Effect of Fiscal Decentralization Financial Performance Against Local And Regional Gross Domestic Product (GDP) NTB

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Abstract

This study aims to empirically prove the effect of Fiscal Decentralization on regional financial performance, the effect of fiscal decentralization on Gross Regional Domestic Product and the effect of Regional Financial Performance on Gross Regional Domestic Product. This study uses secondary data taken from 10 districts/cities in West Nusa Tenggara Province. The results of this study indicate that H1 Fiscal Decentralization has significant and significant influence on regional financial performance. H2 turns out that the Fiscal Decentralization variable does not significantly influence the Gross Regional Domestic Product. H3 Regional Financial Performance does not significantly influence Gross Regional Domestic Product.

Keywords: fiscal decentralization, regional financial performance, gross regional domestic product

1. Introduction

Indonesia's economy in the early to the mid-1990s showed a pretty good performance. National economic growth of more than 7 per cent on average per year has given positive implications for increased local revenues. Entering the end of the 1990s, the national economy experienced a sudden change, a deep economic crisis which continues into a political crisis. This situation resulted in the performance of the national economy experienced a drastic decline. National growth slowed to below minus 5 percent.

Currently, decentralization has been a central concern and a phenomenon for the countries in the world, both in developed and developing countries, including Indonesia. Experience in developed countries, as well as many developing countries turn around towards decentralization (fiscal) as an effort to escape from the problems of ineffectiveness and inefficiency of government, as well as macroeconomic instability (Bahl and Linn, 1992). Not much different from the global trend, decentralization has been a discourse that kept rolling in various wide implementation in Indonesia.

Decentralization and regional autonomy in Indonesia was marked by the issuance of Law No. 22 of 1999 on Regional Government and Law No. 25 of 1999 on Financial Balance between Central and Regional. The Second Law provides important implications for economic development and important changes, especially in public administration and in relations between central and local government, known as the era of regional autonomy.

Efforts to increase the local fiscal capacity (fiscal capacity) is not only on increasing revenues. The increase in fiscal capacity is basically the optimization of local revenue sources. Therefore, it is not necessarily made the dichotomy between local revenues with the Equalization Fund. However, it is also important to understand that an increase in fiscal capacity does not mean a big budget amount. Budgets are made large in number but are not managed properly (does not meet the principles of value for money) it will cause problems, such as leakage. Most important is the optimization of the budget, because the role of motivator in moving development in the region (Osborne and Gabbler, 1993). Local community will play a local development in accordance with the interests and priorities.

Based on the situation and the problems faced in the implementation of decentralization (autonomy) at this time, the significance of this study is to uncover and analyze the influence of Fiscal Decentralization of the Financial Performance of Regional to finance regional development and the relation with indicators of economic performance such as Gross Domestic Product (GDP) and its impact on the welfare of the people, since regional autonomy

implemented in Indonesia, especially in West Nusa Tenggara Province.

The government became the main motor drive the economy to return to the position before crisis. Requiriment society that increasingly encourage local authorities to work on improving the reception area to give attention to the development of local revenue (PAD). PAD sources are the result of local taxes, the result of levies, local business profit results, and results of operations are legitimate areas. The PAD component to be fully used by the region in accordance with local needs and priorities, in addition, showed him their efforts made by local governments in exploring sources of local revenue. It is more freely carried out by Regency/City Government after the regional autonomy.

In the budget performance of the local government, especially at local government spending consists of a group of shopping and shopping section is for spending categories include general administration expenditure, operational and maintenance expenditure and capital expenditure/development (capital investment expenditure), while the expenditures include expenditures apparatus and public service expenditures (in balanced budgets and dynamic models are then grouped into recurrent and development expenditure) Through the capital/development expenditure this is exactly what is expected to be a stimulant for economic growth. Thus, the determination of the development budget allocation between sectors largely determines the performance of the sector. Changes in the development budget allocation between sectors will result in changes in the allocation of resources and the contribution of domestic Gross Domestic Product.For this reason Fiscal Decentralization in this study was associated with the financial performance and the GDP.

