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Factors Affecting Regional Fiscal Capacity In Ambon City

Sherly Ferdinandus[1], Dintje Rumerung[2], Muhammad Bugis[3], Mohamad. R. Serang[4], Amin[5]

[1,2,3,4,5]Department of Development Economics, Faculty of Economics and Business, University of Pattimura, Ambon

Email: ferdinandussherly@gmail.com, rumerungd@gmail.com, muhbugis66@gmail.com, mserang71@gmail.com, aminramly091@gmail.com

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Abstract

This study aims to analyze the factors that influence Regional Fiscal Capacity (KFD) in Ambon City.
The study used secondary time series data for 10 years (2014–2023) in Ambon City. The analysis method used was Multiple Linear Regression with the dependent variable (Y) being the Fiscal Capacity Index, and the independent variables being Regional Original Income (PAD) (X1), Economic Growth Rate (X2), and Population (X3). Key Results: The results of the regression analysis showed that the independent variables PAD (X1), Economic Growth Rate (X2), and Population (X3) did not have a significant effect on the Regional Fiscal Capacity of Ambon City.
Implications/ConsequencesAruan:TeamThis study provides an empirical contribution because it differs from general assumptions and previous research (state of the art), which often shows a positive relationship. These results highlight a unique problem or phenomenon in Ambon City, where the theoretically common factors driving fiscal capacity (PAD, economic growth, population) are not working effectively.

INTRODUCTION

Regional development policies as an integral part of national development require harmony in the growth rate between regions, equality between regions, and the granting of the broadest possible regional autonomy. Based on this, it is time for fiscal decentralization to be effectively implemented..

Fiscal centralization has granted regional governments (Pemda) significant authority to regulate and manage their finances independently. Regional Fiscal Capacity (KFD) reflects a region's financial capacity to finance routine and development expenditures, primarily through Regional Original Revenue (PAD). Regional Fiscal Capacity is also a crucial consideration in obtaining the General Allocation Fund (DAU).

TABLE 1: FISCAL CAPACITY INDEX OF AMBON CITY

2014 – 2023

	YEAR	COTTONFISCAL BAG	KATHEGORIES

	2014	0.49	Low
	2015	0.32	Low
	2016	0.83	Seedang
	2017	0.53	Low
	2018	0.50	Low
	2019	0.92	Seedang
	2020	0.99	Seedang
	2021	0.86	Seedang
	2022	1.24	Baik
	2023	1.03	Baik

Ssource: Reprocessed data

In Ambon City, the implementation of regional autonomy requires an increase in Regional Fiscal Capacity. However, data shows that the Regional Fiscal Capacity of Ambon City fluctuated and tended to be relatively low during the 2014–2023 period, indicating the high dependence of the Regional Government on transfers from the central government. The Regional Fiscal Capacity Index was in the Low category (0.49–0.53) in 2014.2014, 2015, 2017, and 2018, although it increased to the Good category (>1) in the year

2022 and 2023.

Secaseparately, the variables tested showed the following phenomena:

- **PendapLocal Original Atan (X1):**Experiencedi fluctuations with an increasing tendency, which in theory should have a positive impact on Regional Fiscal Capacity.
- **Economic Growth Rate (X2):**Befluctuations with an increasing tendency, which will ideally broaden the tax base and increase . Regional Fiscal Capacity
- **Population (X3):**Befluctuations with a downward trend, which has the potential to impact on reducing the tax base to strengthen Regional Fiscal Capacity.

Formulan Problem:

1. How is the development of Regional Fiscal Capacity in Ambon City?
2. What factors (Regional Original Income, Economic Growth, Number of Penduduk) that affect Regional Fiscal Capacity in Ambon City?

3. Literature Review

KRegional Finance Concept Basically, regional finance covers all regional rights and obligations which include: First, Regional Rights, namely the right to collect regional taxes and levies and make loans; Second, Regional Obligations, namely to organize regional government affairs and pay third party bills; Third, Regional Revenue (PAD Transfer Funds, and other Legitimate Income); Fourth, Regional Expenditure (Direct and Indirect Expenditure). In public economic theory, regional finance has three main functions, namely:

1. Allocation function, which is used to allocate resources to various sectors through programs needed by the community with the aim of ensuring the availability of effective and efficient public goods and services.
2. Distribution Function, Distribution Function is related to the efforts of local governments to equalize income in a region, with the aim of reducing social and economic disparities.
3. Stabilization Function, where regional governments must play a role in maintaining and striving for fundamental economic balance in the region. The function of Regional Financial Stability is fiscal resilience and the region's ability to adapt.with economic change without sacrificing public services or hampering its development potential.

HoodRegional Fiscal Authority (KFD): MeRegional Fiscal Capacity represents the ability of local governments to collect revenue from various sources, primarily taxation, to finance public expenditures. Regional Fiscal Capacity is measured to assess the region's independence in managing its finances. Categorization of Regional Fiscal Capacity: Low (Index < 0.5), Medium (Index > 0.5 – 1.0), and Very High (Index > 1).

Factor-Theoretical Factors Affecting Regional Fiscal Capacity:

- **PendapLocal Original Income (PAD):**Mereflect fiscal independence and reduce dependence on the central government. In theory, PAD has a positive relationship with regional fiscal capacity.
- **PerEconomic plants:**Meis an indicator of successful development. Strong economic growth broadens the tax base, thus encouraging an increase in regional fiscal capacity.
- **Total population:**Bepositive relationship with Regional Fiscal Capacity because pA large population can be a potential base for large taxpayers and levies

METHODS

This research is a quantitative study using secondary data obtained from Maluku Provincial Government Agencies, such as the Maluku Provincial Statistics Agency, the Maluku Provincial Regional Planning Agency, and other sources related to this research topic. The collected data were then analyzed using statistical tools, namely multiple linear regression with the following general equation:

$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \mu$

Where:

Y = Stunting RateX1 = Income per capitaX2 = Government expenditureβ0 = Interceptβ1 = Regression coefficient of income per capitaβ2 = Regression coefficient of government expenditure
μ = interfering factor.

