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The Analysis of Financial Capacity Level of Parent Regional Government in Indonesia Before and After Proliferation of Administrative Region

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***Abstract*— This research aims to find out the level of financial capacity of regional government in Indonesia before and after the proliferation of administrative region. The level of financial capacity is measured using analysis of local financial ratio consisting of regional financial independence ratio, degree of fiscal decentralization ratio, Local-Own Source Revenue (OSR) per capita growth analysis, and OSR effectiveness ratio. The number of sample used in this research is 15 districts in Indonesia which were split in 2008, 2012, and 2013 using purposive sampling method. Data used in this research is secondary data of Budget Realization Report of State Budget from Directorate General of Fiscal Balance of Ministry of Finance of Republic of Indonesia. Technique used to analyze data is analysis of local financial ratio and t-test (paired sample test). The result of t-test shows that there is significant difference between regional financial independence and degree of fiscal decentralization before and after the proliferation of administrative region. There is no significant difference between the OSR per capita growth and OSR effectiveness either before or after the proliferation of administrative region.**

***Keywords*- Level of Financial Capacity, Parent, Regional Government, Indonesia, Before and After Proliferation of Administrative Region**

I. INTRODUCTION

The existence of regional autonomy policy in Indonesia causes the increasing of new autonomous region through administrative region proliferation. In 15 years, from 1999 until 2014, 223 autonomous regions have been formed that consists of 8 provinces, 182 regencies, and 33 cities.

Proliferation of administrative region according to Law Number 23 Year 2014 is aimed to increase people's prosperity through the increasing of service, equalization, justice, and regional competitiveness. Proliferation of the region also aims to make the region more focus and maximize in managing potential resources in order to increase Local-Own Source Revenue (OSR). Regional autonomy also appointed to make local government independent in managing their income and expenditure (Kotarba and Kolomycew, 2014). According to Halim (2007), OSR must be the biggest financial source to minimize dependency on central government. OSR is the reflection of regional's independency, the highest OSR so the more independence that region. In consequences, local government is capable to give public services in order to realize people's prosperity.

Total of OSR in Budget Realization Report 2010-2012 that published by Director General of Fiscal Balance of Indonesian Finance Ministry,

shows that several proliferation regencies in 2013 obtain the lowest OSR among other regencies in one province. West Kutai Regency in 2010-2012 is the third lowest OSR among other regencies in East Kalimantan. In 2010-2012, Banggai Island Regency is the third lowest OSR among other regencies in Central Sulawesi. Also, Sula Island Regency in 2010-2012 is the fifth lowest OSR in North Maluku. Lower regional revenue may disturb public services which in line with a research by Toyin (2015), that explains income problems disturb administrative service in Nigeria.

Besides the not-well phenomenon of OSR in parent region, the proliferation issue is usually made as political purpose by several leaders of parent region government. They often forget the original purpose of proliferation region as it is set in applicable regulation. Kerinci Regency in Jambi is one of the regions that often use proliferation issue. In 2008, the first proliferation region happened that result in new autonomous region, Sungai Penuh City. Nevertheless, after the proliferation, parent region and new autonomous region have an issue which is asset dispute (Jambi Ekspres, 2012). Besides, Kerinci's government main office in Central Bukit, Siulak District has not yet occupied after ten years proliferation and it affects services for community as it is purposed in proliferation region. Several years after proliferation region, Kerinci's total of OSR compared with the total regional income is still low and even it does not significantly increase that only around 4%-7%. In general election 2018, one of the Kerinci Regent candidates bring the proliferation issue again in which the splitting of Kerinci into Kerinci Hilir and Kerinci Mudik. Proliferation of administrative regions should carefully consider the original purpose of the proliferation itself not as politic interest.

After proliferation of administrative region is conducted, the development of financial capacity is needed to be measured and analyzed. To measure regional financial capacity, it needs analysis and regional financial ratio that consists of Regional Financial Independence Ratio, Degree of Fiscal Decentralization Ratio, OSR Per Capita Growth Analysis, and OSR Effectiveness Ratio.

