

Analysis of Economic Performance as the Independence Indicators of Government in East Java Province

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— *Review of* —
**Integrative
Business &
Economics**
— *Research* —

ABSTRACT

The development of regional autonomy in general was not linearly related with the financial condition of East Java Province which is less supported by funding sourced from local revenue (PAD). Therefore, the region required to manage its development independently. This gives rise to fulfillment of fiscal independence and freedom in collecting local revenues. The purpose of this study was to analyze the independence with economic indicators including: local revenue contribution to total local revenues, Routine Capability Index, and the ratio of Regional Financial Capability. Regional autonomy is expected to become self-sufficient in the management of the authority, which is marked by the growing strength of the fiscal capacity or local revenue. Meanwhile, the region was given assistance from the central government in the form of matching funds. However, the initial goal was to realize the autonomy of local fiscal capacity, which is strong in supporting the creation of regional autonomy. This study used the theories of the regional financial capacity including the regional financial theory, the theory of regional autonomy and fiscal decentralization. Results from this study shows that the proportion of the contribution of local revenue (PAD), Routine Capability Index (IKR) and regional financial capacity (KKD) ratio in the East Java were very low, which implies that the level of independence in East Java was very low.

Keywords: Regional Autonomy, Independence Regional, Local Revenue.

I. INTRODUCTION

The implementation of regional autonomy since January 1, 2001 has implications on the delegation of authority between the center and the region in various fields. Related policies set forth in Law No. 22 of 1999 on Regional Government and Law No. 25 of 1999 on Financial Balance between Central and Local Government. The policies were renewed with the issuance of Law No. 32 of 2004 and Law No. 33 in 2004. The passage of this legislation provides an opportunity for the region to explore the potential of local region and improve its financial performance in order to realize the region's autonomy. Law No. 32 of 2004 emphasizes the division of authority and functions (power sharing) between the central and local governments.

While Law No. 33 of 2004 regulates the distribution of financial resources (financial sharing) between the central and the region based on the principles of "money-follows-function" or "money follows authority". That is, the delivery of the regional

authority is also coupled with the delivery of financing sources that were previously held by the central government (Mahi et al, 2001).

Law No. 32 of 2004 and Law No. 33 of 2004, known as the Law on Regional Autonomy, are the legal basis for the implementation of fiscal decentralization in Indonesia. With the enactment of Law No. 32 of 2004, there will be an expansion of the local government authority. Law No. 33 of 2004 will increase fiscal capacity. Therefore, regional autonomy is expected to be a bridge for local governments to promote economic efficiency. It is expected that the efficiency of public services to encourage local economic growth and improve the welfare of local residents through various multiplier effects of decentralization (Khusaini, 2006). The financial relations between the authority and regional centers can be seen in Figure 1.

