
6. Renewal of Hiring Foreign Worker Permit Charge*</td></tr>
<tr><td>Municipality/ Regency Taxes:

1. Hotels Tax
2. Restaurants Tax
3. Entertainment Tax
4. Advertisement Tax
5. Street Lighting Tax
6. Non-Metal Mineral and Rock Mining Tax
7. Parking Tax
8. Groundwater Tax
9. Swallows' Nest Tax
10. Rural and Urban Land and Building Tax
11. Land and Building Transfer Tax</td></tr>
</table>

Source: translated from Article 2, 110, 127 and 141 Law 28/2009

* additional local charges based on Government Regulation 97/2012

Appendix III

The Local Fiscal Autonomy Level 2015 as a Basis for the Selection of Interviewed Local Governments

No	Province	Local Fiscal Autonomy Level in 2015
1	Prov. Jakarta*	66.8%
2	Prov. Banten	35.9%
3	Prov. Bali	34.9%
4	Prov. West Java	25.6%
5	Prov. Riau Archipelago	24.7%
6	Prov. East Java	21.0%
7	Prov. DI Yogyakarta	20.6%
8	Prov. Central Java	16.3%
9	Prov. North Sumatera	15.9%
10	Prov. South Sulawesi	14.1%
11	Prov. Riau	13.7%
12	Prov. East Kalimantan	13.6%
13	Prov. South Kalimantan	12.8%
14	Prov. South Sumatera	12.4%
15	Prov. Lampung	11.5%
16	Prov. West Kalimantan	10.9%
17	Prov. Bangka Belitung Archipelago*	10.7%
18	Prov. Jambi	10.6%
19	Prov. West Nusa Tenggara	10.3%
20	Prov. North Sulawesi	10.1%
21	Prov. West Sumatera	9.8%
22	Prov. Central Kalimantan	8.2%
23	Prov. Central Sulawesi	7.4%
24	Prov. Bengkulu	6.7%
25	Prov. Gorontalo	6.1%
26	Prov. Southeast Sulawesi	5.8%
27	Prov. East Nusa Tenggara	5.6%
28	Prov. West Sulawesi	5.5%
29	Prov. Maluku	5.3%
30	Prov. Aceh	4.8%
31	Prov. North Maluku	4.4%
32	Prov. Papua	3.0%
33	Prov. West Papua*	2.0%

Own construction, data source: Ministry of Finance

*the selected provinces are Jakarta, Bangka Belitung Archipelago, and West Papua Provinces

Appendix IV

A. Interview Form for the Central Government Officers

Interview Form	
Interviewee's Identity	
Name	
Place/Date of Birth	
Position	
Interview Description	
This interview is part of a research that aims to discover and evaluate how the local taxes and charges assignment policy based on Law 28/2009 can affect local fiscal autonomy and economy. Interview shall be conducted with structured and written questions via email, because of the distance between researcher and interviewees. It is divided into 2 sections with 10 questions in total. If it is needed, further correspondence will be conducted to clarify the answers or questions in this interview.	
A. Revenue Assignment Policy Design in Indonesia	
1. As we know, fiscal decentralization in Indonesia has two main parts, i.e. expenditure and revenue side. How does the Central Government, i.e. the Ministry of Finance (MoF), design the revenue assignment policy as part of Indonesian fiscal decentralization policy? Answer: 2. As stated on the consideration and general elucidation of Law 28/2009, one of the main objectives of this law is to achieve local fiscal autonomy. Could you please explain what is the ideal form of local fiscal autonomy that the Central Government wants to achieve? Answer:	
B. Monitoring and Evaluation of Revenue Assignment Policy	
1. How does the Central Government evaluate the implementation of Law 28/2009? Does the Central Government have measurable targets, such as the local fiscal autonomy index or the target of revenue of local taxes and charges? Answer: 2. Law 28/2009 has been implemented for almost seven years. Until now (August 2017), how does the Central Government see the achievements of the implementation of Law 28/2009 in order to realize local fiscal autonomy? Answer: 3. One of the key policy instruments in Law 28/2009 is a closed list policy that prohibits local governments from collecting taxes and charges outside the existing list in the law. Until now (August 2017), how does the Central Government assess the implementation of this policy? Is this policy effective to prevent the excessive taxation that burdening the economy?	