Based on the explanation above, this research aims to know the financial capacity of parent regional government in Indonesia before and after proliferation of administrative region. This research is expected to give more knowledge related to regional financial capacity and to be a reference for the future research related with the topic. In addition, this research also expected to be government consideration before approving proliferation of region.

II. Literary Review And Hypothesis Development

1. Regional Financial Capacity

Regional financial capacity is a measurement to see financial capacity of regions in conducting their autonomy. The measurement may take form in financial and non-financial indicators from an activity and its result in an organization (Halim, 2004).Regional financial capacity means how a region can get their own financial resources to pay their needs without depends on central government assistance (Susiati et al, 2017).

2. Regional Financial

Law Number 32 Year 2004 Article 156 Paragraph 1 defines that Regional financial is all of rights and obligations which can be valued by money or items that may be owned by a region related to the implementation of their rights and obligation. Meanwhile, according to Rossen (2002), public finance is an economic branch which examines taxation and government's expenditure activity. Public finance encompassing state's expenditure, income, administrative, stability and development, also the influence of income and state's expense (Jaelani, 2015).

Based on the description above, regional finance is all rights and obligations including region's wealth that can be valued with money and to be used to conduct local government.

3 Autonomous Region

Autonomous region is the authority of autonomous region or local government to arrange their own government and people's interest based on their own initiative and appropriate with applicable laws and regulations (Widjaja, 2002).

Based on Law Number 23 Year 2014, autonomous region is region's rights, authority, and obligation to arrange and manage their government and people's interest in system of Indonesia. Autonomous region is purposed to increase and develop people's prosperity (Badrudin and Siregar, 2015).

4 Proliferation of Administrative Region

Based on Government Regulation Number 78 Year 2007, proliferation of region is splitting a province or regency or city into two or more regions. Thus, proliferation of region is elaboration of one autonomous region into two or more autonomous regions.

5 Regional Financial Capacity Ratio

To calculate regional financial capacity, the used analysis and financial ratios are as follows:

1.1 Regional Financial Independence Ratio

It is calculated by dividing local-own source revenue with transferred income from central government and loan of the region (Mahmudi, 2016).

1.2 Degree of Fiscal Decentralization Ratio

Fiscal decentralization is very needed to increase local government role in order to optimally manage potential resources in a region. Decentralization may also make government more responsible and responsive in conducting government (Faguet, 2014). Ratio of decentralization degree can be calculated from comparing OSR and total revenue. This ratio shows OSR contribution in region's total revenue (Mahmudi, 2016).

1.3 OSR Per Capita Growth Analysis

Income growth analysis comes in handy to know whether budget performance of local government in the related budget year or during several years of budget period is experiencing positive or negative growth (Mahmudi, 2016).

1.4 OSR Effectiveness Ratio

Effectiveness ratio depicts local government capacity in realizing the planned local-own source revenue compared to the target based on region's real potency (Halim, 2007).

6. Hypothesis Development

1.1 The Differences of Financial Capacity Level of Parent Regional Government Before and After The Proliferation of Administrative Region

Financial capacity level of parent regional government before and after the proliferation needs to be measured again. It aims to see the development of OSR and regional financial capacity after the proliferation. A research by Indonesian Ministry of National Development Planning (2003) states that in general, from OSR performance indicator, the provinces in West Indonesia have better financial capacity than the provinces in East Indonesia. Provinces which have abundance natural resources do not mean they also have a good OSR performance.

Basically, proliferation of administrative region is functioning to increase government capacity in managing potential resources that owned by regions as well as increasing their independency. Nonetheless, several researches show that proliferation of administrative region has not fully raised region independency. It is in line with a research by Mengkuningtyas and Adib (2015) that states proliferation of administrative region has not given development on parent regional government performance based on financial independency. Meanwhile, a research by Nufus et al (2017) shows that average financial performance of South Tangerang government in independent financial aspect in 2004-2010 is beyond 100%. According to Kamaroellah (2017), the average financial independency ratio of Pamekasan Regency is 36,53%. The amount which still between 25%-50% is considered as instructive relationship pattern in which the capacity of Pamekasan Regency in fulfilling funds to conduct government, establishment, and public services is still low even it undergoes increases and decreases from year to year.

