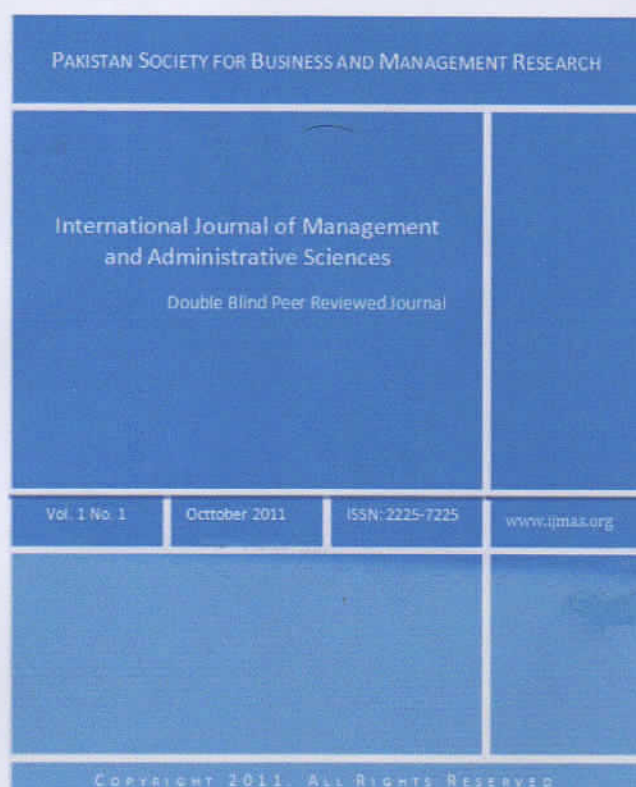


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**PROGRAM FUNDING STRATEGIES FOR CAPACITY BUILDING OF
LOCAL GOVERNMENT: THE ANALYSIS STUDY OVER FUNDING CAPACITY
BUILDING STRATEGIES AT LOCAL GOVERNMENT OF GRESIK REGENCY IN EAST
JAVA**

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ABSTRACT

Research on Program Funding Strategies for Capacity Building of Local Government is using descriptive method and employing SWOT as the analysis tool. This research attempts to analyze the implementation of funding strategies for capacity building of local government. The funding strategies represent dependent variable whereas the factors influencing the strategies are independent variable. The analysis shows that although funding strategies are not dramatically implemented, the revenue, especially local genuine revenue, has increased every year. If it is compared with total revenue, it is still far from what is expected from local autonomy so that funding efforts for governance arrangement and development management, including activities for the capacity building of the government of Gresik Regency, are still dependent on central government and non-government organization. When existing programs/projects are about to finish, the importance and the benefits of the programs/projects must be understood. The ability of the region shall be continuous. The funding strategies, therefore, must be formulated properly in the future to secure the sustainability of capacity building program for Gresik Regency.

Keywords: Government Capacity, Funding

1. RESEARCH BACKGROUND

Central-Local Financial Relationship is concerned with the balance between central control and local discretion over the use of financial resources. Central government may be justified in directing the expenditure for subsidies and contributions, but it is often suggested that the use of revenues directly collected by local governments shall be largely covering up this expenditure.

Local autonomy gives additional discretion for local governments due to the delegation of authority previously held by central government to local government. One such authority is the management of national (governmental) asset that previously remains under the control of central government. Under local autonomy, local governments receive bigger the delegated authority to undergo national (governmental) asset management. This change increases the number and extent of national wealth governed by local governments, especially for the properties owned/governed by central government (Mardiasmo, 2002) (Damayanti, 2014) Fund mobilization is aimed to support various capacity building programs. It may be maximal if it is supported by optimum strategies. Such strategies are systematic works to achieve the goals. Strategic targets that must be achieved by the management of local asset are: (1) administrative orderliness about local properties, which include: land and building inventories, local property certificate, the removal and sale of local assets, the reporting system of activities such as exchange, bequest and ruislag; (2) the efficiency and effectiveness of the use of local assets; (3) the securing of local assets; and (4) the availability of accurate data/information about local properties. The escalated environmental change has demanded the adaptation through sustainable capacity building such that the local governments, including the Government of Gresik Regency, must design more self-reliance and integrated funding strategies. Therefore, funding strategies shall be formulated to secure the capacity building of the government of Gresik Regency.