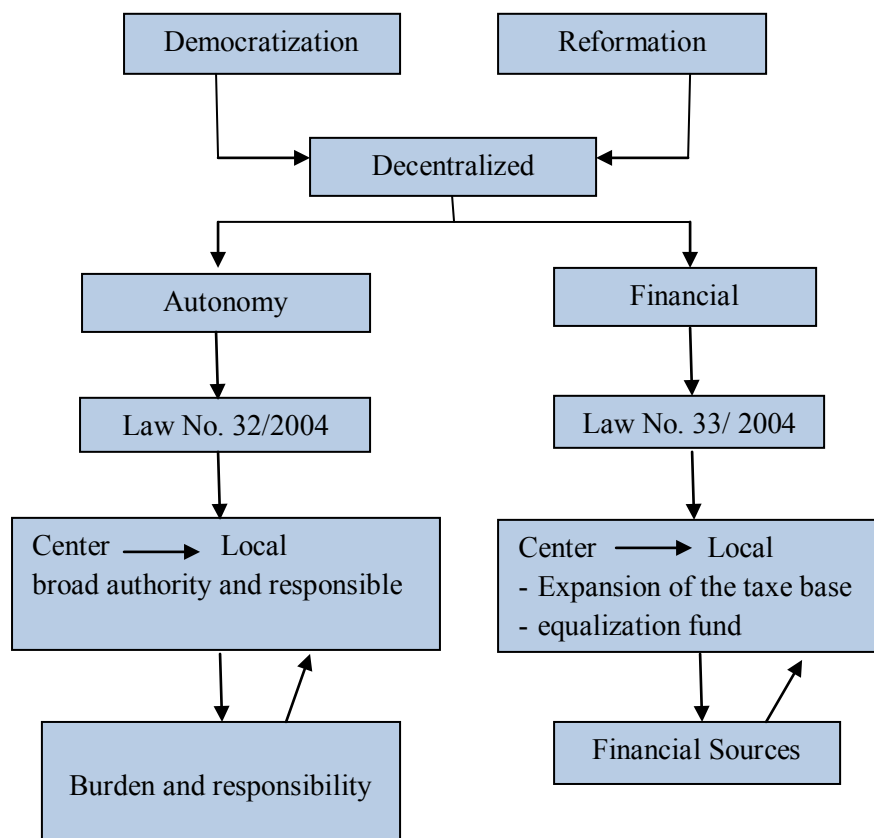


Figure 1: Authority Patterns and Relations Between Central Financial and Regional Financial in the Decentralized

The essence of autonomy or decentralization is democratization and empowerment. Regional autonomy as the embodiment of democracy means the equality relationship between the center and the regions, where regions have the authority to regulate and manage the interests, needs and aspirations of its people. While local autonomy as a form of regional empowerment is a process of learning and reinforcement for the regions to be able to organize, administer and manage the interests of their own community and aspiration. Thus, the area will gradually strive to be independent and break away from dependence on the center.

Seeing the financial condition of the area around Indonesia on decentralization is very different with the financial condition of the area before decentralization. As grants, particularly the transfer of central funds allocated to the financing of regional autonomy has been flowing and increasing from year to year in relatively large amounts. From 25.9 trillion rupiah before the fiscal decentralization, to about 88.1 trillion rupiah in 2012. The details can be seen on regional autonomy and fiscal decentralization of local government expects to have greater independence in the financial area. Therefore, the role of PAD determine the financial performance area.

Financial performance measurement area that many do today, among others, by looking at the ratio of revenue to the budget. In principle, the greater the contribution of revenue to the budget will show a smaller dependency to the central area. One thing to note is the increase in revenue does not mean areas should be competing to create a new tax, but rather on efforts to optimally exploit the potential of the region.

The success of the implementation of regional autonomy can not be separated from the region's ability to regulate and manage their household independently. According to Kaho (2001:124), to determine the real ability of the region to manage and take care of their household independently, one criterion is self-supporting capability in the field of finance. In other words, the financial factor is an essential factor in assessing the region's ability to implement the autonomy. Along with handing over authority to the regions, along with the delivery and transfer of financing, regional income is expected to be the main support in financing regional spending. The greater the expenditure that can be financed by revenue-owned area, the higher the level of independence of a region in implementing autonomy.

However, the reality shows that the development of the area did not show any increase in self-sufficiency. According Mardiasmo (2002: 155), source of revenue in the context of the current economic and decentralization is still dominated by aid and donations in the form of general allocation funds, a special allocation of funds, and profit sharing. The study of Susilo and Adi, as well as Setiaji and Adi in 2007 (in Adi, 2008: 3) provide empirical facts no increase in the contribution (share) PAD to shopping areas. Regional funding instead rely more on other sources of financing. The study of Halim and Abdullah in 2003 (in Adi, 2008: 3) provide evidence that the DAU (General Allocation Fund) has a much stronger influence on regional expenditure rather than the influence of the PAD to the shopping areas. Regions tend to maintain DAU revenues due to very large numbers rather than strive to increase their own income. Giving DAU was supposed to be a stimulus increase the independence of the region, it responded differently by region. The area does not become more independent, but increasingly dependent on central government. Adi (2008: 3) gives an indication of the seriousness of the areas lacking in optimizing potential, rely more on the DAU grants to be used.

The study of Haryanto (2006:8) suggests that the ability of the resulting PAD provinces in Indonesia related to its obligation to finance routine spending is still low. Only in a few provinces that have the ability PAD outweigh the financial obligations of its routine expenditure from 2000 to 2002. Some provinces include Jakarta, West Java, Central Java, East Java and North Sumatra. Based on these studies revealed that the East Java province, is the province that has the ability PAD exceeds the capabilities of its routine expenditure. That is to say the level of independence of the province of East Java is relatively high.

