

THE CHANGE OF LOCAL FINANCIAL MANAGEMENT ORGANIZATION FROM AN ADMINISTRATIVE TO AN ENTREPRENEURSHIP: A CASE OF KEPMENDAGRI 29 / 2002

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Efektivitas dan efisiensi pemerintahan daerah amat ditentukan struktur organisasi, hubungan antarpemerintahan daerah, variasi potensi daerah, kesempatan dan, tantangan kompetisi global. Hal ini dapat dicapai dengan pemberian hak dan tanggungjawab yang lebih besar ke pemerintahan daerah, sesuai peraturan Kepmendagri No. 29 / 2002. Peraturan ini melakukan perubahan paradigma dalam pengelolaan keuangan daerah.

Kata kunci: keuangan daerah, desentralisasi, manajemen keuangan

DECENTRALIZATION EFFECT ON A LOCAL FINANCING

In many developing countries, a decentralization is a principal element on the governmental reform in the past two decades. Decentralization is usually referred to a political reform, which is designed for a reduction of a central's influence and a promotion of a local autonomy. Hence, decentralization will have a large impact on a service performance. Decentralization can be interpreted as a delegation of a government authority by the Government to the regional autonomy on a regulatory and a taking care of governmental affairs within the system of the Unitary State of the Republic of Indonesia.

The regional economic principles are applied on the broad economic principles in a context that the regions are delivered the opportunities to manage and take care of all government affairs themselves apart from the ones handled by the Central Government as

stipulated in Law No. 22/1999 and Law No. 32/2004. The regions will be in a power to draft their regional laws to provide services, step up the public participation, initiative and empowerment an aimed to improve a public welfare.

In line with such principles, a real and accountable autonomy principle is also applied. A real autonomy principle is refereed to a principle that management of government affairs shall be implemented in a correspond on the actual and existing duties, authorities and obligations. The management characters are in a potencial of growing, living and developing according to the regional potentials and uniqueness. Thus, the contents and types of autonomy for each region may not be similar as those of other regions. Whereas, the accountable autonomy is refereed to the autonomy which is truly carried out in line with the goals and objectives of the autonomy delivering.

Essentially, an autonomy granting is aimed to empower the regions including an improvement of the public welfare as a main goal of the national development. In line with this principle, a running of the regional autonomy must be constantly oriented to an improvement of public welfare, which is viewed as an interest and aspiration of the communities. In addition, a running of the regional autonomy should be in line with a harmonization of a relationship among the regions. In other words, a regional autonomy should be a way to promote a cooperation among the regions, which aimed to improve a public welfare and avoid a disparity among the regions. So, a regional autonomy is a way to guarantee a synergy relationship between the regions and the Central Government. The synergy is in a condition of both the regions and the Central Government are in a belief that the Unitary State of the Republic of Indonesia shall remain intact and the state's goal will be achieved.

A regional autonomy may be implemented in line with the goals to be achieved. The Central Government must provide a support and an enhancement by producing some guidelines for the research and development, planning and supervision. In addition, the Central Government must also promote the standards, directions, guidance, training, supervision, control, coordination, monitoring and evaluation. Simultaneously, the Central Government must facilitate the regional governments by providing necessary facilities, assistances, and encouragements to the regions. So, the autonomy is implemented efficiently and effectively according to the laws and regulations.

A running of the regional administrative function will be optimal if it is followed by providing a sufficient revenue source to the regions

as a comply to the Law of Fiscal Balance between the Central Government and the Regional Administration. An amount of which will be adjusted in line with a division of authority between the Central Government and Regional Administration. All financial sources attached to each government affair is delegated to the regions as the regional financial sources.

The regions are entitled to other financial sources, namely: guaranteed funding from the Central Government according to the delegated government affairs; the authorities to levy and make use the revenues from regional taxes and retributions, and entitled to revenues from national resources existing in the region, and other balance funds; the right to manage the regional assets and obtain other legitimate revenues as funding sources, Under such regulation, in this case the Central Government applies the principle of *“money following the function.”*

The Law on Public Finance is about a financial management affair, namely the authority to manage a state finance as a part of the government power; and the authority to manage the public finance by the president and partly delegated to the governor/district/mayor as a head of regional government in managing a regional finance and representing a regional government on owning the regional assets. Consequently, a regulation of the management and accountability of regional finance is attached to and is integrated on a regional administration regulatory, namely in a Regional Law of Regional Administration and Finance.