In autonomous region practice in Indonesia, fiscal decentralization is applied where the regional government has the bigger authority to manage regional potential resources in order to increase regional income. Nevertheless, a research by Towa (2012) states that there are significant differences on financial capacity before and after proliferation in Ngada Regency that is shown by Degree of Fiscal Autonomy. It shows that proliferation of administrative region in Ngada Regency increases their financial capacity through Degree of Fiscal Autonomy indicator. Meanwhile, a research by Mariani (2013) states, that there is no difference of financial performance in fiscal decentralization aspect after the proliferation of administrative region. It is in line with Mulatsih (2014) that explains there are no significant differences between the average of fiscal decentralization of regencies in South Sumatra Province before and after the proliferation. According to Renyaan et al (2012), fiscal autonomy during autonomy period is capable to increase financial performance of a region that causes by several factors.

Other than increasing independency and manage potential resources, proliferation of administrative region is aimed to make local government capable to increase regional revenue from year to year and realize the planned budget. However, the research by Mengkuningtyas and Adib (2015), also Sebastiana and Cahyo (2016) explain that there is no difference on local government financial performance in OSR aspect before and after the proliferation of the region. Meanwhile, the research by Sulistyawan (2013) states that OSR Effectiveness Ratio is increasing compared to the period before autonomous region. It is in line with Renyaan et al (2012) that explain after autonomous region applied in Indonesia, autonomous fiscal policy is capable to increase effectiveness and efficiency regional financial performance. Based on the description above, hypotheses are made as follows:

H1a : There are no significant differences on parent regional government financial capacity before and after proliferation of administrative region in independency aspect.

H1b : There are no significant differences on parent regional government financial capacity before and after proliferation of administrative region in degree of decentralization fiscal aspect

H1c : There are no significant differences on parent regional government financial capacity before and after proliferation of administrative region in OSR per capita growth aspect

H1d : There are significant differences on parent regional government financial capacity before and after proliferation of administrative region in OSR Effectiveness aspect.

III. Research Method

1 Population and Sample

The population of this research is all of parent regions (regencies/cities) that are expanded from 1999-2014 in Indonesia that consists of 150 regencies/cities. Sample of this research is 15 parent regions (regencies/cities) that are expanded in 2008, 2012, and 2013 by using purposive sampling method. The analysis of financial capacity and field service is conducted in 3 years before and after proliferation of administrative region. The regencies/city that become sample are Muara Enim Regency, Musi Rawas Regency, Belu Regency, West Kutai Regency, Banggai Island Regency, Morowali Regency, Kolaka Regency, Mamuju Regency, Sula Island Regency, Konawe Regency, Manokwari Regency, Labuhanbatu Regency, Ciamis Regency, and West Lampung Regency.

2. Technique of Data Collection

The used data in this research is secondary data. The data is in form of Budget Realization Report, Regional Government Budget, Gross Enrollment Rate, and Net Enrollment Rate of parent regions that are expanded in Indonesia.

The data collection method is documentation. Documentation is information that comes from important notes from institution or organization or individual (Hamidi, 2004).

3. Variable Operational Definition

Table 1. Variable Operational Definition

No	Variable	Operational Definition	Calculation Formula	Interval Scale
1	Regional Financial Independence Ratio	It is calculated by dividing Local-Own Source Revenue Ratio with transferred income from central government and also regional loan (Mahmudi, 2016)	Total OSR/Total Transfer+Loan	Very Low 0-25%, Low 25-50%, Medium 50-75%, High 75-100% (*Source : Ministry of Home Affairs No.690.900.327, Year 1996*)