2. PROBLEM OF RESEARCH

What strategies are needed by the government of Gresik Regency to build the funding capacity to secure the sustainability of capacity building program for local governments?

3. RESEARCH OBJECTIVE

1. To understand how far is the activities of the government of Gresik Regency to improve local revenue, particularly local genuine revenue as the funding source to finance government and development issues.
2. To acknowledge and to describe the local capacity of Gresik Regency in term of the autonomy level of local finance in the autonomy era.

4. THEORETICAL BACKGROUND

In the budgetary planning and preparation, estimations for revenue and expenditure are rarely accurate. The reasons for this are twofold. Firstly, the forecasting models for revenue and expenditure are not able to predict accurate figures. Secondly, there can be incentives for managers and all employees involved in the budget making process to either underestimate revenue and overestimate expenditure, or vice versa (Mardiasmo, 2002) (Didik Fatckhur Rohman, 2013) Formulating the implemented strategies used by an institution or agency is not easy task. According to the world system theory, known as three development strategies, as suggested by Wallerstein (Mudrajad, 2007) (Diharna, 2005)

1. Funding Strategy by Using Foreign Market Opportunity
In this strategy, the government plays active role (through state capitalism) to use its comparative advantages to utilize foreign market opportunity. Not all countries have used such opportunity.
2. Funding Strategy by Inviting Foreign Investment
In this strategy, the government invites foreign investment by utilizing comparative advantages such as cheaper wage and other benefits. It is called *liberal open door*.
3. Self-Reliance Funding Strategy
Self-Reliance strategy emphasizes more on the internal ability of the countries and less on external aids. However, such strategy is not successful in Third World Countries due to the lacking of natural resource and human resource.

The optimization of local asset management is explained by (Sitompul, 2006), (Rohman, 2010)

Strategies to optimize local asset management include: (1) the identification and inventorying of local assets' value and potential; (2) the implementation of the information system for local asset

management; (3) the supervision and control over asset utilization; and (4) the engagement of various professions or skills such as internal auditor and appraisal auditor. Local governments must know the level and the value of their local assets, either those governed recently by them or those not governed or potentially exploited by them. Therefore, local governments shall identify and take inventory of the value and potential of local assets. Both identification and inventorying are important to obtain accurate, complete and ultimate information about local assets owned and governed by local governments.

Local Revenue

Law No.33/2004 about Financial Balance between Central and Local Governments has stated that every local government always has local revenue to support the implementation of local development. This local revenue is all revenues accepted by local asset management or all revenues derived from the local or from the allocation of central government as the right of local governments without obligation of repayment. Local revenue is divided into several types. (Law, No 33/2004 about Financial Balance between Central and Local Governments, 2004) It includes Local Genuine Revenue (PAD), Balance Fund, Local Loan and other valid revenues. Local Genuine Revenue has 4 (four) types: (1) Local Tax; (2) Local Retribution; (3) Profitability of Local State-Owned Enterprises; and (4) other valid revenues.

