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**The Effect Of Fiscal Decentralization To Gross  
Domestic Regional Product Of District / City In South  
Sumatra Province**

**Dessy Dian Syari**  
Universitas Sriwijaya  
diansyari@yahoo.com

**Syamsurijal A.K**  
Universitas Sriwijaya

**Bernadette Robiani**  
Universitas Sriwijaya

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**Abstract**

This study aims to examine the effect of fiscal decentralization on gross regional domestic product (GRDP) of districts in South Sumatera. The data used in this study are secondary data in the form of GRDP, district expenditure to provincial expenditure ratio, district revenue to district expenditure ratio and balancing fund to district revenue ratio in 15 districts/cities in South Sumatera for 11 years during the period of 2005-2015. Multiple regression analysis on fixed effect model is used in analyzing the data. The result shows that simultaneously, fiscal decentralisation has significant effect on GRDP of districts/cities in South Sumatera. However, in partial test, the district expenditure to provincial expenditure ratio is positive and insignificant. This is related to the district expenditure allocation that has not any direct impact on the district economy thus, it has yet to give results that can support the economic growth.

**Keywords:** fiscal decentralization, gross regional domestic product, economic growth

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**INTRODUCTION**

The realization of fiscal decentralization in indonesia was officially started On January 1st 2001, it is begin by the legalization of Law Number 22 in 1999 (UU nomor 22 tahun 1999) about the region government and Law Number 25 in 1999 (UU nomor 25 tahun 1999) about the financial proportion between central government and region government. Until Now, the both regulation already had

changed a few time till the final change resulted The Law Number 23 In 2004 (UU nomor 23 tahun 2004) about the region government and The Law Number 33 In 2004 (UU nomor 33 tahun 2004) about the Financial Proportion between Central Government and Region Government.

Previously, The Realization of fiscal decentralization in Indonesia was pointed to create the independency Aspect in the region. As the consequences the region accept the overflow of authority in all aspect, except the authority in abroad politic, Country defense, security, Judicature, Monetary and Religion. The overflow of the authority as following by the transfer of funding resources such as ; Taxation basis and the funding support by using transfer mechanism to the region based on money follow function principle. The existence of transfer mechanism to the region is based on the consideration of Students of University and Lecturer. Decreasing the imbalance that probably happen whether in region and among the central and region government (Haryanto, 2015).

Through The Law number 33 in 2004, it is ruled about the proportion of the financial resources based on the government business which become the region authority, and the principles of the financial management central and region. The financial resources fo the region including the revenue that came from the Own Source Revenue (PAD), transfer to the region, loan and grant. On the other hand, there are some Law that by sector which entrust the fund alocation from the central government to region government, it used to fund the certain program (Financial Note of Draft budget presented to the parliament 2016).

From the Country financial side, Fiscal Decentralization policy bring consequence to the map management of fiscal which be basic. This is can be seen from amount of the financial resource which is abunandt from central government to region government. The Expenditure transfer to the region in State Budget from year to year which also increasing. Nationally, Transfer allocation to the region in 15 years of decentralization already increasing significantly. If in the beginning of realization of fiscal decentralization, transfer to the region in the amount of Rp 84,8 Billion Then, in 2016 the region transfer reach Rp. 776,2 Billion or its ascent reaching 16,8 Percent in average per year.

In Addition the transfer to the region is increasing, decentralization and Region Autonomy bring some change, It is proven by the increasing of number of the estabishment new region, expanding area whether in province or district / City level. The Establishment of new region or expanding of area widely, it is not only occurred in the region which geographically having abunandt of Nature Resources or Industrial potential and the trading which can be rely on as the region revenue, but it also occured in the region which has a little of nature resources and economically under-developed.

From the big number of the new regions estabishment in few area in indonesia, it is causing to the expanding area in Sumatera Selatan Province which is significantly, Previously, Sumatera Selatan only consist of 6 Districts and 1 city, In 2016 it is change to 13 Districts and 4 Cities. With the large number of the area which came from the expanding program in Sumatera Selatan, it is also support by the authority which given widely to the District /

City government to manage their area, it is also support by the allocation of the fund, So that the amount of the fund from the central government which flow to the Sumatera Selatan Province to the region in transfer form also increasing.

The allocation of the transfer budget to the Sumatera Selatan Province in 2006-2016 periode had increased nominally. If in 2006, Budget Allocation of Transfer to the Region of Sumatera Selatan Province is Rp. 6.167,10 Billion, so that in 2016 Its amount reaching Rp. 27.068,67 Billion or having ascent of average 16,19 Percent. This is suitable with the transfer policy direction which increasing from year to year as the form of commitment and government consistency through the decentralization in Indonesia by still consider about the accountability and transparency on the allocating and managing the fund (Financial Note of Draft budget presented to the parliament 2016).

With the existence of the government authority in optimizing the Own Source Revenue (PAD) as the resources of region revenue along with the increasing of transfer to the region of Sumatera Selatan Province in the form of proportion fund (DAK, DAU and DBH), so the region government is charged to capable to allocate their expenditure to the program and the activities that oriented to the increasing of the public service quality in the region. The Economic growth is the one of the important indicators to do the analysis about the Economic development that occurred in a country or region. The Economic growth will resulted the revenue addition in certain periode, Because The economic activities is the process of using the production factors for resulting the output, so this process will in turn to resulting the reward of the production factors which is in society possession (Mankiw, 2003).