This research is based on the fact that a process of governmental decentralization (local autonomy) in Indonesia is in a high intensity process for an implementation, so that a related research topic will be crucial. In an area autonomy, APBD (*Regional Expenditure and Revenue Budgeting*) is determined on setting a process of APBD based on a participation and a decentralized structure. A basis of the APBD determination is Law No. 22/1999, Law No. 25/1999, Law No. 17/2003, Law No. 1/2004, Law No. 10/2004, Law No. 15/2004, Law No. 25/2004, Law No. 32/2004, and Law No. 33/2004, completed with PP (Governmental Regulation) 104 until 110 in 2002, Kepmendagri No. 29/2002, and PP No. 58 / 2005 with a Permendagri No. 13/2006. Before that, in a centralization, a determination of APBD is based on a decision of certain parties (Head of Local Government and Secretary) based on Law No. 5/1974, PP No. 5/1975 and PP No. 6/1975.

These laws are in line with an increasing of the regions' role in matters of governance, especially the districts and cities. It is widely

anticipated that, as a result of these laws, there is much need for capacity building in the regions.

Approach

A starting point for the research is an overview of what Law No. 22/1999 mentioned as the tasks and authorities of the LGs, and to highlight some key changes from Law No. 5/1974. The purpose of this step is to ascertain that these legal basis are understood.

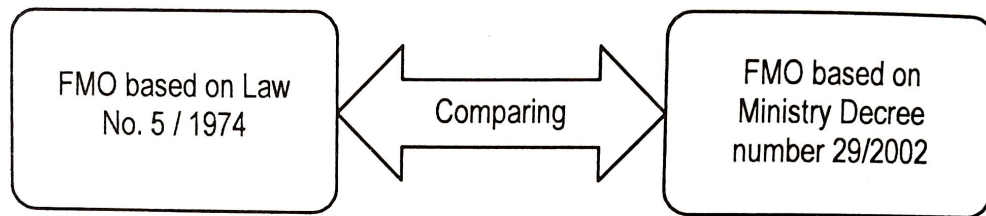


Chart 1. Research Approach

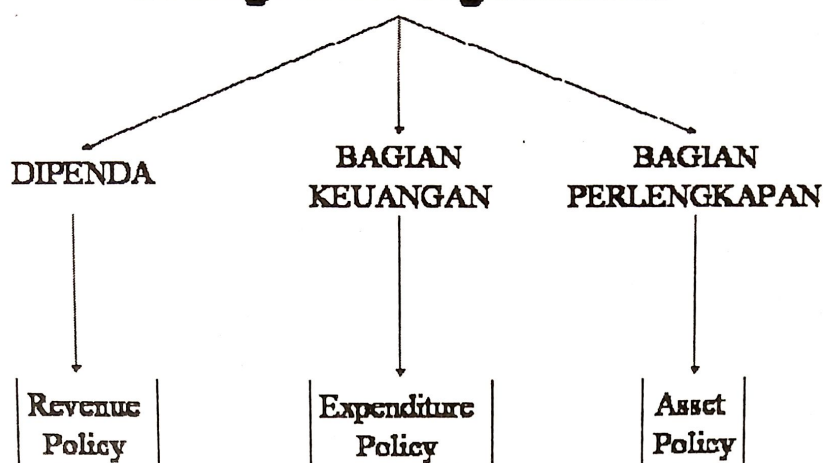
Related to a financial management unit in LG, an organizational shifting paradigm has been examined in Ministry Decree number 29/2002. This means that an implementation of old paradigm in Law No. 5/1974 should be exercised, in order to understand how it works. After that, a model for a new paradigm should be elaborated. A cost and benefit of the shifting will be analysed.

As a note, an implementation of a new regulation as Permendagri No. 13 / 2006, is toward more on planning, budgetting and reporting. An organizational changed is to strengthen a financial management structure in any LG's units. In this case, an organizational model of Ministry Decree number 29/2002 is already in line with the one of Permendagri No. 13/2006's.

THE OLD FINANCIAL MANAGEMENT SETTING

Under a Law No. 5 / 1974, a LG's organization was in a centralised system. All procedures were managed directly by a chairman of LG, whether Governor, Mayor or Regent. This means that a local secretary is a place for important aspects under the Chairman, such as finance, procurement, and asset. Those aspects were a subset of a local secretary unit. In this case, a local revenue was managed as an independent unit, and a finance was directly controlled by a local secretary. The chart 2 can be a feature of old financial management setting.