Table 1. Variable Operational Definition

No	Variable	Operational Definition	Calculation Formula	Interval Scale
2	Degree of Fiscal Decentralization Ratio	It is calculated based on the comparison between local-own revenue with the total of region's revenue. The ratio shows OSR contribution degree towards the regional total revenue (Mahmudi, 2016)	Total OSR/Regional total revenue	Poor 0,00-10,00%, Less than satisfactory 10,01-20,00%, Satisfactory 20,01-30%, Satisfactory enough 30,01-40,00%, Good 40,01-50,00%, Very good>50% (*Source: Research and Development of Internal Affairs Department, 1997*)
3	OSR Per Capita Growth Analysis	The analysis of income growth is used to discover whether regional government performance undergoes positive or negative growth in their budget year (Mahmudi, 2016).	OSR realization year of t – OSR realization year of t-1/OSR realization year of t-1	
4	OSR Effectiveness Ratio	Effectiveness ratio depicts regional capacity in realizing the planned OSR comparing with the target based on regional real potency (Halim, 2007)	OSR realization income /Target OSR income	Very effective >100 %, Effective 100%, Effective enough 90-99%, Less effective 75-89%, Not effective <75 % (*Source: : Mengkuningtyas and Adib, 2015*)

4. The Technique of Data Analysis

The used analysis data in this research comes through several stages as follows:

1.1 The Analysis of Regional Financial Capacity Level

The technique of data analysis in this research uses the analysis of regional financial ratio. It aims to know the financial capacity level before and after the proliferation of administrative region. The used analysis ratios are regional financial independency, degree of fiscal decentralization, OSR per capita growth analysis, and OSR effectiveness. The result of financial capacity ratio is used to statistical testing.

1.2 Statistical Testing

The used statistical test is descriptive statistic. It is used to describe and depict variables within a research. Descriptive statistic research gives a depiction of the data through mean, deviation standard, variance, and maximum-minimum (Ghozali,2011). Afterwards, normality test is conducting to determine testing method by using Kolmogorov-Smirnov Test. The data is considered normally distributed if the significance probability is >0,05and then H0 is accepted. If the significance probability is <0,05, the data will not considered as normally distributed. The next statistical testing is different test and if the data are normally distributed, t-paired parametric test will be used. If the data are abnormally distributed, Wilcoxon non-parametric test will be used (Mengkuningtyas and Adib, 2015). From the result of the testing, when significance probability is > 0,05so the data are not different, meanwhile, when significance probability is < 0,05, thus the data are different.

IV. Analysis And Discussion

1. Analysis of Financial Capacity Level

Table 2.Financial Capacity Ratio

No	Financial Capacity (Regency)	Regional Financial Independence Ratio		Degree of Fiscal Decentralization Ratio		OSR Per capita Growth		OSR Effectiveness Ratio	
		Before Proliferation	After Proliferation	Before Proliferation	After Proliferation	Before Proliferation	After Proliferation	Before Proliferation	After Proliferation
1	Muara Enim	6,96%	9,34%	6,78%	8,03%	21,34%	8,01%	134,02%	105,54%
2	Musi Rawas	5,47%	8,91%	5,08%	7,73%	33,23%	13,23%	89,74%	109,78%
3	Belu	6,66%	11,48%	6,22%	10,16%	25,42%	5,49%	96,53%	125,08%
4	West Kutai	3,53%	5,67%	3,19%	4,79%	27,66%	-0,67%	90,84%	101,12%
5	Banggai Island	2,08%	3,23%	2,02%	3,10%	4,96%	10,82%	75,78%	122,44%
6	Morowali	3,38%	8,44%	3,12%	7,65%	36,32%	52,10%	43,67%	83,85%
7	Kolaka	5,75%	7,80%	5,14%	7,12%	5,09%	15,92%	56,95%	115,03%
8	Mamuju	3,87%	7,31%	3,49%	6,80%	29,07%	32,60%	84,58%	94,97%
9	Sula Island	2,31%	2,46%	2,25%	2,28%	38,06%	11,95%	35,90%	56,30%
10	Konawe	3,26%	5,42%	3,07%	4,71%	18,10%	35,63%	122,30%	96,87%
11	Manokwari	3,27%	5,04%	3,11%	5,05%	-7,35%	67,82%	129,53%	111,95%
12	Labuhanbatu	5,82%	8,43%	5,43%	7,51%	17,01%	9,73%	105,83%	104,49%
13	Ciamis	3,76%	7,39%	3,76%	7,39%	8,19%	29,34%	104,25%	119,84%
14	Nias	3,70%	5,22%	3,49%	4,68%	53,60%	-9,52%	107,02%	156,72%
15	West Lampung	3,00%	5,63%	3,00%	5,08%	9,12%	22,75%	148,33%	131,58%