Answer:

4. As a compensation of the closed list policy, Law 28/2009 has two policies, i.e. the addition of new tax types and the expansion of the tax object base, to increase local revenue. Until now (August 2017), how does the Central Government assess the implementation of this policy? To what extent is this policy effective in increasing local revenue?
   Answer:

5. Another key policy instrument in Law 28/2009 is the provision of tariff discretion to Provincial Governments. It is hoped that the Provincial Governments may use this fiscal instrument in managing and matching their revenues and expenditures. According to the Central Government, have the Provincial Governments used this instrument consciously and appropriately? Is this policy effective?
   Answer:

6. Related to local expenditures, Law 28/2009 has an earmarking policy for some local taxes revenues, e.g. Motor Vehicle Tax and Cigarette Tax. How does the Central Government monitor and evaluate the use of local tax revenues that have been earmarked? Is this policy effective in ensuring that local expenditures have been directed to the interests of society and the economy in the regions?
   Answer:

7. Through Law 28/2009, the Central Government wishes for the collection of Local Taxes and Charges that are healthy and do not cause adverse/bad effects on the economy. So far, how does the Central Government see the impact of the implementation of Law 28/2009 on the economy and investment climate in the regions? Can this law provide a conducive atmosphere to the economy and investment climate in the regions?
   Answer:

8. Could you please explain the main obstacles to the Central Government in implementing Law 28/2009?
   Answer:

B. Interview form for local government officers

<table>
<tr><td colspan="2">Interview Form</td></tr>
<tr><td colspan="2">Interviewee's Identity</td></tr>
<tr><td>Name</td><td></td></tr>
<tr><td>Place/Date of Birth</td><td></td></tr>
<tr><td>Position</td><td></td></tr>
<tr><td colspan="2"></td></tr>
<tr><td colspan="2">Interview Description</td></tr>
<tr><td colspan="2">This interview is part of a research that aims to discover and evaluate how the local taxes and charges assignment policy based on Law 28/2009 can affect local fiscal autonomy and local economy.

Interview shall be conducted with structured and written questions via email, because of the distance between researcher and interviewees. It is divided into 3 sections with 12 questions in total. If it is needed, further correspondence will be conducted to clarify the answers or questions in this interview.</td></tr>
<tr><td colspan="2">C. General Effects of the Implementation of Law 28/2009</td></tr>
<tr><td colspan="2">1. Generally, how has the implementation of Law 28/2009 affected your region's local revenue?
Answer:

2. Can Law 28/2009 provide a sufficient revenue to finance all of the local budget's expenditures? If not, how does your local government cover and manage this deficiency?
Answer:</td></tr>
<tr><td colspan="2">D. Specific Effects of the Implementation of Law 28/2009</td></tr>
<tr><td colspan="2">As we know, there are three main policies in Law 28/2009:
a. closed list policy, i.e. Local Governments are only allowed to collect local taxes and charges as listed in Law 28/2009;
b. the expansion of tax object basis and the addition of several new tax types;
c. giving a discretion in tariff setting.
In this section, we are going to discover how these three policy aspects affect the local governments. The questions are as follow:</td></tr>
<tr><td>1. Closed List Policy</td><td>a. How has the closed list policy implementation affected the local taxes and charges revenue collection in your region?
Answer:

b. Does your local government experience a loss of potential revenue from both taxes and charges as a result of the implementation of the closed list policy? If so, please explain the potential local taxes or charges that lost!
Answer:

c. Does your local government collect all types of local taxes and charges that are permitted/enacted by Law 28/2009? If not, please specify the type of</td></tr>
</table>

	levies that are not collected and explain the basic considerations to not collect it! Answer:
2. the expansion of tax object basis and the addition of several new local tax types	a. Under Law 28/2009, the Central Government provides expansion of the local tax object basis, such as on Motor Vehicle Tax and Restaurant Tax, and the addition of new local tax types such as Cigarette Tax, as compensation for the limitation of levies or closed list policy. How has this policy affected your local tax revenues? Answer: *b. Does* the policy of local tax object basis expansion *and new local tax types addition can compensate for potential loss of revenue that may occur due to the closed list policy?* Answer: c. The arrangement of local taxes and charges object in Law 28/2009 is the maximum limit, it means that local governments are only given the authority to extend the object exception based on local condition and regional development strategy. Does your local government have a special policy regarding the expansion of the local taxes and charges object exceptions in order to increase local revenue or strengthen investment and regional economy? If so, please mention one example and explain the basic considerations for the extension of the object exception! Answer:
3. The tariff setting discretion	a. Under Law 28/2009, provincial government is given a discretion to set tariffs on local taxes and charges. How does your local government set tariffs on local taxes /charges? What are the basic considerations used to determine the tariff? Answer: b. The arrangement of local taxes tariff in Law 28/2009 is the maximum limit, it means that local governments are only given the authority to design the tariff structure according to local condition and strategy of regional development under the maximum limit regulated in the Law. Does your local government have a special policy regarding tariffs on local taxes in order to increase local revenue or strengthen investment and local economy? If so, please explain one of these policies and the basic considerations! Answer:
E. The Implementation of collection and utilization of local taxes and charges revenue	
1. Please explain, what are the constraints faced by your local government in collecting local taxes and charges after the enactment of Law 28/2009? Answer:	