Dati (Regional Level) II is the division of administrative regions in Indonesia after Dati I, namely the province. Dati II can be Dati II district or Dati II municipality. Since

the enactment of Law No. 22 of 1999, Dati II district known as districts, and Dati II municipality is replaced by the term city. Differences with the municipal district is on demographics, spacious, and the area's main business sectors. Regency is a form of government headed by a regent while the city led by the mayor. In general, both countries and cities have the same authority. The district is not a subordinate of the province, because the regent or mayor is not accountable to the governor. District and city is an autonomous region that is authorized to regulate and manage the affairs of his own government.

Until 2001, East Java province is divided into 29 districts and 8 cities. In 2002, there was one area of the city, namely Batu, so municipalities in East Java to 9 cities. This 9 city of which are Kediri, Blitar, Malang, Probolinggo, Pasuruan, Mojokerto, Madiun, Surabaya, Batu. With the number 38 Dati II, East Java Province is administratively divided into 29 districts and 9 cities (BPS, 2002: 10). Ruled districts in rural areas, whereas in urban cities (Devas, 1989: 2). District includes the villages and countryside, while the cities only village. Natural and cultural conditions of each county and the city is relatively different from one another. This leads to differences in the natural conditions of natural resources also differ between regions with each other. With the decentralization policy, expected to each local government is able to explore the potential of the region through PAD Dati II to compete with others in the public welfare.

One indicator of the level of independence of the most prominent is the area of local finance. Associated with a background that has been described, the journal aims to explain the independence of the city government in East Java in 2007-2013 using economic indicators, among others: the calculation of revenue contribution to total revenues, Routine Capability Index, and the ratio of Regional Financial Capacity.

II. RESEARCH METHODS

This study was conducted in 9 municipalities in East Java province with the object of study is the economic performance of the region consisting of PAD contribution Proportion of total regional revenue, IKR, the ratio of KKD. This study uses the proportion of revenue contribution to total revenues, IKR, KKD ratio in 9 municipalities in East Java province in the period 2007 to 2013 to the level of the region's autonomy.

a. The proportion of contribution of PAD to Total Regional Revenue

Condition that an area can be regarded as an independent autonomous region is if the area has a percentage of revenue contribution to total revenues, a minimum of 30%. To determine the revenue contribution to total revenues, defined as follows (Widjaja, 2001: 41):

$$Pi = \frac{Xi}{Yi} \times 100\%$$

Where:

Pi = The proportion of revenue contribution to total regional revenue

Xi = PAD

Yi = Total income areas

Criteria:

Pi \geq 30% mean, capable of performing autonomous areas independently.

Pi < 30% mean, the area has not been able to implement regional autonomy independently.

b. IKR

To calculate the level of the region's ability to finance its routine expenditure used calculation method IKR regional (Esmara, 1986: 226). The number of IKR regional obtained by the ratio between the total amount of local revenue with total area of routine expenditures annually. Mathematically IKR can be formulated as follows:

$$IKR = \frac{PAD}{\text{Total expenditure routine area}} \times 100\%$$

Criteria:

IKR ≥ 100, meaning that local governments have been able to finance all routine expenses with their own local income.

IKR < 100, meaning that local governments have not been able to cover all the expenses routine with its own local income.

c. KKD ratio

To determine the level of local autonomy can also be seen from the local financial independence. Local financial independence can be calculated by the ratio of KKD, which can be formulated as follows (Halim, 2001: 128):

$$KKD = \frac{PAD}{\text{The provincial government assistance and loans}} \times 100\%$$

This ratio describes the financial ability and the pattern of the relationship between the central government and local governments. Financial ability and the pattern of relationships between central government and local governments can be presented in a matrix as shown in Table 1.

Table 1: Ratio KKD, Financial Capability, and the pattern of relationship between the Central Government and Local Government

KKD ratio (%)	financial capability	relationships pattern
0 – 25	Very Low	instructive
> 25 – 50	Low	Consultative
> 50 – 75	Average	participatory
> 75 – 100	High	Delegative

Source: Hersey and Blanchard (2001: 168)

This study was conducted in 9 municipalities in East Java as a research location. Location of the study can be seen in the map below.