Source: *Realization Report of Local Government Budget of Directorate-General Of Regional Fiscal Balance Within The Ministry Of Finance Indonesia (Managed Data)*

1.1 Analysis of Regional Financial Independency Ratio

By looking at table 2, the ratio of regional financial independency 3 years before and after proliferation can be seen. Based on the calculation, Banggai Island Regency is the region that has the lowest financial capacity before the proliferation with average ratio of financial independency in amount of 2,08%. The region which has the highest financial capacity is Muara Enim Regency with average ratio of financial independency in amount of 6,96%. After administrative region proliferation, the region that has the lowest financial ability is Sula Island Regency with average ratio of financial independency in amount of 2,46% and the region that has the highest financial capacity is Belu Regency with the ratio in amount of 11,48%.

Yet, the capacity of all the mentioned regions before or after proliferation is still low. It shows by financial independency ratios of all the regions before and after proliferation are less than 25%.Therefore, it can be concluded that all of the mentioned regions have instructive relationship pattern in which central government role in supporting autonomous region is bigger than the local government role. This low percentage of financial independency is in line with the result of the research by Haryanti et al (2017).The research explains that after region autonomy period, financial independence of Pangkalpinang City in 2010-2015 is very low and included as instructive. Hence, it can be concluded that the regions have instructive relationship in which central government role is bigger than local government role. This phenomenon also in line with a research by (2005) that shows almost all of regencies/cities in Indonesia are still depend on fiscal balance from central government.

1.2 Degree of Fiscal Decentralization Ratio Analysis

Based on table 2, before proliferation, Muara Enim Regency has the highest degree of fiscal decentralization ratio among 14 regencies. It can be seen from the average of degree of fiscal decentralization ratio in amount of6,78%. Meanwhile, Banggai Island Regency has the lowest degree of fiscal decentralization in amount of 2,02%. After proliferation, Sula Island Regency is the region that has the lowest degree of fiscal decentralization in amount of 2,28% and Belu Regency is the region that has the highest average degree of fiscal decentralization in amount of 10,16%.

The degree of fiscal decentralization of all regencies increase after the proliferation of administrative region. Nevertheless, before or after proliferation, degree of fiscal decentralization among 14 regencies is still very low. According to Cassette (2010) the low capacity of local government in conducting fiscal decentralization is caused by not all of local governments are ready to conduct fiscal decentralization policy. Other than that, based on Eaton (2001), fiscal decentralization in Argentina and Philippineis still not applied as the initiate plan. Before proliferation, 15 regions have the average of degree of fiscal decentralization in amount of 3,94% and after proliferation it increases to 6,13%. It means local government capacity in conducting fiscal decentralization increase in amount of 2,19% but it still considered as very low. This is different with a research by Mariani (2013) that explains that after proliferation of administrative region, there is no difference on government's financial performance in fiscal decentralization aspect. It is in line with Mulatsih (2014) that states there are no significant differences between the average of fiscal decentralization degree in South Sumatra before and after the proliferation. The result of this research is in line with a research by Towa (2012) that states there is significant different on regional financial capacity before and after proliferation of Ngada Regency that is shown by Degree of Fiscal Autonomy. It shows that proliferation policy increase financial capacity of Ngada Regency through Degree of Fiscal Autonomy.

The increasing of fiscal decentralization degree after proliferation indicates that local government capacity in managing potential resources is going better but the value of fiscal decentralization degree of the regions is still very low.

