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RESEARCH ARTICLE

THE EFFECT OF FISCAL DECENTRALIZATION AND PAPUA SPECIAL AUTONOMY
AGAINST DIRECT EXPENDITURE

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ABSTRACT

The aim of this study was to understand and analyze the significance of the influence of The Fiscal Decentralization and Papua Special Autonomy against Direct expenditure of district / city governments in Papua. Results of analysis and hypothesis testing, concluding that the Fiscal Decentralization effects, fiscal decentralization is intended to finance the implementation of the tasks of government, public services and regional development. In the structure regional expenditure, the direct budget includes (1) personnel expenditure (temporary honor); (2) goods and services expenditures; and (3) capital expenditure. Thus, large-small fiscal decentralization will directly influence significantly to direct expenditure of district / city governments. The influence of fiscal decentralization of funds from the central government to direct expenditure of district / city significantly, on the one hand implies that fiscal decentralization policy tends to improve further fiscal dependence on government expenditure of district / city towards decentralization of central funds. In other words, direct expenditure by the district / city government is still relying on the reception of funds transfers from the central government. But on the other hand, the effects of fiscal decentralization of funds towards direct expenditure significantly implies that local governments have been able to manage fiscal decentralization funds for the purpose of increasing investment pemerintah. One of component in direct expenditures are capital expenditures that are necessary in the process of accelerating developments of district. Increased expenditure on capital goods as a result of an increase in funding for fiscal decentralization, is expected to enlarge in the district

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INTRODUCTION

In the implementation of fiscal decentralization, it is required the presence of the central government are capable in monitoring and enforcement. Besides the principle of money follows function should be carried out consistently and explicitly stated in the articles of both the revision of Law No. 32 of 2004 and Law No. 33 Year 2004. This is to avoid the transfer of financial resources already controlled by the district but was not followed by decentralization tasks that are the responsibility of the districts. Decentralization framework as set out in Law No. 32 of 2004 on "Local Government" and Law No. 33 of 2004 on "Financial Balance between Central and Local Government", has two basic dimensions. The dimensions also shows the conception and direction of the decentralization policy desired by policy maker. The first dimension as reflected in Law No. 32 of 2004 focuses on what is often referred as administrative decentralization (administrative decentralization).

Administrative decentralization is intended to redistribute authority, responsibility and financial resources as efforts to provide public services to the various levels of government. Delegation of this responsibility includes planning, financing and management of various public services from the central government and implementing institutions to the various units of government at various levels. Financial balance between the center and the districts, decentralization as proposed by (AdiPriyo, 2005), (AdiSubroto, 1999), (Aswandi, 2001), (Bahl, Roy, 1999), implementation of administrative decentralization is based on an argument that the management by units public services will be more effective if delivered to the unit in direct contact with the public. The assumption is, the closer the relationship between the government and the community, the better understanding of society needs to a service. The second dimension as stipulated in Law No. 33 of 2004 is that of financial decentralization is a core component of the concept of decentralization.

MATERIALS AND METHODS

Data collection techniques, Data collection was done using documentation technique, is to do a search to various existing

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documents and other documents related to the study. Source documents originated from the authorized institution published such data in this district, is the Central Statistics Agency (BPS) districts / cities and provinces; Regional Development Planning Board (Bappenas, 2004) district / city, Papua Provincial Government and other agencies relevant with the necessary data in this study. Population and Sample, Based on the aggregation level of research or analysis unit is the district / city government, thus the population as well as samples in this study were all district / city in the province of Papua, which consists of 8 (eight) major districts / cities. The eighth major districts / cities are: (1) The City of Jayapura, (2) Jayapura District, (3) Biak Numfor District, (4) Nabire, (5) Yapen Waropen, (6) Mimika (7) Merauke district, and (8) Jayawijaya. While the division districts are deliberately not used as a sample (because of limited data), which are now headed by a definite regents are: (1) Sarmi, (2) Waropen, (3) Supiori, (4) Puncak Jaya (5) Pegunungan Bintang District, (6) Yahukimo, (7) Paniai, (8) Boven Digul, (9) Asmat, and (10) Mappi. Remembering the period of implementation of the administration of the division district authorities is still relatively new, so that the necessary data is not available in full, then the analysis just only for major district / city as the population as well as the sample of this study.