Figure 2. Research Location Map

III. EMPIRICAL RESULT

1. Data Analysis

1.1 Calculation of proportion contribution of PAD to Total Regional Revenue

The proportion of the contribution of PAD became the basis for explaining how much percentage contribution to total revenue PAD regional. If the area has a proportion of the contribution of at least 30%, then the area can be said to be significantly able to implement regional autonomy. The development of the proportion of the contribution of PAD in the municipality in the province of East Java from fiscal year 2007 to fiscal year 2013 experienced a different development. The development of the proportion of the contribution of PAD at city government in East Java province can be seen in Table 2 as follows:

Table 2: Proportion contribution of PAD to Total Revenue Region in the City in East Java Provincial Fiscal Year 2007-2013 (in%)

City	2007	2008	2009	2010	2011	2011	2013
Kediri	8,90009	9,72710	13,49810	15,03548	17,11128	19,00186	
20,99951							
Blitar	5,67855	8,06935	11,80156	10,83841	12,45913	11,05945	
9,28164							
Malang	19,07689	13,80107	12,53943	14,08507	14,32090	11,40854	
13,51144							
Probolinggo	10,57999	8,93547	10,25531	10,06548	10,89908	9,46469	
9,35146							
Pasuruan	5,16330	7,94192	9,08981	8,04739	7,78925	8,65710	
6,00424							

Mojokerto 8,64888	5,00965	5,86231	7,39013	8,47619	7,20262	7,89587
Madiun 6,81387	6,20585	4,84674	11,28080	6,88484	8,06995	6,70921
Surabaya 27,47930	27,47468	25,42806	30,26214	30,87333	25,86436	26,66405
Batu 4,66693	-	10,95633	5,91229	4,93956	4,34690	4,59867
Total	88,08900	95,56835	112,02957	109,24575	108,06347	105,45944
Average	11,01113	10,61871	12,44773	12,13842	12,00705	11,71772
	11,86192					

In 2007 the city of Surabaya has the highest proportion of revenue contribution, followed by Malang, Probolinggo, and then followed by other cities. The proportion of the contribution of the lowest PAD owned by Mojokerto. The proportion of revenue contribution Surabaya nearly 30% of the total income of the region, which is 27.47468%. The proportion of revenue contribution Malang is 19.07689% and the proportion of revenue contribution Probolinggo 10.57999%. While the average contribution of PAD in 5 other cities that is 6.22222%. The average proportion of the contribution revenue of all cities in East Java province in 2008 is 11.01113%. This year none of the cities that have contributed revenue of $\geq 30\%$, then the city in East Java can not be said to be capable of implementing regional autonomy independently.

1.2 Calculation Results IKR on Municipalities in East Java

To calculate the level of the region's ability to finance its routine expenditure used calculation method IKR area (Esmara, 1986: 226). Figures IKR area obtained by the ratio between the total amount of local revenue with total area of routine expenditures annually. If $IKR \geq 100\%$, local governments have been able to finance all routine expenses with their own local income.

IKR development in the municipality in the province of East Java from fiscal year 2007 to fiscal year 2013 experienced a varied development. This is due to the potential of each city also diverse that will affect the ability of local governments to finance the budget is the area that most minimum expenditures. IKR developments in city government can be seen in Table 3.

Table 3: IKR the Municipalities in East Java province FY 2008-2013 (in%)

City	2007	2008	2009	2010	2011	2012	2013
Kediri 16,02619	14,02542	16,68199	12,02537	14,27139	16,64391	16,33213	
Blitar 8,93476	8,34164	16,53841	11,85496	11,09794	12,66823	11,29993	
Malang 13,42829	13,90179	20,24971	12,78356	13,45333	14,05752	12,1921	

Probolinggo	19,38368	13,71921	9,72898	9,07720	11,11107	10,3872
	12,82026					
Pasuruan	11,98888	21,49515	8,85163	6,62529	8,16591	9,25466
	6,15460					
Mojokerto	7,67913	10,06332	7,50222	8,23994	6,87737	7,3173
	7,78541					
Madiun	13,54548	14,92423	8,63220	6,22481	9,02086	6,41184
	8,06346					
Surabaya	38,14416	41,57397	32,38966	24,82825	37,43203	36,80065
	36,17992					
Batu	8,34164	33,93126	5,91742	4,39141	5,21790	5,53028
	4,37815					
Total	127,01018	189,17725	109,68599	98,20956	121,19480	115,52627
	113,77104					
Average	15,87627	21,01969	12,18733	10,91217	13,46609	12,83625
	12,64123					

Source: BPS Data East Java province, is processed.