The Past Condition of Local Finance Management Organization



Source: Pusat Studi Akuntansi Sektor Publik: Pengembangan Bagian Keuangan ke Dinas, 2003

Chart 2. The Past Condition of Local Finance Management Organization

In a revenue side, a focus of revenue unit is how to increase LG revenue. In a regency/city level, a local retribution and a local tax became main resources. During 1970-1990s, a local retribution was mainly from a parking fee and traditional market retribution. In a local tax, local advertising tax and local hotel and restaurant tax became main sources. In a provincial level, a type of revenue source is from local vehicle tax. With a revenue sharing mechanism, LGs in regency/city obtained a proportional vehicle tax. In this case, a development of a specific unit on the revenue (DIPENDA – Dinas Pendapatan Daerah) could be accepted as the way to focus on certain income generation.

In an expenditure side, a focus of financial unit was how to account the LG's expense. In a regency/city/provincial, main problem was on the accountability system, whether recording, reporting and responding the audit's findings. In 1980s, a reporting was in a cash reporting. In 2000s, a reporting was shifted to a financial statement. The shifting became a great work for a financial unit.

In an asset, a focus of an equipment unit was to register a LG's treasury. What means as a treasury is a good. In 1980s, an asset practice was only to purchase and distribute the equipments. These practices were in line with the accountability system. In 2000, a cycle of goods became an important aspect in asset management. A balance sheet became a medium for a recapitulation of assets' value. In this case, a maintaining of an asset valuation is a highest priority of LGs' asset management.

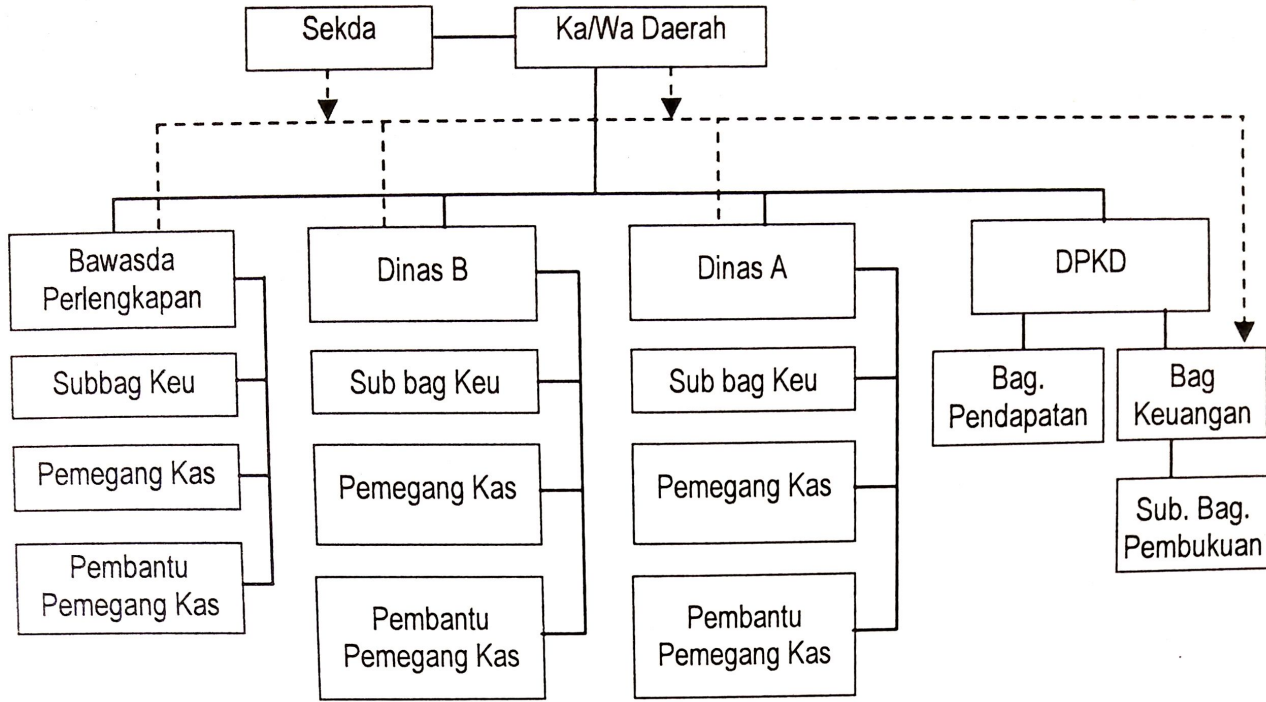
The focus of old financial management organization is to administer the practices. The work of public officers was only fulfilling the work description. A dynamics of living and its target in the organization was restricted by organizational working papers.