1.3 Analysis of OSR Per Capita Growth Ratio

The region that has the highest OSR per capita growth before proliferation is Nias Regency with the average growth in amount of 53,60%. Meanwhile, the lowest OSR per capita growth is Manokwari with the average growth in amount of -7,35%. After proliferation, Manokwari becomes the region that has the highest OSR per capita growth in amount of 67,82%. Meanwhile, the average of OSR per capita growth in Nias Regency is in amount of -9,52% that make Nias has the lowest OSR per capita growth after proliferation.

Proliferation of administrative region makes OSR per capita of several regions increase and decrease. On average, OSR per capita growth of all regions before proliferation are in amount of 21,32% but after proliferation it decreases to 20,35%. Hence, there is a degression of OSR per capita growth average in amount of 0,97%. It means, on average, local governments are not capable in maintaining and increasing the total of OSR per capita to the next period. However, several regions such as West Lampung Regency, Ciamis Regency, Manokwari Regency, Konawe Regency, Mamuju Regency, Kolaka Regency, Morowali Regency, and Banggai Island Regency undergo an improvementon average OSR growth per capita after proliferation. This result is different with a research by Adi (2012) that in autonomous period, OSR grows compared to the period before region autonomy conducted. One of the factors of the decreasing growth is the economic change which become serious challenge for government since among purchase tax, tax of property reduction, and threat on state assessment, only local retribution that becomes promising source as productive local revenue (Bartle et al, 2011).

The degression of OSR per capita growth after proliferation indicates that the parent regional government in Indonesia has not yet fully capable to run the main purpose of proliferation which is increasing OSR growth each year.

One of several ways to increase local revenue is new business field creation such as service industry that may give positive effect on increasing of local tax (Wong, 2004).

1.4 Analysis of OSR Effectiveness

Based on Table 2, West Lampung Regency is the most effective region that manages OSR before proliferation. It is shows by the average of effectiveness ratio in amount of 148,33% which is the highest among other regions. The other regions that have effective financial performance are Muara Enim, Konawe, Manokwari, Labuhanbatu, Ciamis, Nias, and West Lampung with effectiveness ratio >100%. Meanwhile, the region that is least effective in managing OSR before proliferation is Sula Island Regency with the amount of effectiveness ratio 35,90%.

After the proliferation of administrative region, Nias Regency becomes the most effective region in managing OSR with effectiveness ratio in amount of 156,72%. Meanwhile, West Lampung, Ciamis, Labuhanbatu, Manokwari, Kolaka, Banggai Island, West Kutai, Belu, Musi Rawas, and Muara Enim are categorized as very effective in managing their financial with the average of effectiveness ratio >100%. Nevertheless, Sula Island regency becomes the most ineffective region in managing their lowest OSR among other regions with effectiveness ratio in amount of 56,30%.

On average, OSR effectiveness ratio of all regions before proliferation is 95,01% and become 109,04% after proliferation. Thus, there is an improvement in amount of 14,03%.The increasing of OSR effectiveness is in line with a research by Sulistyawan (2013) state that OSR effectiveness ratio is increasing than the period before region autonomy applied. It also in line with Renyaan et al (2012) that state, after autonomous region is applied in Indonesia, fiscal autonomy policy is capable to increase the effectiveness and efficiency of local government financial performance.

According to Halim (2007), effectiveness ratio portrays the capacity of local government in realizing the planned local own revenue compared with the target based on regional real potency. It means, the result shows the capacity of local government in realizing the planned total OSR within Regional Budget Plan is going better and more effective from year to year.