Judging from the development of the GDP, both at Current Market Prices (ADHB) and Upper Constant Prices, NTB economic performance since local autonomy and fiscal decentralization of 2011-2017 relatively improved. GRDP describes the ability of a region in managing natural resources and other production factors to provide added value.The GDP is the sum of the value added created entire economic activity in an area.

This research was supported by a previous study conducted Mulyadi (2005) Role of Regional Acceptance Against Spending and Economic Growth in the Indonesian province of-province Years 1991-1999. The results of these studies indicate that private investment has a positive significant effect on regional economic growth with a contribution of 6.54 per cent against the average growth in the study period. Variable G which is a multiplication of regular government spending growth area with the ratio between the area of routine expenditure to Gross Domestic Product (GDP) turned out to have a significant impact on regional growth economic with a contribution of 0.08 per cent.

Mursinto (2004) There is a significant degree of influence Fiscal Decentralization, level of independence and the elasticity of revenue (PAD) to the different categories of Regency/City Government at the beginning of regional autonomy in the province of East Java.
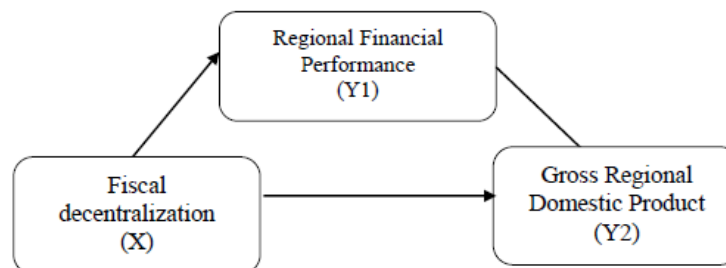
2. Research Methods

This research is associative with the quantitative approach. Associative research is research that aims to determine the relationship between two or more variavel (Sugiyono, 2013: 236). While quantitative research is research that emphasizes the theory test through the measurement of research variables with numbers and perform statistical data analysis procedures (Indriantoro and Supomo, 2014: 12).

This research was conducted in all districts/cities in West Nusa Tenggara province, the source of this research is secondary data taken directly at the Regency/City and see the local budget, GRDP data. Population is the generalization which consists pedestal region object/subject that has certain qualities and characteristics defined by the researchers to learn and then be inferred (Sugiyono, 2016: 280). As for the population in the study were 10 districts/cities in West Nusa Tenggara related to Fiscal Decentralization, Regional Financial Performance and the GDP. The sample is part of the number and characteristics possessed by this population (Sugiyono, 2016: 281). The sampling technique in this research is to use saturated sample.

Partial Least Square is an analysis method that was developed as an alternative to situations where theory is weak and

or indicators available do not meet the reflexive measurement model, but formative. PLS as "soft modeling" is a powerful analytical method because it can be applied to any scale data and does not require a lot of assumptions and the sample size should not be large. PLS than can be used to build a relationship that does not exist or a theoretical basis for testing the proposition. (Solimun, 2006: 57)

The R2 is the coefficient of determination on endogenous constructs used to look at the ability of exogenous variables in explaining the endogenous variables according to the chin (1998) in Ghozali and latent (2015: 78) R square value of 0.67 strong 0.33 0.19 moderate and weak.

This technique can represent synthesis of cross-validation and function fitting with the predictions of the observed variables and the estimation of the parameters of the construct. Q^2 value> 0 indicates that the model has predictive relevance, whereas Q^2 value <0 indicates that the model lacks predictive relevance (Ghozali and latent, 2015: 80).