THE NEW SETTING OF LOCAL FINANCIAL MANAGEMENT ORGANIZATION (LFMO): A METHOD

Within a stipulation of Law No. 22/1999 (Local Government), management of regency and city had set their own regulatory frameworks that dealt with an implementation of the law at their jurisdiction. The local regulatory framework was also complied with Governmental Decrees (PP) and Ministry of Home Affairs (MOHA) and Ministry of Finance (MOF) decrees such as PP No. 105/2000 on *Local Financial Management and Accountability* and PP No. 108 on *Report Procedure of District Head*. The most influential regulation that determined of local budget practices in 2000 – 2005 was a Ministry Decree number 29/2002 on *Procedure of Financial Management and Controlling, and Budget Accounting*.

In a new setting of local financial management organization, the policy of management of revenue, expenditure and asset was not separated. The impact is an establishment of a local financial management unit. It is mentioned as Dinas Pendapatan dan Keuangan Daerah or Badan Pendapatan, Kekayaan, dan Keuangan Daerah. This means that a combination of two or there functions become a character of the new organization, as below (Chart3).

In a revenue, an officer in a financial management unit should generate a sufficient income. Most LGs in Indonesia could not fulfil all their expenditure, so most expenditures were covered by central government through a General Fund (DAU) and a Special Fund (DAK). In this case, a formulation of self – sufficient should be shifted from a central government's intervention, to LG's owned. An operational expenditure of LG should be fulfilled by an operational revenue. This means that an income generation strategy should be developed, in order to fulfill whole operational and investment expenditures.



———— = Flow Responsibility
 - - - - - = Flow Financial Statements

Notes:

- PPK and PK = Recording a transaction
- Sub bag keuangan Dinas/Instansi = Producing a financial statements
- Instansi = Producing a financial statements
- DPKD especially Bagian Keuangan = Producing a consolidated financial statement

Source: Pusat Studi Akuntansi Sektor Publik: Pengembangan Bagian Keuangan ke Dinas, 2003

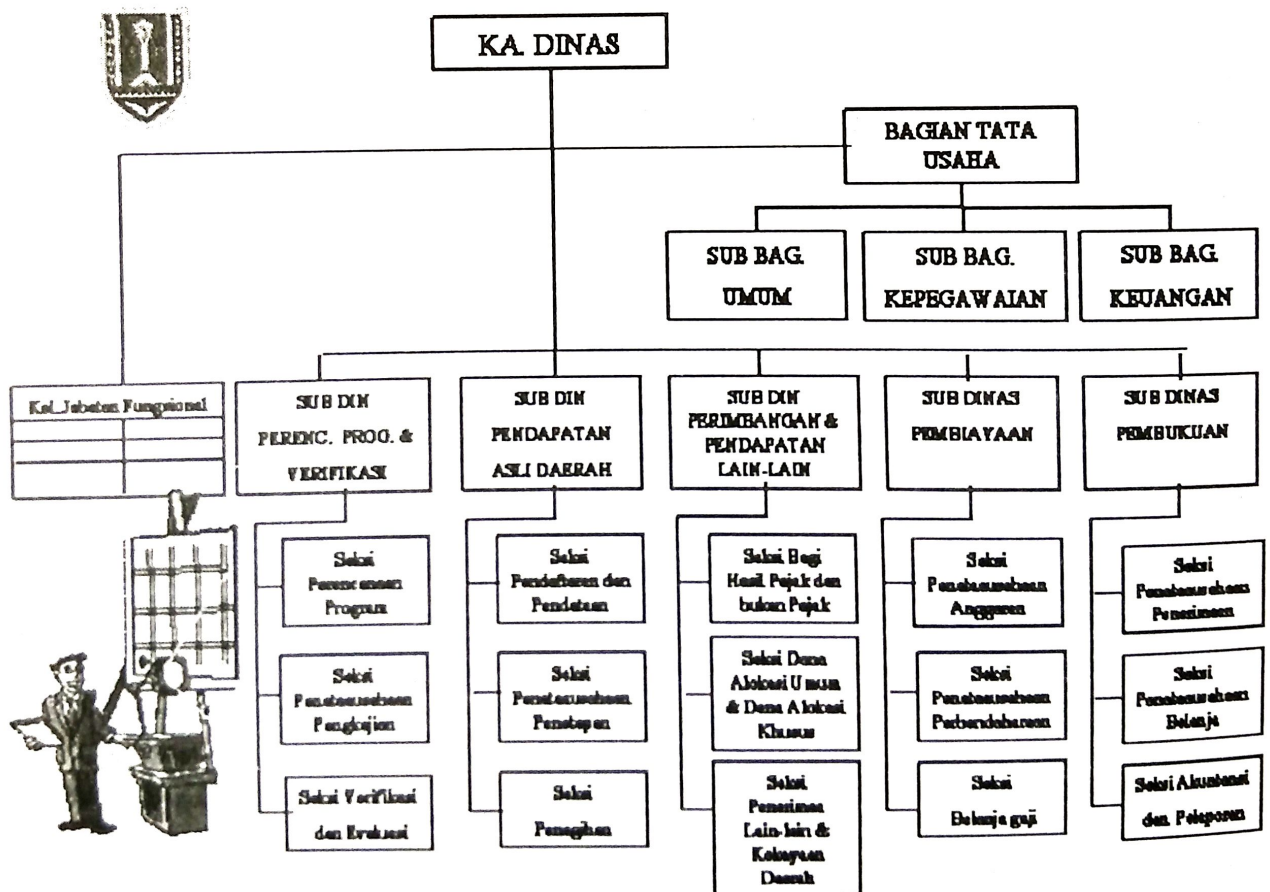
Chart 3. The New Setting of Local Financial Management Organization (LFMO)
(DPKD=Dinas Pengelolaan Keuangan Daerah)