The first indicator to measure the growth of the economic in a region with the Gross Domestic Regional Product (PDRB). The development value of the Gross Domestic Regional Product based on the Business field based on the constant price in Sumatera Selatan Province In 2010-2015 Periode increased, With the average ascent 5,5 percent per year. If it compare with another four province in South Sumatera, it is consist of Jambi, Bengkulu, Lampung, and Bangka Belitung, where all the Province except Jambi is the result of the area expanding from, South Sumatera so the Gross Domestic Regional Product is classified in highest level, but if it compare with the two other province in Sumatera area, those are North Sumatera and west Sumatera, so the growth of the South Sumatera with the Gross Domestic Regional Product growth indicator which is relatively low. Along 2011-2015 the average of the Gross Domestic Regional Product in South Sumatera is about 5,54 Percent, It's lower than North Sumatera which has 5,90 percent and West Sumatera 6,00 Percent. That's why it is necessary to South Sumatera to increase the rate of Gross Domestic Regional Product.

The Realization of the fiscal decentralization occurred widely and it is expected able to increase the economic growth, so it necessary more observe to know it deeply. There are some research that show, how it effect the fiscal decentralization to the economic growth, Such as ; Davoodi and Zou (1998), Zhang and Zou (1998), Woller and Philips (1998), Xie, et all (1998) and Jin and Zou (2005) which have conclusion that the fiscal decentralization give the

negative effect to the economic growth. But the different results are showed by the other researcher, which are done by Thiessen (2003), Akai and Sakata (2007), and Wibowo (2008), it is stated that the fiscal decentralization has the positive effect to the economic growth.

Based on the research and condition above, to know how the fiscal decentralization as the region budget proportion, Region Capability from Own Source Revenue and region transfer in creating the economic growth in Sumatera Selatan that's why the research is done, it is useful to investigate about the effect of fiscal decentralization to the gross domestic regional product in the district / city of Sumatera Selatan Province. The Problem formulation in this research is How the effect of the fiscal decentralization to the Gross Domestic Regional Product In district / city of Sumatera Selatan province in periode of 2005-2015.

## **LITERATURE REVIEW**

### **Gross Domestic Regional Product**

Gross domestic regional product is the one of many important indicator to know the economic condition in the region in certain periode, whether based on the Applicable price or based on the constant price. Gross Domestic Region Product is the value added amount which is resulted by the whole unit business in certain region, or amount of the final good and service value which is resulted by the whole economic unit in a region. Gross Domestic Regional Product on the applicable price describe the value added of the good and service which is calculated by the present value price, whereas Gross Domestic Regional Product on the constant price show the value added of its good and service which is calculated by the applicable price on certain year as the based year.

According Mankiw (2003) GDP can be seen from two point of views. First, GDP as total of income for each economy individual. Second, GDP as total of expenditure to the producing of good and service. Therefore it is concluded that if GDP will describe the economic performance in a country. The economic growth of area is the addition of the stakeholder and society revenue in that area, its the rising all the value added which is occured (Tarigan, 2005 : 46). The growth of the Gross Domestic Regional Product is always used to show the real potential of the skill and region economic capacity. The different growth of the Gross Domestic Regional Product in each region of province government is able to see the various performance of the economic growth in a region.

### **The Keynes Theory about Economic Growth and Government Expenditure**

The Government expenditure is a one of the aggregate demand element. Calculation concept of national income with the expenditure approach that  $Y=C+I+G+X-M$ . This formula is known as the national income identity. Y variable is symbolize national income, it is also describe the aggregate supply. Whereas the variable in the right side is called the aggregate demand. G Variable symbolize the government expenditure. By comparing G value to Y value then observe from time to time, it is able to known how much the

contribution of the government expenditure in the allocating the national income (Dumairy, 1996).

The Government Income and expenditure are relating in fiscal definition or State Budget as the whole. Total Expenditure in economic is subtracted by the multiplier effect from the tax increment and tax deduction are the policies where the government having surplus budget in decreasing the government expenditure. If the aim to increasing the expenditure, so the government is operating the deficit budget by decreasing the tax and increasing the government expenditure.

### **Wagner Law**

Wagner and Saleh As Cited in Sukarini (2012) stated that the theory about development of government expenditure will bigger in Gross Domestic Product Percentage. Wagner stated his opinion that in an economic if the per-capita income increasing, so relatively the government expenditure will increase. Wagner Law is known as "The Law of Expanding State Expenditure".

### **Peacock and Wiseman Theory**

This theory is based on an analysis of the government income and expenditure. The government always try to increase their expenditure by handle the income from tax. Whereas the society dislike the big amount of tax payment to pay the government expenditure. The increasing of tax income is causing the government expenditure increasing too. Gross national profit (GNP) is causing the government expenditure increase. Peacock and Wiseman base their the theory to another theory. It is stated that the society having a tax tolerance level which is needed by the government to pay the government expenditure. So the society realize that the government need fund to pay the government activity, that's why the government need to have some loan. After the distraction is less, the obligation to pay the liabilities and interest. The Government expenditure will increase, it's not only GNP increasing but because that new obligation. The further risk is the tax will decline to previously level, eventhough all the distraction are banish.