3. Results and Discussion

Testing of fiscal decentralization structural model for the relationship constructs variable and latent variables. Structural models (inner model) were evaluated using the coefficient of determination (R2) and predictive relevance (Q2) evaluation of the structural model (inner model) in this study can be seen in Figure 2 below:

Based on Figure 3 can be seen structural models (inner model) were obtained from the use bootsraping entire original sample to perform resampling back. Hair, et al. (2011: 186) gives advice on Bootstrapping number of samples is equal to 5,000 with a record of the amount shall be greater than the original sample. But some other literature suggested number of Bootstrapping at 200-1000 standards is sufficient to correct the error of the estimate PLS (Ghozali, 2014: 80)

Testing Coefficient of Determination is made to predict the strength of the structural model Changes in the value of R-Square (R2) can be used to clarify the effect of exogenous latent variables specific to endogenous latent variables influence whether substantive. Classification Rated R Square by Chin (1998) in Ghozali and Latan (2015: 81) consisting of: strong 0.67), 0.33 (moderate) and 0.19 (weak) while Guilford (1950: 165) provide interpretation value R2 <0.20 intercourse almost insignificant; moderate 0.20 to 0.40; 0.40 - 0.70 high, very high 0,100 0.70.

Table 1. Rated R-Square

Construct		R-Square	Information
GRDP		0.505	Strong Model
Regional	Financial	.675	Strong Model
Performance			

Source: Data processed in 2019

Based on Table 1 indicates that the R-square value of the Gross Regional Domestic Product (GRDP) of 0.505 or 50.5% classified in the moderate category, meaning that the Fiscal Decentralization variable capable of explaining the variance Gross Regional Domestic Product (GDP) of 50.5%, while 49 , 5% is explained by other variables. While the Regional Financial Performance variable has a value of R-Square (R2) of 0.675 or 67.5% is included in the category of robust models. This means that the variable Fiscal Decentralization, Gross Domestic Product (GDP) was able to explain the Regional Financial Performance of 67.5% while the remaining 33.5% is explained by other variables.

Table 2. Path Coefficient Analysis Results (path coefficients)

variables	First samples (O)	Rara - Sample Average (M)	T statistics (| O / STEDEV |)	P Values
DF → KKD	0.822	0.804	7.121	0,000
DF → PDRB	1,211	0.357	1,416	.157
KKD → PDRB	-0.821	-0.110	1,169	0,243

Source: Data Processed in 2019

Fiscal Decentralization variable has the path coefficient 0.822, which means that variables affect the variable Fiscal Decetralization Regional Financial Performance. P value of 0.000 indicates the level of significance below 0.05 and a value of 8.121 t statistic is greater than the value of t table of 2.010. The significance of the test results on Fiscal Decentralization variables significantly influences the Regional Financial Performance. Thus Fiscal Decentralization variable positive and significant impact on the Financial Performance of Regional which means that the hypothesis 2 (H2) is accepted. So it can be concluded that the impact on the Fiscal Decentralization Regional Financial Performance. Influential Fiscal Decentralization of financial performance shows the allocation of aid to areas requires a clear formula

in accordance with the purpose of assisting in finding a balance assistance among the regions to boost economic growth towards a more equitable and efforts to increase growth in revenue, which in turn can further contribute to sustaining the fulfillment of its fiscal alone. This study is in line with research Mursinto (2010) There is a significant degree of influence Fiscal Decentralization, level of independence and the elasticity of revenue (PAD) of the Financial Performance of District/City in the beginning of regional autonomy in the province of East Java. which in turn can further contribute to sustaining the fulfillment of its own fiscal needs. This study is in line with research Mursinto (2010) There is a significant degree of influence Fiscal Decentralization, level of independence and the elasticity of revenue (PAD) of the Financial Performance of District/City in the beginning of regional autonomy in the province of East Java. which in turn can further contribute to sustaining the fulfillment of its own fiscal needs. This study is in line with research Mursinto (2010) There is a significant degree of influence Fiscal Decentralization, level of independence and the elasticity of revenue (PAD) of the Financial Performance of District/City in the beginning of regional autonomy in the province of East Java.