2 Statistical Testing

1.1 Descriptive Statistic of Regional Financial Capacity

Table 3.Descriptive Statistic of Regional Financial Capacity

	Period	Statistics			
		Minimum	Maximum	Mean	Std. Deviation
Regional Financial Independence Ratio	Before Proliferation	2,08	6,96	4,15	1,5058
	After Proliferation	2,46	11,48	6,78	2,4125
Degree of Fiscal Decentralization Ratio	Before Proliferation	2,02	6,78	3,94	1,4334
	After Proliferation	2,28	10,16	6,13	2,1015
OSR Per capita Growth	Before Proliferation	-7,35	53,60	21,32	15,8325
	After Proliferation	-9,52	67,82	20,35	20,3245
OSR Effectiveness Ratio	Before Proliferation	35,90	148,33	95,01	32,4613
	After Proliferation	56,30	156,72	109,04	22,7370

***Source**: SPSS Output (managed data*

Based on the result above, the level of regional financial capacity is as follows:

a. Regional Financial Independency Ratio, before proliferation, the minimum value is in amount of2,08and the maximum value in amount of 6,96. The average of financial independency is 4,15with deviation standard in amount of 1,5058. After proliferation, the minimum value of regional financial independency is 2.46 and the maximum value in amount of 11,48. The average amount of regional financial independency is 6,78with the deviation standard in amount of 2,4125.
b. Degree of fiscal decentralization ratio. Before proliferation, the minimum value of fiscal decentralization degree is 2,02and the maximum value in amount of 6,78 with the average number in amount of 3,94 and deviation standard in amount of 1,4334. After proliferation, the minimum value of fiscal decentralization becomes 2,28and the maximum value in amount of 10,16 also with the average number in amount of 6,13 and deviation standard in amount of 2,1015.
c. OSR per capita growth. Before proliferation, the minimum value of OSR per capita growth is -7.35 and the maximum value in amount of 53,60 also the average number in amount of 21,32 with deviation standard in amount of 15,8325. After proliferation, the minimum value of OSR per capita growth is in amount of -9,52and maximum value in amount of 67,82, the average number in amount of 20,35, and deviation standard in amount of 20,3245.

d. OSR effectiveness Ratio. Before proliferation, the minimum value of OSR effectiveness is 35,90, the maximum value in amount of 148,33, the average number in amount of 95,01 with deviation standard in amount of 32,4613. After proliferation, the minimum value of OSR effectiveness turns into 56,30, the maximum value in amount of 156,72, the average number turns into 109,04 with the deviation standard in amount of 22,7370.

1.2 Normality Test on The Data of Regional Financial Capacity Level

Table 4.Normality Test of Regional Financial Capacity Data

Statistics	Before Proliferation		After Proliferation	
	Kolmogorov - Smirnov Z	*Asymp. Sig. (2-tailed)*	*Kolmogorov - Smirnov Z*	*Asymp. Sig. (2-tailed)*
Regional Financial Independence Ratio	0,962	0,313	0,560	0,912
Degree of Fiscal Decentralization Ratio	0,868	0,439	0,626	0,829
OSR Per capita Growth	0,437	0,991	1,003	0,267
OSR Effectiveness Ratio	0,415	0,995	0,522	0,948

Source :SPSS Output (managed data)

The result of data normality shows that the data which are used in calculation such as financial independency ratio, degree of decentralization ratio, OSR per capita growth, and OSR effectiveness ratio are distributed normally. It is known from the value of *Asymp. Sig.* (*2-tailed*) that all variables are bigger than 0,05, so all variables pass the data normality test.

1.3 Different Test (t-paired) of Regional Financial Capacity Level Before and After Proliferation of Administrative Region

Table 5.Different test (*t-paired*) of Regional Financial Capacity Level

t-test Before and After Proliferation (*t-paired*)		Regional Financial Independence	Degree of Fiscal Decentralization	Ketergantungan Keuangan	OSR Per capita Growth	OSR Effectiveness
Paired Sample Correltaion	*Correlation*	0,870	0,828	0,527	-0,465	0,546
	Sig.	0,000	0,000	0,044	0,80	0,035
Paired Sample Test	*Sig. (2-tailed)*	0,000	0,000	0,001	0,905	0,072

Source :SPSS Output (managed data)

Based on table 5, the value of ratio significance of regional financial independency and degree of fiscal decentralization are smaller than 0,05 (*Sig<0,*05). Thus, Ha is accepted and H0 is rejected. It shows the average ratio differences between regional financial independency and degree of fiscal decentralization before and after the proliferation region. Meanwhile, OSR per capita growth has the value of significance (*Sig (2-tailed*) in amount of 0,905 and OSR effectiveness has the value of significance (*Sig (2-tailed*) in amount of 0,072. These significance values are bigger than 0,05 (*Sig>0,*05). Hence, H0 is accepted and Ha is rejected. It shows there are no differences of average between OSR growth and OSR effectiveness before and after the proliferation region.