### **Fiscal Decentralization**

Fiscal Decentralization is a budget distribution process from higher government level to the lower government level, it is useful to support the function or government duty and public service based on how many the authority in government. According Khusaini (2006) fiscal decentralization is the overflow authority in budget income or previous centralize financial, whether using administration and its benefit or it is done bu government. Decentralization is able to seen from two concept, its revenue decentralization and expenditure decentralization (Wescott, 2002).

### **Region Revenue**

Region Revenue is the revenue which is earned based on local regulation which is based on The Law Number 33/2004 (UU No. 33/2004), Region revenue is consist of ; (a) Own Resource Revenue (PAD) which is earned from region tax and region retribution, wealth management separately, and another legal own-resource revenue sources. (b) Proportion fund which is consist from ; revenue sharing which is Sharing tax, Non-tax sharing, Natural resource-Sharing.

### **Proportion Fund**

Proportion fund is came from the State Budget which is allocated to the region to funding region needs in realization of decentralization, it is aim to decreasing fiscal differ between government and region government and between region government. Proportion fund concept in autonomy era is consist of some post, it is fund of Sharing Tax and Non-Tax, General Allocation Grant, Special Allocation Fund. Especially for block grant and spesific grant, according some expertise to be one of many instrument which is used to set the fund pattern from central to the region government. The implication of block grant is facilitate the region government to allocating the fund based on the government program and development in region (Susetyo, 2007)

### **Region Expenditure**

Region Expenditure is consist all the expenditure from local Government General Treasury Account which is subtract the fund equity, it is the region obligation in one year of state budget periode and there is no re-fund from the region. Expenditure is classified into Indirect Expenditure and Direct Expenditure.

### **Indirect Expenditure**

Based on the ministry regulation Number 13 year 2006, The last one was changed by Ministry of Home Affair Regulation number 21 in 2011, about the guidance in management of region financial. Indirect expenditure are consist of ;

- Employee Expenditure, it is compensation in form of salary, subsidy and another income which is given to civil servant whic is determined based on the Law.
- Interest Expenditure, it is used to budgeted the payment of loan interest which is calculated on principal Outstanding based on the short, average and long term of loan engagement.
- Subsidy Expenditure, It is used to budgeted producing cost to the certain entity / institute so that the sell price will be inexpensive . Subsidy Expenditure is budgeted based the entity needs in local regulation about state budget which further regulation are written in the chief of region rules.

- Grant Expenditure, it is not binding or frequently and it is must used based on the determine engagement which is written in engagement of region grant
- Social Support It is used to budgeted support in money or goods form to the society / Stakeholder. It is used to increasing the society welfare. Social support is not given frequently in each budget year, selective and having clearly aim.
- Sharing Expenditure, It is used to budgeted sharing fund which is earned from province revenue to the district / city or district / city revenue to the village government or the government revenue of the region to another government region based on constitution
- Financial Support, it is used to budgeted financial support which generally or specially from province to district / city to village Government, and another government in order to fulfillinfg the even distribution of Region financial capability, The financial support is general and the benefit is using by the region government / village government which accept that support.
- Unexpectedly Expenditure, its expenditure that is used for uncommon, unexpected activity. Such as natural and social disaster which is unpredictable before, including the return on the income surplus of the region in the previous year which already closed.

### **Direct expenditure**

Based on the Home affair ministry regulation number 13 in 2003 (Governments regulation No. 13 Year 2006, the last one is changed into Home affair ministry regulation number 21 in 201 (Governments Regulation No. 21 Year 2011), about the guidance of region financial management, The direct expenditure is classified into ;

- Employee Expenditure, it is used to honorarium and wages in realization of program in region government
- Good and Service Expenditure, It is used purchasing of goods which its economic value less than 12 months and using of the service in implement the region government activities.
- Equity Expenditure, it is used to expenditure that is done in order to purchase or development tangible asset which has economic value more than 12 months, it can be used in govermnet activities, in the form of land, equipment and mechine, bulding, road, irrigation and network, and another fixed asset.

### **Previous Research**

Many research that is done by the expertise in order t see the relation or effect of fiscal decentralization to the economic growth, such as Wibowo (2008) that do the research to exemine the relation among fiscal devolution and regional economic growth in Indonesia during transition in reformation ages of fiscal decentralization. Panel Data from 29 province in indonesia in 1999-2004 is using fixed effect method. The Dependent Variable is the region economic growth per-capita and the exposition variable about control variable such as

initial level of GDP, Increment of inhabitant amount, Investment ratiiont to the GDP, Human Resources Ration and International Trading, then decentralization variable is measured by income indicator, expenditure and autonomy. The result is significant and positive to the economic growth.