In fiscal year 2007, the average IKR owned by the city government that is 15.87627%. IKR highest figure in this fiscal year amounted to 38.14416%. This figure is achieved by Surabaya which is the center of growth in East Java province. This shows that Surabaya through revenue earned able to finance approximately 38.14416% of all routine expenditure. While the smallest number is 7.67913% IKR obtained by Mojokerto.

In the fiscal year 2007 to 2013, Surabaya has IKR the highest compared with other cities in East Java province. In the period of the financial year none of the cities that have $IKR \geq 100\%$. Therefore, it can be said that since the implementation of regional autonomy in 2004 municipalities in East Java province has been unable to fund the minimum expenditure.

1.3 Calculation Results KKD ratio in municipalities in the province of East Java

KKD ratio shows the ability of local governments to finance its own activities of governance, development, and service to the public who have paid taxes and levies as a source of income needed by the regions. KKD ratio illustrates the extent to which the region's dependence on external funding sources. The higher this ratio means that the level of regional dependency on external parties help (especially the central and provincial governments) are getting low. Vice versa, the lower the ratio KKD achieved by a particular area of the city, meaning the level of dependence of the city on the external assistance is increasing.

KKD with the ratio obtained by the city area will be known the extent of the city's financial capability very low, low, medium, and high. In addition, it can also be known pattern of relationships between central government and local governments. The higher the ratio KKD city, the city government's dependence on the central government wane, so it could be said the city can be more independent, and vice versa. Development KKD ratio achieved by the city government in East Java province in Table 4.

Table 4: Ratio KKD on Municipal Government in East Java province FY 2007-2013 (%)

Cuty	2001	2002	2003	2004	2005	2006	2007
Kediri	10,63762	14,24112	18,32641	20,64201	22,63526	26,16358	
30,24188							
Blitar	6,40302	11,03368	14,94835	14,04820	14,76487	12,43839	
10,23127							
Malang	29,20409	18,77782	16,79096	18,80355	18,94625	12,87770	
15,62222							
Probolinggo	12,54412	11,50895	12,40333	12,14801	12,76813	10,56398	
10,41626							
Pasuruan	5,58627	10,85669	11,44555	9,08549	8,72500	9,47759	
7,23814							
Mojokerto	5,34863	6,95319	8,46905	10,19410	7,93591	8,75247	
9,65305							
Madiun	6,72181	7,28752	12,71515	7,76490	8,99993	7,19172	
7,31211							
Surabaya	40,82463	51,30211	56,73772	54,90806	34,88790	36,35877	
37,89166							
Batu	-	12,43885	6,44122	5,58141	5,86543	5,18234	
5,41592							
Total	117,27019	144,39993	158,27774	153,17573	135,52868	129,00654	
134,02251							
Average	14,65877	16,04444	17,58642	17,01953	15,05874		14,33406
14,89139							

The financial capability of autonomous regions can be categorized into very low, low, medium, and high depending on the level of financial independence. KKD obtained from the ratio as shown in Table 4 above, the map categories of financial capability autonomous region 9 cities in East Java province can be seen in Table 5.

Table 5: Financial Capability Government of TA in East Java from 2001 to 2007

Kota	2007	2008	2009	2010	2011	2012	2013
Kediri	Very Low	Very Low	Very Low	Very Low	Very Low	Low	Low
Blitar	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Malang	Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Probolinggo	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low

Pasuruan	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Mojokerto	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Madiun	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low
Surabaya	Low	Midle	Midle	Midle	Low	Low	Low
Batu	-	Very Low	Very Low	Very Low	Very Low	Very Low	Very Low

Source: Table 3

The average financial capacity of the city government in East Java province in fiscal year 2007 to 2013 in the category of very low because the KKD ratio is at a value of 0 to 25%. Only Kediri, Malang and Surabaya who had been in the low category even moderate. In the fiscal year 2007 to 2013, the ratio of KKD Surabaya always be at a value of > 25%. In fiscal year 2007, the ratio of KKD Surabaya at 40.82463%, so that the financial capacity of the region is at a low category. In fiscal year 2008 to 2010 the ratio of KKD Surabaya rose, stood at > 50%, therefore the financial capacity of Surabaya can be said to be in the medium category. While in the next budget year, the fiscal year 2011 to 2013, the ratio declined Surabaya KKD stands at > 25%, and the financial capacity of the region is at a low category.