2. Under Law 28/2009, there are several types of local taxes whose utilization has been limited by law or earmarked to finance an activity related to such taxes, such as Cigarette Tax for health services and Motor Vehicle Tax for road infrastructure development. Does your local government have a policy or initiative to add the type or amount of earmark percentage of the local taxes and charges revenue? If so, please explain one of those policies!
   Answer:

Appendix V

The Compilation of Provincial Regulation Regarding Local Taxes

Cluster	Province	Legal Base (Provincial Regulation Number/Year)
Sumatera	Aceh	2/2012
	West Sumatera	4/2011, 1/2012, 2/2012 and 8/2013
	Riau	8/2011, 4/2015, and 16/2013
	Jambi	6/2011
	South Sumatera	3/2011
	Bengkulu	2/2011 and 6/2014
	Lampung	2/2011 and 31/2014
	Bangka Belitung	1/2010
	North Sumatera	1/2011, 12/2013, and 12/2013
	Riau Archipelago	8/2011
Java-Bali	Banten	1/2011
	Central Java	2/2011
	Yogyakarta	3/2011
	East Jawa	9/2010
	Bali	1/2011 and 1/2015
	West Java	13/2011
	Jakarta	8/2010, 9/2010, 10/2010, 2/2014, and 2/2015
Nusa Tenggara	West Nusa Tenggara	1/2011 and 8/2013
	East Nusa Tenggara	2/2010 and 6/2013
Kalimantan	West Kalimantan	8/2010 and 2/2012
	Central Kalimantan	7/2010
	South Kalimantan	5/2011 and 9/2013
	East Kalimantan	1/2011
Sulawesi	North Sulawesi	7/2011
	Central Sulawesi	1/2011
	South Sulawesi	10/2010 and 8/2013
	Southeast Sulawesi	5/2011
	West Sulawesi	1/2011
	Gorontalo	5/2011 and 9/2014
Maluku	North Maluku	1/2012
	Maluku	3/2010, 4/2010, 5/2010, 6/2010, and 19/2013
Papua	Papua	4/2011
	West Papua	3/2011, 4/2011, 5/2011, 6/2011, 9/2012, 5/2013 and 6/2013

Source: Provincial Regulations are downloaded from Ministry of Home Affairs' and Provincial Governments' websites. The full details of these regulations are listed on the reference.

Appendix VI

The Consolidated Local Fiscal Autonomy 2009-2015

Description	Ratio						
	2009	2010	2011	2012	2013	2014	2015
Consolidated by Governmental Level							
All Government Level	13.43%	14.23%	15.92%	16.22%	17.21%	18.07%	17.55%
All Government Level (Local Own-Source Revenue)*	17.16%	18.10%	19.91%	20.40%	21.73%	24.01%	23.85%
Only Province	39.68%	42.13%	45.77%	40.68%	42.78%	44.92%	45.14%
Municipality and Regency	4.59%	4.45%	5.67%	6.34%	7.10%	7.66%	7.41%
Only Municipality	8.57%	9.10%	13.38%	14.56%	16.14%	16.22%	17.51%
Only Regency	3.66%	3.35%	3.85%	4.30%	4.88%	5.49%	5.09%
Consolidated by Cluster Region							
Java-Bali	22.07%	23.11%	25.81%	25.50%	27.58%	28.33%	28.31%
Kalimantan	8.67%	9.66%	11.83%	12.48%	13.20%	14.12%	11.88%
Sumatera	9.85%	10.39%	11.30%	11.18%	11.17%	11.82%	11.70%
Sulawesi	8.01%	8.79%	9.40%	9.98%	10.23%	11.11%	9.88%
Nusa Tenggara	6.23%	6.45%	6.79%	6.88%	7.42%	8.20%	7.62%
Maluku	3.26%	3.48%	3.66%	3.94%	4.56%	5.41%	4.94%
Papua	1.87%	1.99%	2.01%	2.61%	2.37%	2.91%	2.70%

Own construction, data source: Ministry of Finance

* All ratio in the table above are derived from only total taxes and charges divided by total local revenue, except All Government Level (Local Own-Source Revenue). This ratio is calculated from total local own-source revenue (not only local taxes and charges) divided by total local revenue.