In an expenditure, an officer in a financial management unit recorded all spendings. A financial statement is produced, in order to reflect a budget realization and its impacts. A control of operational expenditure is determined by its efficiency. On the other hand, a control of investment expenditure is determined by its effectiveness. In this case, a financial reporting is established in a system, which can be utilised to control the organizational behaviour. In an asset, an officer in a financial management unit maintained the asset. A list of asset should be produced in a form of balance sheet's note. A valuation of goods would be a first priority for maintaining the asset. In this case, a cycle of goods will be the only way to maintain the value. A selling the old good and a buying the new one will be a package for balancing the increasing and the decreasing of goods' value.

An impact of a new organizational setting in a financial management unit is an innovation in exploring all accounts in LGs' financial statement. This means that a financial management should be toward on professionalism in handling a financial affair.

A MODEL OF NEW SETTING: A SEMARANG CITY IN OPTIMIZING REVENUE AND REDUCING COST CASE

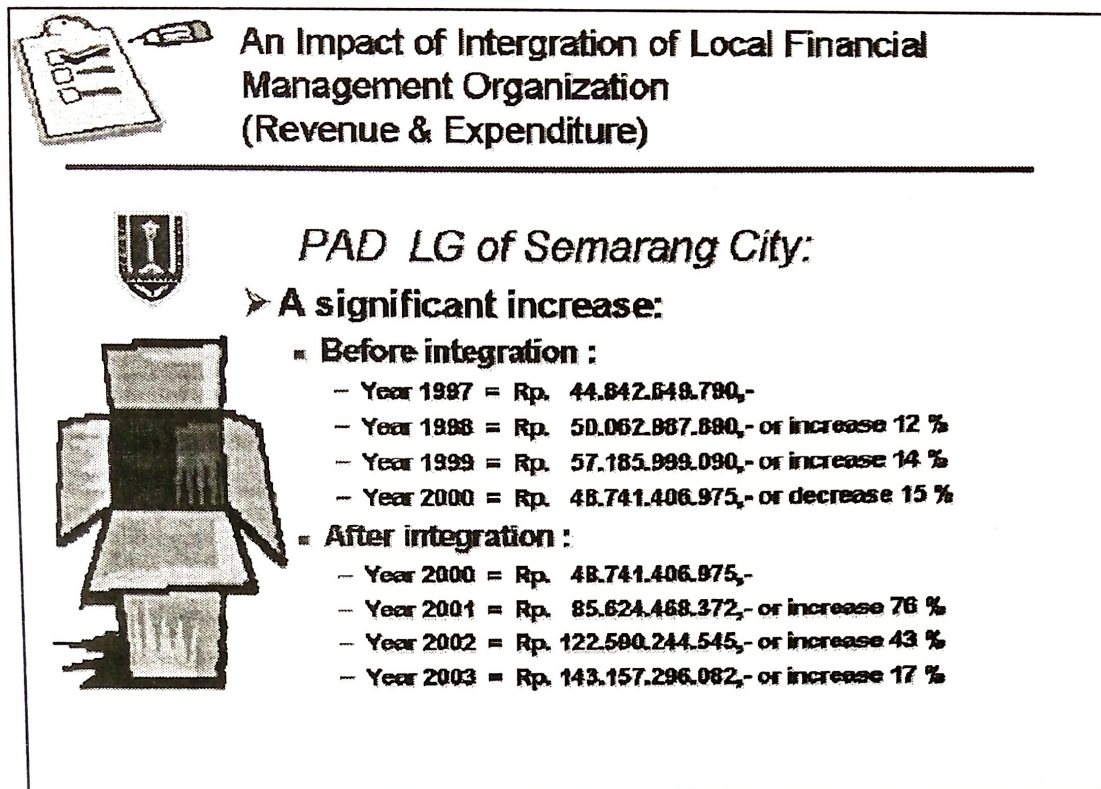
The Semarang City is a big industrial center. A Semarang is geographically strategic and is supported by decent industrial infrastructures, by which it can motivate investors to invest their money. In 2000, the Mayor of City was confused on a local government's condition. With an entrepreneur background, the absence of balance sheet, income statement, and statement of cash flows revealed an old practice by an intuition. The old practice should be shifted. As a first step was an organizational changed on a financial management unit. The chart below will be a description of the change.