Based on the degree of financial independence in the municipality in the province of East Java in the above, it can be mapped patterns of relationship central government and municipal authorities in the province of East Java, as shown in Table 6 below:

Table 6: The pattern of relationship between the Central Government and the City in East Java Provincial Fiscal Year 2007-2013

City	2007	2008	2009	2010	2011	2012	2013
Kediri	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive	Consultative
Blitar	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive
Malang	Consultative	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive
Probolinggo	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive
Pasuruan	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive
Mojokerto	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive
Madiun	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive	Instructive

Surabaya Consultative Participation Participation Participation Consultative Consultative
Consultative

Batu - Instructive Instructive Instructive Instructive Instructive Instructive
Source: Table 5

The pattern of relationships between central government and local governments at city government in East Java province in fiscal year 2007 to 2013, the most dominating pattern of relationships is instructive relationship patterns, which could mean that the central government's role is more dominant than the independence of local government itself. Or in other words the area are not able to implement regional autonomy financially. In fiscal year 2012 and 2013, the pattern of the central government's relationship with the Government of Kediri is consultative, which means the intervention of the central government has begun to diminish and more on providing consultation for the area is considered a little more able to implement regional autonomy. Malang and Surabaya also has a pattern of consultative relationship. That is the pattern of the relationship between the central government and the city government is a pattern where the central government's role diminishing given the level of independence of the autonomous region in question approached able to carry out the affairs of autonomy. Role of consultancy switch to the role of the central government participation. Since fiscal year 2007 and 2013, none of the cities that have a discretionary relationship, namely the intervention of the central government is no longer there because the area has been completely capable and independent in carrying out the affairs of regional autonomy.

IV. CONCLUSION

Results of this study explained that the economic performance as an indicator of independence in city government in East Java Province as follows:

- (1) The results of an analysis of the proportion of revenue contribution to total revenues, average contribution PAD cities in East Java has not been fully economically independent.
- (2) Data from IKR development, the average ability of cities in East Java in financing minimum expenditure, ie routine expenditure of local revenue far below 100%. In financing regional expenditure, more use of external funds (funds in addition to PAD). PAD cities accounted for only slightly in the financing area, therefore the city in East Java has not been able to independently.
- (3) KKD ratio shows the average of financial capability should be in the ratio of 0-25%. This indicates the financial capacity of cities in East Java on the condition of very low/low. In the reception area, the cities in East Java is highly dependent on external funds rather than the acquisition of its own revenue. The majority of the pattern of the relationship between the central government and municipal authorities are instructive, namely the role of the central government is more dominant than the independence of the municipal. The municipal is not able to implement financial autonomy. Only Surabaya, which is at the level that is better able to carry out financial autonomy compared with other cities.

V. RECOMENDATION

The study provides recommendations relating to the performance of the economy as indicator independence in municipalities in East Java Province as follows:

- (1) Need an attempt to increase revenue in order to reduce dependence on aid from the central government. Policies that can be taken are:
 - a. Intensification, that efforts to increase PAD from sources that already exist for this, which can be realized by activities such as the increase in tax collection activities, awarding prizes to those who pay taxes on time and fines for late, pressing waste and others.
 - b. Extension, that an effort to increase PAD by finding and exploring revenue sources new area within the limits of statutory provisions in force, such as adding items local taxes, levies and others.
- (2) Determination of the amount of equalization funding needs of the center should be accompanied by an increase in revenue.
- (3) Improve and enhance the facilities/infrastructure in the public interest that would increase taxes and levies, as well as managing existing business entities with a good area, so expect to prevent leaks.
- (4) The municipal in order to better coordinate the institutions concerned and provide and opportunity for Parliament to take the initiative in setting local regulations as a legal basis to collect funds in order to increase local revenue (PAD).

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