Furthermore, Fadjar and Sembiring (2007) are done the research with 26 panel of the province in Indonesia during 2000-2007. Dependent Variable is using Gross domestic regional product, where as the independent variable is using dummy variable which is show the previous and after period when the fiscal decentralization be valid and endowment factor is effect positive and significantly to the economic growth of Indonesia. Another research Akai and Sakata (2007) which is aim to give the new evidence that the fiscal decentralization giving the contribution to the economic growth. The data is using panel of the 50 countries in the USA during 1992-1998 with the regression fixed effect method. The results show that the relation of fiscal decentralization to economic growth is hump-shaped. As the degree of fiscal decentralization remains low, the increase in fiscal decentralization will have a positive and significant impact on both the revenue and expenditure indicators. However, when fiscal decentralization is optimal, increasing the degree of fiscal decentralization will lead to negative economic growth.

Azwardi (2007) examines with the title Impacts of Fiscal Decentralization on the Performance of the Inter-Territory Economy in Indonesia. This study aims to examine the impact of fiscal decentralization on inter-regional economic performance in Indonesia. The results show that development expenditure provides income multiplier and output multiplier which are bigger than routine expenditure. Overall intraregional Java get bigger impact when compared to Outside Java.

The Research on fiscal decentralization that has a positive influence on economic growth is done by Malik et al (2006) in Pakistan from 1971-2005. Decentralization indicators used; first, the expenditure indicator consists of the ratio of local government expenditure to total central government expenditure (RPEC) and the ratio of local government expenditures to total central government expenditures minus defense expenditure and debt interest (RPECA). Second, the revenue indicator, consist of the ratio of local government revenue to total government revenue (RPRC) and the ratio of local government revenue to government revenues deduct by the receipt of grants (RPRCA). The results show adjusted acceptance indicators (RPRCA) have a positive and significant relationship in support of economic growth.

In line with the results of the study by Malik, limi (2005) examined the effect of fiscal decentralization on economic growth in 51 countries consisting of 7 low, 10 lower middle, 12 upper middle, 22 high income in the period 1997-2001. The result of this study is that decentralization has a positive impact on per capita economic growth. Furthermore, Hadi (2005) conducted a research on the impact of fiscal decentralization implementation on economic growth in the district / city of Yogyakarta Special Province. The results showed that Own resource revenue has a positive relationship and significant effect on economic growth in Sleman and Yogyakarta. While general allocation grant (DAU) have a

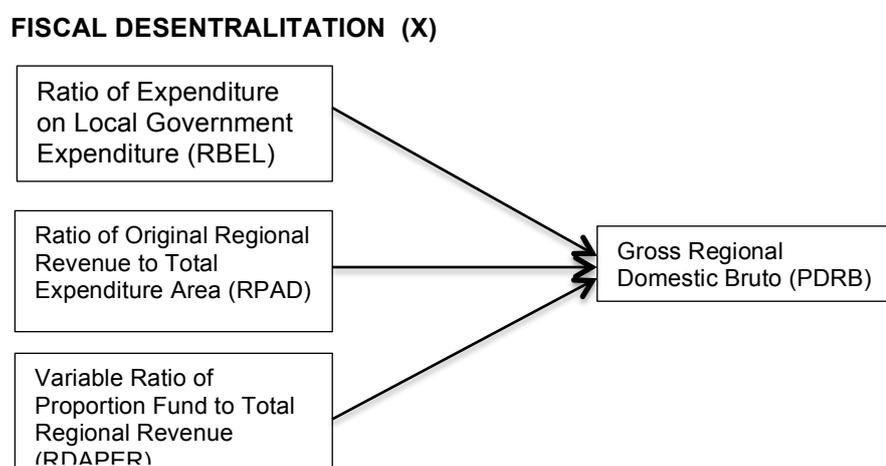
negative and significant effect on economic growth in the district / city of Yogyakarta Province.

The Research from Thiessen (2003) examines the title of Fiscal Decentralization and Economic Growth in High Income OECD Countries, where the data used are panel data of 26 OECD countries with high income, 1973-1998 period with OLS regression method. The results show that fiscal decentralization has a positive effect on economic growth when the degree of decentralization is still low, and negatively affects economic growth as the level of fiscal decentralization is high. Research Xie et al (1999) examined the US On 1948-1994 Periode, with the dependent variable GDP per capita and growth rate. The results of this study suggest that local government spending has reduced economic growth even at a weak level.

Furthermore, Zhang and Zou (1998) examine under the title of Fiscal Decentralization, Public Spending, and Economic Growth in China with the issue of how fiscal and government revenue allocations between central and local governments have affected economic growth since reforms began in the late 1970s. The data used are panel data from 18 provinces in China during the period 1980-1992 with OLS regression method. The result of this research is fiscal decentralization from expenditure side having negative effect to economic growth. Davoodi and Zou's (1998) study entitled Fiscal Decentralization and Economic Growth: A Cross-Country Study aims to examine the relationship between fiscal decentralization and economic growth. The dependent variable is the growth rate of real GDP per capita and the independent variable of fiscal decentralization which is measured by the ratio of local government expenditure to total central government expenditure, as well as the control variable such as population growth rate, initial human capital proxied with enrolment school junior level, initial GDP per capita, and the ratio of investment to GDP. The result of the research is fiscal decentralization has negative effect to economic growth in developing countries, whereas in developed countries there is no relationship between fiscal decentralization and economic growth.