Capacity Building of the Government of Gresik Regency

1. Capacity Building

The definition of capacity building is different among experts. It is because capacity building is multi-dimensions and multi-aspects, thus precise definition is hard to obtain. In general, capacity building is signified as the process to develop the capacity of individuals, groups or organizations. Capacity building is also meant as the effort to empower the capacity of individuals, groups or organizations through the development of capacity, skill, potential and talent as well as certain competences that help individuals, groups or organizations to survive and to deal with immediate challenge in precision and proper ways. Capacity building also represents a creative process to build the invisible capacity. (Riyadi, 2003), (Pujowati, 2012), (anelli, 2004), capacity building is a sustainable process among individuals, groups or organizations, and it is not occurred once. It represents an internal process that is functioned and accelerated with external aid, such as from donor. In pursuance of Law No.34/2000 about The Amendment of Law No.18/1997 about Local Tax of Regency/Town, maximum tariff is 10 % for hotel tax, 10 % for restaurant tax, 35 % for entertainment tax, 25 % for advertisement tax, 10 % for road lightening, 20 % for the Category C excavated material collection tax, and 20 % for parking area tax. Besides these taxes, Regency/Town can determine another tax with the following criteria: (1) it maintains the nature of tax, not retribution; (2) tax object remains at the region of Regency/Town, has quite slow mobility, and only serves the region of Regency/Town; (3) tax object and tax base do not contrast with public interest; (4) tax object is not belonged to provincial tax and/or central tax; (5) tax is potentially reliable; (6) it does not have negative economic impact; (7) it attends justice and communal capacity; and (8) it conserves life environment. (Law, No 34/2000 about The Preamble of Law 1997 about Local Tax of Regency/Town, 2000)

2. The Goals of Capacity Building

According to Daniel Rickett (Umam, 2006), (Purnaweni, 2014) "the ultimate goal of capacity building is to enable the organizations to grow stronger in achieving the purpose and mission". Furthermore, it is formulated that the goals of capacity building include: (Ulum, 2014), (Safina, 2011) (1) to accelerate the implementation of decentralization based on predetermined stipulations; (2) to conduct proportional monitoring against task, function, financial system, mechanism and responsibility for the implementation of local capacity building; (3) to mobilize funding sources of government, including local governments and others; and (4) to utilize funding sources in effective and efficient ways.

3. Organizational Capacity Building

(anelli, 2004) reveals that organizational capacity building is the development of traditional capacity building and the empowerment of organization by focusing on resource development. The covered issues include human resource, process and organizational structure. Modern approach is applied to examine all dimensions of the capacity at various levels (mission, strategy, culture, managerial style, structure, human resource, finance, asset, information, infrastructure), including the interaction within wider system, especially the other existing unity, shareholder and customer.

5.METHODOLOGY

This research uses “*quantitative research*”. Type of research is “survey”. (Sugiono, 2010), survey is a research type that collects information (data) from respondents using questionnaire. All answers obtained by the author are subjected to record-keeping, processing and analysis. Survey research is usually confined to the definition of sample survey where information is collected only from parts of the population to represent whole population. (Sugiono, 2010)

Research Location

The location of review is at Work Unit or SKPD in the government of Gresik Regency. Review is performed at the location of SCBD Project undergone in Gresik Regency.

Informants

In this research, the persons who are consulted as informants include: the staffs of Local Planning Agency, the staffs of Economic Division in Health Official, some members of DPRD, and several staffs from Government Office.

Data Collection Technique

Data analysis of this research/review is characterized as descriptive, qualitative and humanitarian. Quantitative data are analyzed using frequency table and processed to interpret the data. The finding is concluded in whole and complete manners. Self-Reliance Level is measured by the following formula (according to RPJMD of Gresik Regency, Year 2011-2015): $[PAD / APBD] \times 1000$

Qualitative data are reduced into some finding bases that relevant to review emphasis. The findings are then arranged into a narration. It will be presented in descriptive, factual and systematic ways using SWOT Analysis Method. A fundamental technique usually used in governmental institutions/agencies is SWOT Analysis Technique which considers Strength (S), Weakness (W), Opportunity (O) and Threat (T) (LAN, 2007).

6.ANALYSIS AND EMPIRICAL FINDINGS

Local Government Financial Dependency on Central and Provincial Governments

Local government financial dependency on central and provincial governments generates a number of effects on the local government's income budget management. However, it is the budgetary slack that is of particular interest to this thesis.