Appendix VII

STATA Estimation Outputs

A. Descriptive Statistics

```
. xtset REGION YEAR, yearly
       panel variable:  REGION (strongly balanced)
        time variable:  YEAR, 2010 to 2015
                delta:  1 year

.
. xtsum LN_GRDPP LFA EXIM INV INF URB MYS2010 LN_GRDPP2010
```

Variable		Mean	Std. Dev.	Min	Max	Observations
LN_GRDPP	overall	17.27167	.5767933	16.04952	19.27933	N = 198
	between		.5411749	16.28361	18.81568	n = 33
	within		.2173786	16.72686	19.17842	T = 6
LFA	overall	.132687	.1098553	.016334	.6681044	N = 198
	between		.1100603	.0206402	.5824603	n = 33
	within		.0161975	.0362409	.2183311	T = 6
EXIM	overall	-.0268728	.2066454	-.5143569	.579744	N = 198
	between		.2047116	-.4644519	.5296281	n = 33
	within		.0431171	-.1795278	.1908822	T = 6
INV	overall	.0423148	.0401568	.0003162	.2045147	N = 198
	between		.0346744	.0062133	.1261882	n = 33
	within		.0209945	-.0470923	.1379385	T = 6
INF	overall	.0603026	.0237159	.0021827	.115803	N = 198
	between		.0066238	.0440484	.0730096	n = 33
	within		.0227965	.0028922	.1079358	T = 6
URB	overall	.4384393	.182173	.1934	1	N = 198
	between		.1841932	.20485	1	n = 33
	within		.0109984	.402306	.474606	T = 6
MYS2010	overall	8.08303	.8586454	6.66	10.93	N = 198
	between		.8697539	6.66	10.93	n = 33
	within		6.93e-16	8.08303	8.08303	T = 6
LN_~2010	overall	17.04687	.5626873	16.04952	18.57059	N = 198
	between		.5699669	16.04952	18.57059	n = 33
	within		0	17.04687	17.04687	T = 6

B. Correlation Test

```
. pwcorr LN_GRDPP LFA EXIM INV INF URB MYS2010 LN_GRDPP2010
```

	LN_GRDPP	LFA	EXIM	INV	INF	URB	MYS2010	LN_~2010
LN_GRDPP	1.0000							
LFA	0.4780	1.0000						
EXIM	0.6102	0.0451	1.0000					
INV	0.0429	0.0128	0.0139	1.0000				
INF	-0.0233	-0.0055	0.0068	0.0605	1.0000			
URB	0.5748	0.8365	0.2184	-0.0461	-0.0186	1.0000		
MYS2010	0.5339	0.5187	0.0886	-0.1714	-0.0403	0.6197	1.0000	
LN_GRDPP2010	0.9131	0.4402	0.6844	0.0080	-0.0411	0.5623	0.5047	1.0000

C. Hausman Test

```
. quietly xtreg LN_GRDPP LFA EXIM INV INF URB MYS2010 LN_GRDPP2010, fe

. estimate store fe

. quietly xtreg LN_GRDPP LFA EXIM INV INF URB MYS2010 LN_GRDPP2010, re

. estimate store re

. hausman fe re
```

	Coefficients			
	(b) fe	(B) re	(b-B) Difference	sqrt(diag(V_b-V_B)) S.E.
LFA	2.620879	.4758583	2.145021	.8374737
EXIM	.290209	.1617854	.1284236	.3017706
INV	.282691	.7894383	-.5067473	.5652588
INF	.6231505	.2551148	.3680357	.
URB	10.49212	-.0583296	10.55045	1.382313

```
                   b = consistent under Ho and Ha; obtained from xtreg
    B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test:  Ho:  difference in coefficients not systematic

              chi2(5) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                      =      101.52
            Prob>chi2 =      0.0000
            (V_b-V_B is not positive definite)
```