## Theoretical Framework

Figure 1. Theoretical Framework



This fiscal decentralization study will include three main variables as independent variables representing fiscal decentralization. The three variables are: (1) the ratio of total regional expenditure to total province expenditure. In general, There was an increase in the amount of local government expenditure reflects an increasing in public investment in the community, where public investment has a direct impact on productivity on the economy as well as private sector investment; (2) the Ratio of Own Resources Revenue to total regional expenditure. Own Resource revenue, which is one of regional revenue which is also a source of regional expenditure will increase economic growth. This ratio indicates that the greater the value, the greater the ability of a region to finance its own regional expenditure; (3) the ratio of Proportion funds of each district / city to the district / city revenue. This ratio is in contrast to the own resource of revenue ratio, where the higher the ratio of proportion funds indicates the greater dependence of a region on the central.

### **Research Hypothesis**

The hypothesis of this study is that the variables of fiscal decentralization have an effect on the gross regional domestic product of district / cities in South Sumatra Province from 2005 to 2015.

### **RESEARCH METHODS**

This research observes and examines the effect of fiscal decentralization on gross regional domestic product in South Sumatera Province. The analysis period consisted of 11 years, Its from 2005 to 2015 by using 15 out of 17 district / cities in South Sumatera Province. This is because 2 other districts namely Pali and Musi Rawas Utara are new autonomous regions which split up in 2013, so that the data research is still very less.

The type of data used is the secondary data in the form of panels (panel pooled data) which is a combination of time series and cross section. The data used in this study was obtained from the publication of the official website of the Central Bureau of Statistics and the Ministry of Finance.

Methods of data collection using the method of data documentation which its collecting through written documents either in the form of numbers and information that is related to the research. The required documents are data published by data sources, It called the Central Bureau of Statistics and the Ministry of Finance.

### **Regression Model**

The model is used to analyze this research can be arranged into the following functions:

$$PDRB = f (RBEL, RPAD, RDAPER) \dots\dots\dots (3.1)$$

From equation (3.1) above and using semi log, the econometric equation of research model is as follows:

$$\text{LogPDRBit} = \beta_0 + \beta_1 \text{RBELit} + \beta_2 \text{RPADit} + \beta_3 \text{RDAPERit} + e \dots \dots \dots (3.2)$$

Where:

GRDP = Gross Regional Domestic Product Variables

RBEL = Variable Ratio of Regional Expenditure on Provincial Expenditure

RPAD = Variable Ratio of Own Resource Revenue to Regional Expenditure

RDAPER = Variable Ratio of Proportion Fund to Regional Revenue

$\beta_0$  = Intercept / Constant

$\beta_1, \beta_2, \beta_3$  = Free variable coefficients

e = Interference Variable / Error Correction Term

**Data analysis technique**

Data processing techniques used in this study using econometric model of multiple linear equations for panel data which is a combination of cross section data and time series. Analysis using this panel data method is used to answer the purpose of this research is to identify the effect of fiscal decentralization on gross regional product of district / city in South Sumatera Province.

In order to estimate panel data there are several requirements to see the best model. In using panel data there are three estimation methods that are Common Effect (CE), Fixed Effect (FE), and Random Effect (RE). To find out the best estimation method of the three estimated estimation models will be selected which model is most appropriate / in accordance with the objectives of the study. Based on the characteristics of data held, there are two tests that can be used as a tool in choosing a panel data regression model (CE, FE or RE).

**FINDING AND CONCLUSION**

**Regression Estimation Results With Fixed Effect**

Based on equation (3.2), the equations used in this study are:  $\text{LogPDRBit} = \beta_0 + \beta_1 \text{RBELit} + \beta_2 \text{RPADit} + \beta_3 \text{RDAPERit} + e$

Result of Estimate Equation Influence of Fiscal Decentralization to PDRB

Table 1. Result of Estimate Equation Influence of Fiscal Decentralization to PDRB

Variabel	Coefficient	Std.Error	t-Statistic	Prob
<b>C</b>	23.8986	0.526009	45.4338	0.0000
<b>RBEL</b>	0.388093	2.79815	0.138696	0.8899
<b>RPAD</b>	4.467134	1.935531	2.307963	0.0226

<b>RDAPER</b>	-1.738518	0.49411	-3.518485	0.0006
<b>AR(1)</b>	0.805655	0.051874	15.53097	0.0000

By selecting Fixed Effects, the estimate equation result in the table above will form the following equation:

$$\text{LogPDRB}_{it} = 23,8986 + 0,388093\text{RBEL}_{it} + 4,467134\text{RPAD}_{it} - 1,738518\text{RDAPER}_{it} + \varepsilon_{it}$$

From the above estimation results, the ratio of own resource revenue (PAD) to regional expenditure (RPAD) and ratio of Proportion Funds to regional revenue (RDAPER) each has a probability <0.05. This shows that both variables of fiscal decentralization have a significant effect on the value of gross regional domestic product. For the ratio of expenditure to the province expenditure (RBEL) has a value > 0.05 which means has no significant effect on (PDRB).