Current Funding Condition of Capacity Building Program of Local Governments

The practice of decentralization principle in local autonomy has allowed Regency and Town to have a freedom in regulating and taking care of immediate community interest based on their self-reliance, community aspiration, and also the prevailed regulations. It starts to bestow opportunity for the autonomous region to implement the discretion in manners of self-reliance, obvious and responsible (Tiza, 2014). By taking account the analysis over the factors of internal environment (Strength and Weakness) and external environment (Opportunity and Threat), then Strategic Planning (Renstra) in form of Middle-Term Development Plan (RPJMD) from Year 2011 to 2014 is validated through the prevail of Local Regulation of Gresik Regency No.156/20014. Gresik Regency implements various governmental programs, especially the management of development, by basing on Renstra, RPJMD and the prevailed laws and regulations.

Table 1
Data of Local Revenue Realization in Gresik Regency, Year 2011-2014

No	Local Revenue Components	2011	2012	2013	2014
1	Local Genuine Revenue	17,461,704,186.47	138,756,983,539.80	168,302,821,579.56	167,664,725,522.47
	• Local Tax	54,447,121,819.36	60,863,444,601.81	63,417,194,147.66	72,386,828,278.46
	• Local Retribution	43,065,227,532.76	54,339,010,549.71	19,041,401,808.19	20,233,277,569.00
	• Local Business Profit	821,041,063.47	1,124,137,338.91	1,338,868,250.07	1,633,767,258.41
	• Other valid PAD	19,128,313,771.38	22,430,391,049.47	84,505,357,373.64	73,390,902,416.60
2	Balance Funding	573,828,119,972.00	689,476,739,052	710,951,645,339.00	533,830,390,000.00
	• Tax and Non-Tax Sharing	105,722,040,572.00	134,247,956,052	137,253,325,839.00	165,402,487,792.00
	• General Allocation Fund	456,268,079,400.00	532,824,783,000	511,324,320,000.00	513,481,870,000.00
	• Specific Allocation Fund	9,338,000,000	22,404,000,000	62,374,000,000.00	27,171,200,000.00
3	Other Valid Revenues	53,709,119,748.00	54,537,081,847	90,960,199,089.00	218,686,894,296.00
	Revenue Total	747,498,943,906.47	882,770,804,438.80	970,214,666,807.56	1,092,287,177,610.47

Data source: DPPKD of Gresik Regency

The Formulation of Strategy

Strategy formulation is made as the reflection of actual organizational goals and progress. The process of strategy formulation in SAKIP is called strategy planning. It is very important to execute strategy formulation because the organization (including local government organization) is always constrained by limits such as limited funding sources and limited capacity if compared to the expected goals. Therefore, strategy design must be prepared to achieve organizational goals based on organizational capacity. The purpose of strategy formulation is to achieve rational goal. Referring to the theory of policy implementation suggested by Edward III (Widodo, 2005) , it is stated that public policy implementation is influenced by several aspects: (1) communication aspect, (2) bureaucracy structure aspect, (3) resource aspect, and (4) disposition aspect. The implementation of planning of the funding strategies for sustainable capacity building program of the government of Gresik Regency, however, still cannot escape from problems, respectively: (1) lacking of human resource/officer with the expected skill, work ethos and quality (their quality and work ethos are not reliable); (2) good structure and infrastructure but without reliable hardware and software; (3) less sustainable capacity building program for local/regency governments when funding schedule and SCBD-p are finished; (4) less established implementation of communication and coordination; (5) local dependency level in funding aspects of the central agency and the non-governmental agency is not quite high; and (6) the influence of globalization (Global Landscape). Hereby, the analysis must consider strength, weakness, opportunity, and threat experienced by the government of Gresik Regency. Strategic environment may influence the planning of funding strategies for sustainable capacity building program. As previously stated, the analytical blade used in the review of the planning of funding strategies for sustainable capacity building program of the government of Gresik Regency is descriptive supported with SWOT in nature of Ex-Post Facto. (Florensi, 2014)

Internal and External Environment Analyses (ALI and ALE)

A. Internal Environment Factor (ALI):

- I. Strength: (1) There is discretion and commitment of leaders (Regent); (2) There is vision and mission; (3) There is clear main task and function; and (4) The harmonic relation between executive and legislative agencies.
- II. Weakness: (1) Fat (not lean) organization/organizational structure; (2) less reliable quality and work ethos of human resource/officers; (3) less significant PAD; (4) less reliable structure and infrastructure of hardware and software; and (5) less established communication and coordination.