D. Fixed Effect Regression

```
. xtreg LN_GRDPP LFA, fe robust

Fixed-effects (within) regression               Number of obs     =        198
Group variable: REGION                          Number of groups  =         33

R-sq:                                           Obs per group:
     within  = 0.1602                                         min =          6
     between = 0.2475                                         avg =        6.0
     overall = 0.2285                                         max =          6

                                                F(1,32)           =      23.44
corr(u_i, Xb)  = -0.5594                        Prob > F          =     0.0000

                                 (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   5.371772   1.109551     4.84   0.000      3.11169    7.631854
       _cons |    16.5589    .147223   112.47   0.000     16.25902    16.85879
-------------+----------------------------------------------------------------
     sigma_u |  .56925259
     sigma_e |  .21832971
         rho |  .87176282   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

```
. xtreg LN_GRDPP LFA EXIM, fe robust

Fixed-effects (within) regression               Number of obs     =        198
Group variable: REGION                          Number of groups  =         33

R-sq:                                           Obs per group:
     within  = 0.1620                                         min =          6
     between = 0.2015                                         avg =        6.0
     overall = 0.1880                                         max =          6

                                                F(2,32)           =      12.59
corr(u_i, Xb)  = -0.5815                        Prob > F          =     0.0001

                                 (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   5.404006   1.098509     4.92   0.000     3.166417    7.641595
        EXIM |  -.2106432   .3012572    -0.70   0.489    -.8242841    .4029977
       _cons |   16.54897   .1455132   113.73   0.000     16.25257    16.84537
-------------+----------------------------------------------------------------
     sigma_u |  .59784569
     sigma_e |  .21877142
         rho |  .88190661   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

```
. xtreg LN_GRDPP LFA EXIM INV, fe robust

Fixed-effects (within) regression               Number of obs     =        198
Group variable: REGION                          Number of groups  =         33

R-sq:                                           Obs per group:
     within  = 0.1942                                         min =          6
     between = 0.2706                                         avg =        6.0
     overall = 0.2530                                         max =          6

                                                F(3,32)           =      16.81
corr(u_i, Xb)  = -0.5154                        Prob > F          =     0.0000

                                (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   5.076706   .9801973     5.18   0.000     3.080109    7.073303
        EXIM |   .1164839   .3217551     0.36   0.720    -.5389097    .7718776
         INV |   1.988355   .7844194     2.53   0.016     .3905447    3.586165
       _cons |   16.51705   .1226295   134.69   0.000     16.26726    16.76684
-------------+----------------------------------------------------------------
     sigma_u |  .54224333
     sigma_e |  .21518115
         rho |  .86394727   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

```
. xtreg LN_GRDPP LFA EXIM INV INF, fe robust

Fixed-effects (within) regression               Number of obs     =        198
Group variable: REGION                          Number of groups  =         33

R-sq:                                           Obs per group:
     within  = 0.1946                                         min =          6
     between = 0.2686                                         avg =        6.0
     overall = 0.2513                                         max =          6

                                                F(4,32)           =      12.71
corr(u_i, Xb)  = -0.5144                        Prob > F          =     0.0000