From the regression equation it can be explained that the constant of 23,8986 shows if the independent variable (value = 0), then the value of gross regional domestic product will still exist at 23.8986 percent. Furthermore the value of regression coefficient of own resource revenue (PAD) to regional expenditure ( $\beta_2$ ) has a positive sign and is worth 4.4571. This shows that the value of PAD to regional expenditure has a positive effect on the value of PDRB, meaning that the greater the ratio of PAD to the greater the value of GRDP. It identifies that each additional value of the ratio of PAD to expenditure in the district / city of South Sumatera Province is 1 percent, So the value of gross regional domestic product is 4.4571 percent.

For the next variable, the value of the regression coefficient of the ratio of proportion funds to the regional revenue ( $\beta_3$ ) has a negative sign that is equal to -1.7385. This shows the change in the ratio of Proportion funds has a negative effect on the value of GRDP, means that increasing ratio of proportion funds so the value of GRDP will be smaller. This coefficient value identifies that at each increase in the ratio of balancing funds in the district / city of South Sumatera Province by 1 percent then the value of PDRB will be reduced by 1.7385 percent.

Based on the results of data regression, the F-statistic value of 0.0000 is smaller than the level of  $\alpha = 5\%$ , which means that each independent variable simultaneously affect the variable of gross regional domestic product.

From the estimation result, the amount of R2 obtained is 0.928394. That is, the dependent variable (PDRB) in the model of 92.83 percent can be explained by the independent variables in the model that is the ratio of regional expenditure to province expenditure (RBEL), the ratio of PAD to total expenditure area (RPAD), and the ratio of Proportion funds of total regional revenue (RDAPER). While the rest of 7.17 percent is explained by other variables that are not contained in this model and other factors.

### **Interpretation of Results of Fiscal Decentralization Influence Analysis on Gross Regional Domestic Product**

The individual effects of each city district are reflected in the value of the final intercept of each district / city. Here is the table showing the constant value of each district / city in South Sumatera Province

Table 2. Individual Effect on Value of district / Municipal PDRB in South Sumatera Province.

<b>Fixed Effect (Cross)</b>	<b>Coefficient</b>
_OKU--C	-0.062978
_OKI--C	0.613340
_MENIM--C	1.179337
_LAHAT--C	-0.216352
_MURA--C	0.306340
_MUBA--C	1.537381
_BYASIN--C	0.560612
_OKUS--C	-0.471592
_OKUT--C	-0.076279
_OI--C	-0.372620
_EPLAW--C	-0.639533
_PLB--C	0.928386
_PBM--C	-0.866018
_PGA--C	-1.576784
_LINGGAU--C	-1.035101

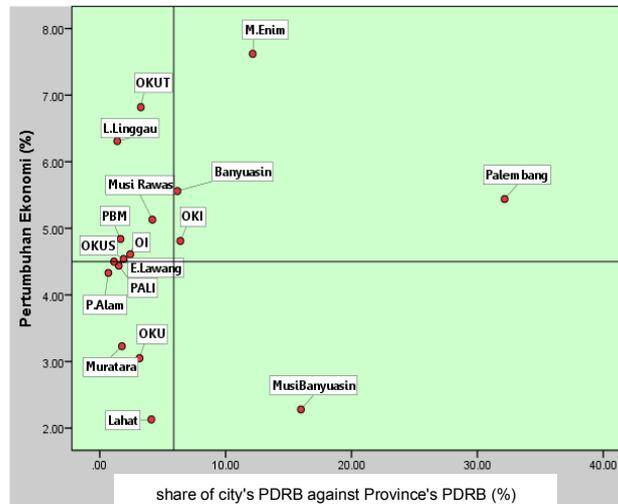
Based on the estimation result, it is seen that the value of interception coefficient on the PDRB value from each district / city in South Sumatera Province has different value. The existence of differences in the value of intercept is possible because the area studied has characteristics that are different from each other and the economy of a region is quite diverse.

From the fifteen districts in South Sumatera Province that became the object of this research, there are six districts / cities that have positive intercept, such as ; Palembang, Musi Banyuasin, Muara Enim, Ogan Komering Ilir, Banyuasin and Musi Rawas. While nine other districts / cities have negative intercept. This shows that regions with negative intercept are regions with lower PDRB values than districts / cities with positive intercept.

Furthermore, if the mapping of priority districts / city in South Sumatera Province is shown through the relationship between the district / city PDRB share to the province PDRB and economic growth, it will show the condition of regional economy in South Sumatera Province. By using a scatter plot of Cartesian diagram, it is divided into four quadrants, where the x axis is the district / city PDRB share to the PDRB of South Sumatera province, and the y-axis is the economic growth of each district / city, the result is as follows :

Figure 2. Area mapping based on PDRB Share and Economic Growth

priority areas based on district / city economic growth and share PDRB of south sumatera province



Based on the diagram, only 4 regions from 17 district / cities in South Sumatera are in quadrant I, those are OKI, Banyuasin, Muara Enim and Palembang. The area in quadrant I is the region with the highest share of PDRB accompanied by above average economic growth (South Sumatra economic growth of 4.5 percent). The regions in Quadrant II are areas with high economic growth but low share of PDRB, Such as ;East OKU, Lubuk Linggau, Musi Rawas, Prabumulih, Southern OKU, Ogan Ilir and empat Lawang. The area in quadrant III is an area with high share of PDRB but its low economic growth is Musi Banyuasin. Last is the region in quadrant IV which is region with share of PDRB and low economic growth such as ; Lahat, OKU, Pagar Alam, PALI and North Musi Rawas.