B. External Environment Factor (ALE):

- I. Opportunity: (1) The prevailed laws and regulations are supportive; (2) Good governance is required; (3) Local autonomy is initiated; (4) There is community participation (PI and CRS); (5) Natural resource and PAD are potentially prospective; (6) The cooperation is made with third parties.
- II. Threat: (1) Globalization begins quite influential (Global Landscape); (2) Community starts to be critical against the ruler; (3) Capacity building of local governments may not be sustainable (when funding and SCBD-P are over; (4) it is hard to access or to afford the target.

Table 2

The Analysis over Internal and External Environments

	Strength:		Weakness:
ALI	(1) Discretion and commitment of leaders (Regent). (2) Vision and mission. (3) Clear main task and function. (4) Harmonic relation between executive and legislative.	ALE	(1) Fat organization / structure. (2) Less reliable quality and work ethos of human resource/officers. (3) Less significant PAD such that local dependency on central government and non-governmental organization is quite high. (4) Less reliable structure and infrastructure for hardware and software. (5) Less established communication and coordination.
	Opportunity:		Threat:
	(1) Laws and regulations. (2) Good governance. (3) Local autonomy. (4) Community participation (PI and CRS). (5) Prospective natural resource and PAD. (6) Cooperation with third parties.		(1) Influence of globalization. (2) More critical community against the ruler (3) Less sustainable capacity building of local governments when funding and SCBD-P are over. (4) Difficulty to access and to afford the target.

Source: Data are processed, 2014

Result of analysis over internal and external strategic environment is weighted to obtain very influential main factors as shown in the following table:

Table 3

The Weighting of Internal and External Environment Factors

INTERNAL ENVIRONMENT ANALYSIS	WEIGHT	RATING	SCORE	PRIORITY
Strength:				
(1) Discretion and commitment of leaders (Regent).	15	4	60	I
(2) Vision and mission.	10	4	40	III
(3) Clear main task and function.	15	3	45	II
(4) Harmonic relation between executive and legislative.	10	3	30	IV
Weakness:				
(1) Fat organization / structure.	10	3	30	III
(2) Less reliable quality and work ethos of human resource/officers.	10	4	40	II
(3) Less significant PAD such that local dependency on central government and non-governmental organization is quite high.	10	4	40	I
(4) Less reliable structure and infrastructure for hardware and software.	10	3	30	IV
(5) Less established communication and coordination.	10	3	30	V
TOTAL	100			
EXTERNAL ENVIRONMENT ANALYSIS	WEIGHT	RATING	SCORE	PRIORITY
Opportunity:				
(1) Laws and regulations.	9	4	36	III
(2) Good governance.	9	4	36	II
(3) Local autonomy.	10	4	40	I
(4) Community participation (PI and CRS).	7	3	21	IV
(5) Prospective natural resource and PAD.	8	3	24	V
(6) Cooperation with third parties.	7	3	21	VI
Threat:				
(1) Influence of globalization.	15	4	72	I
(2) More critical community against the ruler	10	4	40	IV
(3) Less sustainable capacity building of local governments when funding and SCBD-P are over.	10	3	45	III
(4) Difficulty to access and to afford the target.	15	4	72	II
TOTAL	100			

Source: Data are processed, 2014

Strategy Analysis and Selection

After weighting and making an assumption, strategy analysis and selection are conducted. SWOT is used in this process. Internal and external factors in the following matrix are arranged interdependently which then produces 4 (four) strategies:

Table 4
Interdependent Relation Between Internal and External Factors

<p>Internal</p> <p>External</p>	<p>Strength:</p> <ol style="list-style-type: none"> (1) Discretion and commitment of leaders (Regent). (2) Vision and mission. (3) Clear main task and function. (4) Harmonic relation between executive and legislative. 	<p>Weakness:</p> <ol style="list-style-type: none"> (1) Fat organization / structure. (2) Less reliable quality and work ethos of human resource/officers. (3) Less significant PAD such that local dependency on central government and non-governmental organization is quite high. (4) Less reliable structure and infrastructure for hardware and software. (5) Less established communication and coordination.
<p>Opportunity:</p> <ol style="list-style-type: none"> (1) Laws and regulations. (2) Good governance. (3) Local autonomy. (4) Community participation (PI and CRS). (5) Prospective natural resource and PAD. (6) Cooperation with third parties. 	<p>Strength-Opportunity (S-O):</p> <ol style="list-style-type: none"> (1) Discretion and commitment of Regent to improve quality and work ethos of the officers. (2) Vision and mission to produce good governance. (3) Discretion and commitment of Regent to produce good governance. (4) Laws and regulations to execute main task and function. (5) Discretion and commitment of Regent to improve SDA and PAD supported by proper administration. (6) Harmonic relation between executive and legislative to improve cooperation with third parties. 	<p>Weakness-Opportunity (W-O):</p> <ol style="list-style-type: none"> (1) Laws and regulations are used to improve the quality and work ethos of the officers. (2) Laws and regulations are used to rejuvenate and to revitalize the organization. (3) Good governance is used to improve communication and coordination. (4) Community participation is used to reduce the dependence of local governments on central government and non-governmental organization. (5) The management of SDA and PAD must be improved to reduce the dependence of local governments on central government and non-governmental organization. (6) Cooperation with third parties is improved to reduce the dependence of local governments on central government and non-governmental organization. (7) Cooperation with third parties is used to improve structure/infrastructure. (8) The management of SDA and PAD is optimized to improve structure/infrastructure.
<p>Threat:</p> <ol style="list-style-type: none"> (1) Influence of globalization. (2) More critical community against the ruler (3) Less sustainable capacity building of local governments when funding and SCBD-P are over. (4) Difficulty to access and to afford the target. 	<p>Strength-Threat (S-T):</p> <ol style="list-style-type: none"> (1) Discretion and commitment of Regent to anticipate globalization. (2) Main task and function to respond community demand. (3) Harmonic relation between executive and legislative to make the policy and to facilitate the access of target. (4) Discretion and commitment of Regent to improve SDA and PAD. (5) Discretion and commitment of Regent to improve the cooperation with third parties. 	<p>Weakness-Threat (S-T):</p> <ol style="list-style-type: none"> (1) The quality and work ethos of human resource/officer must be increased to improve the response to community demand. (2) Communication and coordination are optimized to improve structure/infrastructure to facilitate the access of target. (3) Communication and coordination are improved to follow-up the capacity building program for local governments.

Source: Data are processed, 2014

Based on the result of SWOT analysis above, which involves strategy assumption and strategy selection, along with the order of priority of strategy, therefore, several factors are determining the success of capacity building of local governments. These factors are deliberated in the conclusion.

7. CONCLUSIONS

Several factors are influential to the funding strategies for capacity building of the government of Gresik Regency. These factors are: (1) improving local revenue by intensification and extensification of the sources of Local Genuine Revenue (PAD); (2) developing the cooperation with government and private; (3) revitalizing the local-owned enterprises; (4) releasing obligation and local loan supported by the improvement of financial and administrative management and also of local assets which are then manifested into some programs such as: local revenue improvement program, local treasury program, and financial administration and local asset improvement program, and communication and coordination improvement program, as well as effective monitoring.

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