The regression coefficient figures are then given an econometric interpretation so that they are in accordance with.

RESULTS AND DISCUSSION

Descriptive Analysis of Fiscal Capacity: KaAmbon City Regional Fiscal Capacity during the period

2014–2023 is in the Low to Moderate category, indicating high dependence on central transfers.

Significant improvement occurs in 2022 (1.24 - Good) and

2023 (1.03 - Good), but overall the trend is still fluctuating.

Multiple Linear Regression Analysis (Hypothesis Testing): TeamKey research findings show that:

1. Regional Original Income (X1) does not have a significant effect on Capacity PhysicsAmbon City Area.
2. The rate of economic growth (X2) does not have a significant effect on KaAmbon City Regional Fiscal Capacity.
3. Population (X3) does not have a significant effect on Fiscal Capacity DaeAmbon City.

(Implications of Results that Contrast with Theory): ResultsThis research contrasts with public economic theory and previous studies which generally hypothesize that Regional Original Income, Economic Growth, and Population have a positive and significant effect on Fiscal Capacity.

KetiThis insignificance indicates the existence of a specific phenomenon/local problem in the City

Ambo
nus:

- **KesenDon't Economic and Fiscal Growth:**MesAlthough economic growth tends to increase, this does not automatically translate into significant increases in regional fiscal capacity. This may be due to the suboptimal collection of taxes and levies by local governments (leakage) from growing economic sectors, such as trade, services, and transportation, which are key sectors.
- **MyTax Base Quality:**JA significant population (355,365 people in 2023) is a vital resource for Regional Fiscal Capacity. However, the quality of the population and their

level of participation in economic activities will determine whether the population will be a driver of Regional Fiscal Capacity or a fiscal burden.

HRegression Analysis Results

YesThe results of the regression analysis concern the factors that influence fiscal capacity in Ambon City, where the factors that influence regional fiscal capacity are Regional Original Income (PAD), Population, and Economic Growth.

Theory of influencing the fiscal capacity of Ambon City and the results of regression analysis Linear Multiple results obtained are:

Y = Bo + B1X1 + B2X2 + B3X3 + e then the result is:

Y = 2.849 + 0.001 - 0.005 – 0.087 + e. The results of the regression equation above can be interpreted as follows:

1. Direction of Relationship:

Firsta,BeBased on the positive coefficient value (0.001), it indicates a unidirectional or positive relationship between Fiscal Capacity and PAD. This means that if PAD increases, Fiscal Capacity also tends to increase.

Second,HThe relationship between population and fiscal capacity theoretically has two opposing directions: positive and negative. On the positive side: population serves as a source of income. In general, population growth can have a positive relationship with fiscal capacity, as a large population means a greater potential for taxes and levies. A productive population with purchasing power will drive regional economic growth, reflected in the GRDP, which is often positively correlated with regional fiscal capacity. On the other hand, a large population can also be a factor that reduces fiscal capacity, especially if population growth is not accompanied by increased revenue. This study found that population growth has a negative relationship with regional fiscal capacity, with a negative coefficient of -0.005 indicating that for every one-person increase in population, fiscal capacity decreases by 0.005. This negative coefficient indicates that population growth places a greater burden on regional government spending. This is because population growth is dominated by non-productive age groups (children and the elderly) or by poor people with low incomes. This situation will pose a fiscal challenge for regional governments.

Third,resultsl findings of the variable Economic growth on fiscal capacity found that the coefficient value of the economic growth variable has a negative effect on fiscal capacity, namely -0.087. In general, it is assumed that economic growth will increase fiscal capacity, however, if in this study it is found that economic growth has a negative relationship with fiscal capacity, then there are several things that can be explained that high economic growth often experiences inequality, because most of the wealth and income are onlyteConcentration in a handful of groups or sectors. Economic growth that generates inequality can actually erode fiscal capacity, because tax revenues do not grow as fast as spending needs, causing a negative relationship between growth and fiscal capacity. Furthermore, economic growth that is highly dependent on natural resource exports faces the paradox that abundant natural resources actually experience slow economic growth. This is due to a high level of dependence on nature as a gift measured in comparative adventage that has no added value. Furthermore, the failure of economic diversification, where regions only rely on one or two leading commodities and ignore other economic sectors with potential for development, ultimately makes the economy very vulnerable and lacks other driving sectors to rely on and support sustainable economic growth. Thus, economic growth becomes a burden for

regional fiscal capacity, as it creates pressure on the budget

CONCLUSION

The development of the Regional Fiscal Capacity of Ambon City during 2014–2023 experienced fluctuations with the majority of years being in the Low to Medium category, which indicates a high dependence on central transfer funds.

Partially, Regional Original Income (PAD), Economic Growth Rate, and

Population size has not been shown to have a significant effectteagainst Capacity PhysicsAmbon City Area.

Based on these findings, it is recommended:

Ambon City Government needs to conduct an in-depth evaluation of the regional tax and levy collection system to ensure that the economic growth that occurs can be effectively translated into increased Regional Original Income and Fiscal Capacity.

Further research is needed that includes qualitative variables or other variables that may be more relevant in the context of Ambon City, such as the effectiveness of fiscal administration, financial governance, or the type of Transfer Funds (DAU/DAK) received, to understand the true determinants of Regional Fiscal Capacity.

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