Source: LG of Semarang City Report, 2001

Chart 4. A Sample of SOTK DPKD - LG of Semarang City

Table 1. Trend of PAD - LG of Semarang City after an Integration of Local Financial Management Organization (from 1997 – 2003)



Source: Pusat Studi Akuntansi Sektor Publik: Pengembangan Bagian Keuangan ke Dinas, 2003

The impacts of an integration of local financial management organization (revenue and expenditure) in LG of Semarang City, are:

- LG of Semarang city have an orientation on education budget (APBD) min. 20 %;
- LG of Semarang city is able to provide fund to support a community participation in development (contingency fund);

Comparison 1: 1

1 = LG's Stimulate Fund

1 = Community Fund

- LG of Semarang city is able to provide fund to improve an education of communities;
- LG of Semarang city will be able to allocate a school fund/ fellowship:

Year 2002 = IDR 3 milliard

Year 2003 = IDR 20 milliard

Year 2004 = IDR 40 milliard

Year 2005 = IDR 60 milliard

- Every end of the years, a financial reporting will be published;
- An increasing of investor trust;
- The Local Government of Semarang can allocate a funds for the public services:
 - In 2000, the ending cash balance was around 18 billion rupiah.
 - In 2001 the cash balance has been risen to 34 billion rupiah,
 - And on the fifth of January 2002, the cash balance after projects' completed was 72 billion rupiah. (This means an increase in an effectiveness of cash usage by 40 - 45%)
- In year 2003, *LG* of Semarang city was the most interesting city for investment.

Table 2. SILPA – LG of Semarang City after an Integration of Local Financial Management Organization (1997 – 2003)

1. SILPA before integration of local financial management organization:
a. Year 1997 = IDR 53.077.408,-
b. Year 1998 = IDR 4.306.909.190,-
c. Year 1999 = IDR 8.589.089.364,-
d. Year 2000 = IDR 9.361.510.499,-
2. SILPA after integration of local financial management organization:
a. Year 2001 = IDR 18.982.997.114,-
b. Year 2002 = IDR 70.572.409.858,-
c. Year 2003 = IDR 79.674.513.394,-

Source: Pusat Studi Akuntansi Sektor Publik: Pengembangan Bagian Keuangan ke Dinas, 2003

Table 3. Contingency Fund – LG of Semarang City (2001 – 2003)

Fund Resource	Year 2001	Year 2002	Year 2003
LG	4.785.305.000	24.699.867.445	25.591.485.500
Community	3.349.713.500	21.013.604.000	22.500.507.200

Source: Pusat Studi Akuntansi Sektor Publik : Pengembangan Bagian Keuangan ke Dinas, 2003

A CONCLUSION

In this research, an exploration of the methodology should be established, in order to an assessment of the transformation in a local financial management organization. The impact of the change of local finan-

cial management organization from an administrative to an entrepreneurship can be mentioned as:

- a. An emerging of a financial resource;
- b. A local resource can be managed independently;
- c. A focus of management and organization is synergized; and
- d. Community welfare can be implemented more easily.

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