## FINDING

### Fiscal Decentralization Variables Affecting Gross Regional Domestic Product (PDRB) in the Province of South Sumatra

Based on the results of data analysis, this study is free from the problem of classical assumptions and statistical tests. Overall, the variable of fiscal decentralization has a significant effect on the value of gross regional domestic product in South Sumatera Province. Furthermore, for the influence of each independent variable to PDRB value will be described as follows.

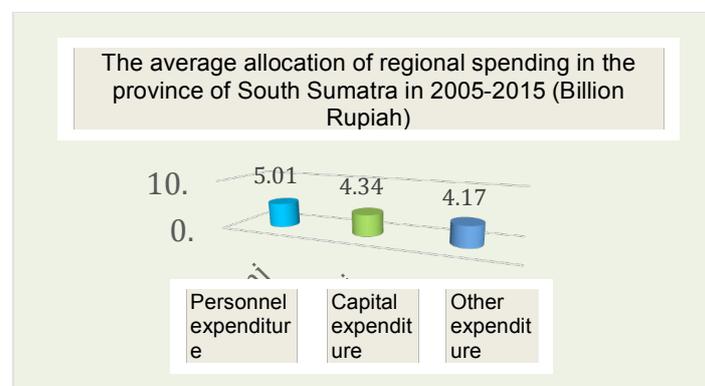
### Ratio of Regional Expenditure on Province Government Expenditure

The effect of the expenditure ratio on provincial expenditure is positive and not significant as indicated by the significance level of 0.8899 ( $> 0.05$ ). This positive relationship theoretically shows that an increase in local government expenditure reflects an increase in public investment in society, where public investment will have direct productivity effects on the economy as well as private sector investment.

Current fiscal decentralization focuses on the expenditure side with the aim of enhancing development, so that the autonomy of fiscal management of regions is freedom in spending and according to the priorities and needs of each region. The impact of regional expenditure on regional economic performance will depend largely on the allocation and composition of regional expenditures that are mostly used for capital expenditure. Increment of expenditure on public services, especially capital expenditures will certainly increase the stock of regional capital, thereby increasing the capacity of regional economies and improving the regional economy. This insignificant relationship is indicated because the province of South Sumatra is still unable to allocate funds to expenditures that have a direct impact on the local economy so that it has not provided results that can support economic growth.

Implementation that occurred related to the allocation of regional expenditure in district / city in South Sumatera Province shows that the allocation of regional expenditure during the period of 2005-2015 shows the amount of budget used for personnel expenditure, where the average allocation of personnel expenditure in South Sumatera Province is still bigger compared to the allocation of capital expenditures and other expenditures. The low allocation of capital expenditure is an issue related to regional financial management in the era of fiscal decentralization Nowadays. Capital expenditure will provide a high multiplier effect on the economy, if the allocation of capital expenditure is still low means that the creation of multiplier effects in the area is still limited.

Figure 3. Regional expenditure allocation Average in South Sumatera Province In 2005 – 2015 (Billion Rupiah)



### Ratio of Original Regional Revenue To Regional Expenditure

Based on the estimation results, the average coefficient of the ratio of local revenue to regional expenditure (RPAD) of 4.467134 means that the increase of average ratio of local revenue to regional expenditure by 1 percent will have an impact on increasing the value of regional gross domestic product in the region South Sumatera Province for each district / city of 4.467134 units. Furthermore from the results of the regression equation, the value of p-value RPAD of 0.0226 indicates that the ratio of PAD to total regional expenditures having positive and significant influence to the value of gross regional domestic product at real level, it is reach 5%. This ratio indicates an increasing financial capacity

which is expected to improve the regional economy. This is in accordance with the theory put forward by Tiebout (1956) that a fiscal decentralization system in which local governments play a more important role than central government in the provision of public services that will push the economic growth.

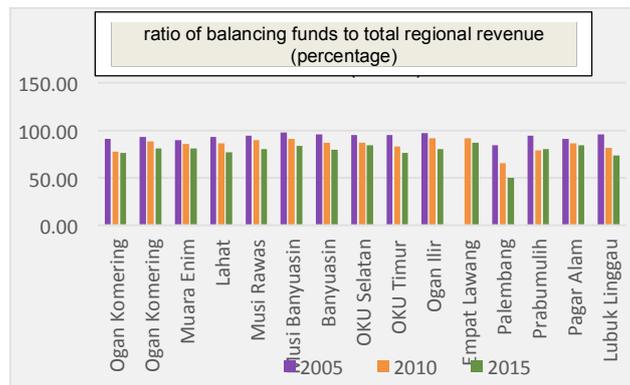
The success of the implementation of regional autonomy should be supported by the availability and financial capacity of the regions derived from the revenues of Own resource revenue (PAD). Local Revenue is a very important and strategic source of local revenue to support the implementation of governance and regional development. The financial capacity of a region is measured by how much the role or contribution of PAD in financing all regional expenditures, including Local routine Expenditure. The greater the contribution of PAD in the State Budget (APBD), the greater the level of independence of a region so that the smaller the dependence of the region to get funding from the central government. Otherwise, the smaller the contribution of PAD in the APBD, the greater the level of regional dependence to receive funding from the central government. Therefore, local governments are required to increase local revenue by exploring and developing all local financial resources based on their potential and capabilities.