                                (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   5.066091   .9769148     5.19   0.000     3.076181    7.056002
        EXIM |   .1090269   .3373557     0.32   0.749    -.5781442     .796198
         INV |   1.977354   .8033655     2.46   0.019     .3409522    3.613756
         INF |   .1777616   .5559589     0.32   0.751    -.9546896    1.310213
       _cons |     16.508   .1263053   130.70   0.000     16.25073    16.76528
-------------+----------------------------------------------------------------
     sigma_u |  .54260173
     sigma_e |  .21580227
         rho |  .86342417   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

```
. xtreg LN_GRDPP LFA EXIM INV INF URB, fe robust

Fixed-effects (within) regression               Number of obs     =        198
Group variable: REGION                          Number of groups  =         33

R-sq:                                           Obs per group:
     within  = 0.4046                                         min =          6
     between = 0.3821                                         avg =        6.0
     overall = 0.3441                                         max =          6

                                                F(5,32)           =      34.71
corr(u_i, Xb)  = -0.9728                        Prob > F          =     0.0000

                             (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   2.620879   .3693384     7.10   0.000     1.868561    3.373197
        EXIM |    .290209    .236032     1.23   0.228    -.1905725    .7709905
         INV |    .282691   .4739408     0.60   0.555     -.682695    1.248077
         INF |   .6231505   .5619814     1.11   0.276    -.5215681    1.767869
         URB |   10.49212   .9923454    10.57   0.000     8.470783    12.51347
       _cons |   12.28201   .4435863    27.69   0.000     11.37845    13.18557
-------------+----------------------------------------------------------------
     sigma_u |  1.9073015
     sigma_e |  .18612322
         rho |  .99056708   (fraction of variance due to u_i)
------------------------------------------------------------------------------

. xtreg LN_GRDPP LFA EXIM INV INF URB MYS2010, fe robust
note: MYS2010 omitted because of collinearity

Fixed-effects (within) regression               Number of obs     =        198
Group variable: REGION                          Number of groups  =         33

R-sq:                                           Obs per group:
     within  = 0.4046                                         min =          6
     between = 0.3821                                         avg =        6.0
     overall = 0.3441                                         max =          6

                                                F(5,32)           =      34.71
corr(u_i, Xb)  = -0.9728                        Prob > F          =     0.0000

                             (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   2.620879   .3693384     7.10   0.000     1.868561    3.373197
        EXIM |    .290209    .236032     1.23   0.228    -.1905725    .7709905
         INV |    .282691   .4739408     0.60   0.555     -.682695    1.248077
         INF |   .6231505   .5619814     1.11   0.276    -.5215681    1.767869
         URB |   10.49212   .9923454    10.57   0.000     8.470783    12.51347
     MYS2010 |          0  (omitted)
       _cons |   12.28201   .4435863    27.69   0.000     11.37845    13.18557
-------------+----------------------------------------------------------------
     sigma_u |  1.9073015
     sigma_e |  .18612322
         rho |  .99056708   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

```
. xtreg LN_GRDPP LFA EXIM INV INF URB MYS2010 LN_GRDPP2010, fe robust
note: MYS2010 omitted because of collinearity
note: LN_GRDPP2010 omitted because of collinearity

Fixed-effects (within) regression               Number of obs      =       198
Group variable: REGION                          Number of groups   =        33

R-sq:                                           Obs per group:
     within  = 0.4046                                          min =         6
     between = 0.3821                                          avg =       6.0
     overall = 0.3441                                          max =         6

                                                F(5,32)            =     34.71
corr(u_i, Xb)  = -0.9728                        Prob > F           =    0.0000

                               (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   2.620879   .3693384     7.10   0.000     1.868561    3.373197
        EXIM |    .290209    .236032     1.23   0.228    -.1905725    .7709905
         INV |    .282691   .4739408     0.60   0.555     -.682695    1.248077
         INF |   .6231505   .5619814     1.11   0.276    -.5215681    1.767869
         URB |   10.49212   .9923454    10.57   0.000     8.470783    12.51347
     MYS2010 |          0  (omitted)
LN_GRDPP2010 |          0  (omitted)
       _cons |   12.28201   .4435863    27.69   0.000     11.37845    13.18557
-------------+----------------------------------------------------------------
     sigma_u |  1.9073015
     sigma_e |  .18612322
         rho |  .99056708   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

E. Random Effect Regression

```
. xtreg LN_GRDPP LFA EXIM INV INF URB MYS2010 LN_GRDPP2010, re robust

Random-effects GLS regression                   Number of obs      =       198
Group variable: REGION                          Number of groups   =        33

R-sq:                                           Obs per group:
     within  = 0.1133                                          min =         6
     between = 0.9797                                          avg =       6.0
     overall = 0.8480                                          max =         6

                                                Wald chi2(7)       =   2389.23
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =    0.0000

                               (Std. Err. adjusted for 33 clusters in REGION)
------------------------------------------------------------------------------
             |               Robust
    LN_GRDPP |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
         LFA |   .4758583   .1878757     2.53   0.011     .1076287     .844088
        EXIM |   .1617854   .0995968     1.62   0.104    -.0334208    .3569915
         INV |   .7894383   .4122531     1.91   0.056    -.0185629    1.597439
         INF |   .2551148   .5142413     0.50   0.620    -.7527796    1.263009
         URB |  -.0583296   .1494109    -0.39   0.696    -.3511697    .2345104
     MYS2010 |   .0694511   .0277629     2.50   0.012     .0150369    .1238653
LN_GRDPP2010 |   .8115975   .0414874    19.56   0.000     .7302836    .8929114
       _cons |   2.793089   .6492082     4.30   0.000     1.520664    4.065514
-------------+----------------------------------------------------------------
     sigma_u |  .02775892
     sigma_e |  .18612322
         rho |  .02175953   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```