Fiscal Decentralization variable has the path coefficient 1,211, which means that the variable Fiscal Decentralization does not affect the variable Gross Regional Domestic Product (GDP). P value of 0.157 indicates a significance level above 0.05 and also the value of 1.416 t statistic is less than the value of t table of 2.010 which means the Fiscal Decentralization variables did not significantly affect the Gross Regional Domestic Product (GDP). Thus, Fiscal Decentralization variables are not positive and significant impact on Gross Domestic Product (GDP) , which means that the hypothesis 1 (H1) was rejected. So it can be concluded that the Fiscal Decentralization was no impact on Gross Domestic Product (GDP) , it is because most of their budget allocation for recurrent expenditure, such as salaries, spending on goods, maintenance expenditures other public facilities and infrastructure. And travel agencies, and only a small portion is used for capital expenditure and local government investment is very small in the Gross Regional Domestic Product (GDP) , so in this study Fiscal Decentralization is not positive and significant impact on Gross Domestic Product (GDP). This study is not in line with previous research which showed that revenue (PAD) initial autonomy of the districts and cities in East Java showed elastic or greater than 1, meaning Domestic Gross Domestic Product (GDP) increased leverage increased local revenue (PAD) , which in turn, economic development will run better.

Regional Financial Performance variable coefficient -0.821 lines which means that the Regional Financial Performance variable does not affect the variable Gross Regional Domestic Product (GDP). P value of 0.243 indicates a significance level above 0.05 and also the value of 1,169 t statistic is less than the value of t table of 2.010 which means the Regional Financial Performance variables did not significantly affect the Gross Regional Domestic Product (GDP). Thus the Regional Financial Performance variable is not positive and significant impact on Gross Domestic Product (GDP) , which means that the hypothesis 3 (H3) was rejected. So it can be concluded that the Regional Financial performance was no impact on Gross Domestic Product (GDP). That acceptance of the PAD, which is part of the revenue side budget, not all are used directly in the calculation and formation of GDP, while the GDP is used in the calculation of the expenditure side of the budget section and routine shopping activity ratio which is the ratio routine budget with the total budget. That the activities of government recurrent expenditure that is used for recurrent expenses to be borne by the government which include personnel expenditure (apparatus) , maintenance expenditures, expenditures and other items that are part of the GDP calculation. This research is in line with research Aliadi Ika (2012) research results show that there are differences in the Financial Performance of Regional District/City in East Java. There are four of 38 districts/municipalities in East Java has a good performance was punched from the growth rate, the ratio of the independence, effectiveness ratio, routine expenditure activity ratio development spending. Regional Financial Performance also has a positive relationship and significant effect on GDP growth, and the GDP has a positive relationship but did not affect the growth of investment.

Table 3. Indirect Effects

variables	First samples (O)	Rara - Sample Average (M)	T statistics (| O / STEDEV |)	P Values
DF → PDRB	-0.675	-0.101	1.103	0.271

Source: processed data, 2019

Based on testing conducted found indirect effect (indirect Effects) of the models studied. Indirect Effects As for is the effect or the mediating role of endogenous variables Regional Financial Performance against endogenous variable GRDP based on table 3 it can be seen that the exogenous variables Fiscal Decentralization (-0.675) worth negatively affect the Gross Regional Domestic Product (GDP) through the Regional Financial Performance. Fiscal Decentralization variable has a value of 0.05 is significantly above 0.271 (0.05 <0.271) declared insignificant and can

not be considered further.It can be concluded that the Regional Financial Performance variable does not act as mediator for Fiscal Decentralization variable relation to the Gross Regional Domestic Product (PRB).