### **Ratio of Proportion Funds to Regional Revenue**

The estimation result shows that the ratio of Proportion fund to total regional income significant and negatively affect the value of PDRB in district / city in South Sumatera Province. With the existence of the the negative direction of the relationship, this indicates the higher the ratio of proportion funds to regional revenue, the smaller the PDRB value in the district / cities in South Sumatra Province and vice versa. The regression coefficient variable of Proportion Fund equal to negative ratio of 1.738518 which means that every 1% increase of Proportion Fund ratio to total regional income will decrease the value of PDRB equal to 1,738518 units. This shows the high dependence of regional finance on central government fund transfers.

This regional dependence on proportion funds is one of the major issues related to local financial management. The fact is that since the implementation of fiscal decentralization in Indonesia, regional dependence on proportion funds is still high, only a few regions rely on PAD to finance their respective regional expenditure, but mostly still depend heavily on proportion funds.

Figure 4. Proportion Fund Ratio to the Total regional income (Percent)



Still high the ratio of Proportion funds to total regional revenues indicates weak regional financial self-sufficiency, thus reducing the performance of local governments in increasing the output of the economy. The amount of transfer funds from the central government during this period of regional autonomy does not guarantee high economic growth as the result of fiscal decentralization policy depends on the implementation of each region. A large grant from the central government may cause local governments less incentives to increase revenue derived from PAD and continue to rely on negotiating capacity to receive aid or "subsidies from the centre" as government and development finance.

The existence of Law Number 23 of 2014 (UU no. 23 tahun 2004) brings changes in the authority of regional government, the following matters are, (1) the regional government shall administer the governmental affairs according to the principle of autonomy and co-administration with the principle of autonomy as broadly as the Unitary State of the Republic of Indonesia, 2) The regional government shall carry out the constituent government affairs submitted by the central government as the basis of implementation of regional autonomy based on the principle of co-administration, (3) local government in

Implement the general government affairs which become the authority of the president and its implementation delegated to governors and regents / mayors, funding by the state budget. In line with the law, the general policy of allocation of balancing funds is aimed at improving the allocation and optimization of the use of transfer funds to regions, Such as ; (1) for general transfer grant, improving the weight of Basic Allocation and / or variables in DAU allocation formulation to improve equal distribution inter-regional finance, taking into account the transfer of authority from districts to provinces (Based on Law No.23 / 2014); improvement of allocation, distribution, and direction of DBH use. (2) For special transfer funds, improvements shall be made to the allocation of DAK for the acceleration of public basic services and the achievement of national priorities.

The born of Law Number 23 Year 2014 also brought changes to the authority of the district / city government in South Sumatera Province. Authority of natural resources management which was originally managed by local government

such as forest, mining and oil and gas then with the existence of Act 23/2014 is fully managed by central government. Karya Jaya Terminal (terminal type A) originally managed by Palembang city government and weighbridge KM 32 which was originally managed by the government of Ogan Ilir district, its management is now done by the central government. This change of authority also occurs in the field of education, where senior high school teachers who were originally under district / city government moved to the provincial government. Gradually the central government withdrew the delegated authority to the local government. This change in authority affects the Regional State Budget (APBD) and the reduced allocation of central transfers to the regions. This can be seen from the national transfer posture to 2016 (APBNP) of 729.3 trillion and a decrease in 2017 (APBN) of 704.9 trillion. Therefore, it is necessary to do further research whether the implementation of Law 23/2014 can encourage the regional economy and reduce the imbalance between regions in Indonesia which is the objective of fiscal decentralization.

The essence of fiscal decentralization which consists of policies and allocation of transfers to regions is an important instrument in improving the quality of public basic services, reducing regional disparities, poverty alleviation and improving the welfare of the people and the implementation of one of the *nawacita* that is to build Indonesia from the periphery by strengthening the regions and village within the framework of the Unitary State of the Republic of Indonesia.

## **CONCLUSION**

The result of analysis of the effect of fiscal decentralization on gross regional product of regency / city in South Sumatera Province conducted by using multiple regression analysis with Least Square method and Fixed Effect estimation model in 2005-2015 study period as a whole influenced PDRB value significantly on that period.

The estimation result of each variable of fiscal decentralization to PDRB of district / city in South Sumatera Province is as follows: variable of expenditure ratio to provincial expenditure is positive and not significant, this is indicated related to allocation of local expenditure which have not have direct impact to regional economy So they have not provided results that can support economic growth. The variable of PAD to regional expenditure ratio is positive and significant, the increase of PAD which is considered as capital for regional development will accumulate more positive impact in accelerating economic growth. The ratio variable of Proportion funds to regional revenue has a negative and significant sign to gross regional domestic product, it shows that despite the large amount of budget and flexibility in managing local finance, but local governments still can't determine the optimal regional development priority scale on the sector - development sectors that can provide multiplier effects in the economy.

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