3. Hypothesis Discussion

1. The Differences of Parent Regional Financial Capacity Level Before and After the Proliferation Region

The capacity level of parent region before and after proliferation is very needed to be measured again. It is aimed to see how far the development of OSR and regional financial capacity after proliferation region. The research by Indonesian Ministry of National Development Planning (2003), states that in general, from OSR performance indicator, the provinces in West Indonesia have better financial capacity than the provinces in East Indonesia. Provinces which have abundance natural resources do not mean they also have a good OSR performance. Based on statistical test (t-test), significance value of regional financial capacity is obtained as follows:

a. Significance value of regional financial independency based on t-test on table 4.28 is in amount of 0,000<0,05 (Sig<0,05).
b. Significance value of fiscal decentralization degree based on t-test on table 4.28 is in amount of 0,000<0,05 (Sig<0,05).
c. Significance value of OSR per capita growth based on t-test on table 4.28 is in amount of 0,905>0,05 (Sig>0,05).
d. Significance value of OSR effectiveness based on t-test on table 4.28 is in amount of 0,072>0,05 (Sig>0,05).

Hereby, conclusion can be drawn statistically that:

H1a : There are average ratio differences between parent regional financial independency before and after proliferation region.

H1b : There are average ratio differences between parent regional fiscal decentralization degree before and after proliferation region.

H1c : There are no significant average ratio differences between OSR per capita growth of parent region before and after proliferation region.

H1d : There are no significant average ratio differences between OSR effectiveness of parent region before and after proliferation region.

V. Conclusion

The capacity level of parent regional government in financial independency, fiscal decentralization, and OSR effectiveness aspects improve after proliferation region. Yet, OSR per capita growth decreases after proliferation region. On average, regional financial capacity is increasing 2,63% in aspect of financial independency, 2,19% in degree of fiscal decentralization aspect, and 14,03% in OSR effectiveness aspect after proliferation region. Meanwhile, OSR per capita growth decreases 0,97% after proliferation region.

Proliferation of administrative region on 15 parent regencies succeed in increasing financial independency, potential resources management through a better fiscal decentralization policy, and the local government that capable to realize the planned OSR revenue within Regional Budget Plan. Even the aspects are increasing but they are still categorized as very low. It is in line with statement by Mengkuningtyas and Adib (2015) that proliferation region has not given a change on regional financial capacity it is seen from financial dependency level. Mariani (2013) and Mulatsih (2014) also state that there are no differences on government financial performance in fiscal decentralization aspect after proliferation region. OSR growth is so important since based on Halim (2007), OSR must be the biggest financial resources to minimize dependency on central government. The degression of OSR per capita growth is in line with the research by Mengkuningtyas and Adib (2015), Sebastiana and Cahyo (2016) that there are no differences between government financial performance in OSR growth aspect before and after proliferation region.On average, parent regions in Indonesia have a not very well financial capacity after proliferation region. New Autonomous Regions also have a not very good performance. From central government evaluation, only 3% of New Autonomous Regions that are capable to make people live in prosperity. Meanwhile, 67% of them have not shown satisfying result (Kemendagri, 2017).

Therefore, it can be concluded that proliferation of administrative region not necessarily increase financial capacity of parent regional government. Low financial capacity influence in providing community service and restrain the main purpose of proliferation which is to increase people's prosperity. It needs consideration and a deeper examination on financial capacity of parent region that submit proliferation region in order to prevent any other unsuccessful new autonomous regions.

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