The theoretical implications of this study support the findings of Keynes's theory that says to bring full employment economy according to Keynes the government must actively do something, instead of just waiting for the operation of a natural process. An action that can be taken by the government in the face of depression and unemployment is shifting back to Z0 Z1. And one of the most effective ways is to increase government spending (G). The increase in G, through a multiplier process, and raise aggregate demand Z. empirical findings show that in the era of Fiscal Decentralization in government policy expenditures due to the impact of the financial crisis both for routine and development expenditures, it can increase the growth of Gross Domestic Product (GDP) but not yet offset.

Wagner legal strengthens the theoretical implications of the proposed expenditure growth in government spending on development (Government Expenditure) in each country will grow faster than output growth (GDP) of the country. In other words expenditure against income, elasticity is greater than one. To determine the region's ability to finance government spending, it can be determined by measuring the proportion of local capacity to finance expenditure both routine and development area. From local revenue in proportion to the shopping area showed that all-City District has an inability to finance recurrent expenditure and development expenditure. Similarly, a proportion of other income legitimate development spending shows that all-City District has an inability to finance recurrent expenditure and development expenditure. Financing regional development spending came from central funds, this means that the very high dependence of local revenues derived from the central fund consequence poor ability to finance regional spending areas. Such conditions are extremely difficult for local governments in implementing decentralization and regional autonomy in a real and responsible as expectations mandated in Law No. 32 of 2004 and Act No. 33 of 2004. Financing regional development spending came from central funds, this means that the very high dependence of local revenues derived from the central fund consequence poor ability to finance regional spending areas. Such conditions are extremely difficult for local governments in implementing decentralization and regional autonomy in a real and responsible as expectations mandated in Law No. 32 of 2004 and Act No. 33 of 2004. Financing regional development spending came from central funds, this means that the very high dependence of local revenues derived from the central fund consequence poor ability to finance regional spending areas. Such conditions are extremely difficult for local governments in implementing decentralization and regional autonomy in a real and responsible as expectations mandated in Law No. 32 of 2004 and Act No. 33 of 2004.

4. Conclusion

Based on the description and analysis conducted in 10 districts/cities in West Nusa Tenggara province, it can be concluded as follows:Fiscal Decentralization significant effect on the Regional Financial Performance.This indicates that the Fiscal Decentralization variables derived from the Fund Balance directly influence regional financial performance and growth budget. This is caused by income Regency/City in the province of West Nusa Tenggara largely derived from the Fund Balance include General Allocation Fund (DAU) , Special Allocation Fund (DAK) and DBH (DBH) .Thus also revenue (PAD) and Other Income Legal is part of the Fiscal Decentralization policies have a significant role and influence in the area of development financing. On the other side of Fiscal Decentralization, results showed no significant effect on the Gross Regional Domestic Product (GDP). This is due to the limited budget allocations sourced from the PAD and the balance funds earmarked for capital expenditure as a determinant of the formation of the GDP.Likewise, the Regional Financial Performance does not affect the increase in Gross Domestic Product (GDP). This shows that the financial performance reflects policy implicit Fiscal Decentralization and regional autonomy has not been an impact on the increase in Gross Domestic Product (GDP). This is due to the limited budget allocations sourced from the PAD and the balance funds earmarked for capital expenditure as a determinant of the formation of the GDP.Likewise, the Regional Financial Performance does not affect the increase in Gross Domestic Product (GDP). This shows that the financial performance reflects policy implicit Fiscal Decentralization and regional autonomy has not been an impact on the increase in Gross Domestic Product (GDP). This is due to the limited budget allocations sourced from the PAD and the balance funds earmarked for capital expenditure as a determinant of the formation of the GDP.Likewise, the Regional Financial Performance does not affect the increase in Gross Domestic Product (GDP). This shows that the financial performance reflects policy implicit Fiscal Decentralization and regional autonomy has not been an impact on the increase in Gross Domestic Product (GDP).

From the results of this study suggested as a reference and study materials further by other researchers who are interested in the same object with the same data in different time periods. Also suggested the next researcher to add other relevant variables and using different samples and supporting a research location in the District/Municipal other in Indonesia.

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