Methods of Data Analysis, Research Variables, Variables used in this study include: exogenous variables (exogenous variable), i.e.: (1) Fiscal Decentralization (X1) which consists of: (i) Tax Revenue Sharing Fund; (ii) Non-Tax Revenue Sharing Fund; (iii) General Allocation funds(DAU); (iv) Special Allocation funds(DAK); and (2) Special Autonomy funds(X2), the endogenous variables (endogenous variable), i.e.: (i) Direct Expenditure (Y), Model and Data analysis techniques in this study using Path Analysis (path analysis) to test hypotheses about the effect of fiscal decentralization and special autonomy to the structure of expenditure and economic growth. Remembering the model set out in this study is the path model with simultaneous equations, and data obtained in the form of data ratio, the method of data analysis that is most appropriate for analyzing such data is path analysis. Path analysis, known as path analysis was first developed in the 1920s by a geneticist that Sewal Wright (Jones, Rowan dan Maurice Pendlebury, 1996). *Path analysis is defined by Bohrnstedt (1974 in Kusnendi (2005: 1) as a technique to estimate the effect of a set of independent variables on the dependent variable of a set of correlation observed (observed correlations), which is hypothesized because of the asymmetrical relationship between variables.* The main goal of path analysis is becoming a method to measure the direct or indirect effect, and the total effect of a simultaneous relationship (Jones, Rowan dan Maurice Pendlebury, 1996).

Research Finding

Implementation of administrative decentralization is based on an argument that the management by units of public services will be more effective if delivered to the unit in direct contact with the public. The assumption is, the closer the relationship between the government and the community, will be able to understand the needs of society to a service. The second dimension as stipulated in Law No. 33 of 2004 is the financial decentralization which is a core component of the concept of

decentralization. The existence of the financial decentralization is a consequence of the authority to manage the financial (expenditure) independently. Financial decentralization in practice consist of several forms, i.e.: (a) independent Funding; (b) Maintain funding cooperation with the private sector in the provision of services and infrastructure; (c) The expansion of local revenue sources through various levies; (d) Revenue sharing funds from central government; and (e) Foreign Debt. Both of these dimensions in the concept of decentralization in Indonesia emphasis on local authorities to manage their resources autonomously to meet the demand for service (service demand) from the public. Regional Budget or District Expenditure and Revenue Budget (APBD) is the main policy instrument for local governments. It is a regional work plan in the form of money (rupiah) within a certain period (one year). As a policy instrument, the Regional Budget occupy a central position in the development of the capabilities and effectiveness of local governments.

Regional Budget is used as a tool to determine the amount of income and expenditure, aiding the decision-making and development planning, authorization of expenditure for the next period, the source of the development of standard measures for performance evaluation, a tool for motivating employees, and coordination tool for all the activities of the various units. Moreover, Regional Budget will produce performance measures to determine "how do we know if we are on the right track?". Thus, the Regional Budget is the technical design or blueprint (blueprint) of strategic implementation to achieve the vision of the district in ways that is true. Therefore, if the Regional Budget has poor quality, then the quality of the performance of the functions of local government also tend to be weak. As a policy instrument, the orientation of the local government must have incarnated on the content of the Local Budget. If the orientation of local government is in development programs, the Regional budget will be closer to the community dynamic motion.

That is, it would be opened so the demands and needs of the public can be included in the determination of strategies, priorities and allocation policy. Conversely, if the orientation of the local government rather than on program development, but on law and order, as long as this happens, the main purpose of the preparation and implementation of policy instruments it is just to meet the requirements of the guidelines and the technical guidelines issued by the government supervisor. When the process of drafting and implementation of policy instruments are in accordance with the guidelines and the technical instructions, then finished the task of local government (the phenomenon of regulation into the goal). Based on estimates in Table , it can be created the regression of effect of fiscal decentralization (X1) and Papua special autonomy (X2) to direct expenditure (Y1), as follows: $Y1 = 76.201 + 0.320 X1 + 2.102 X2$ or standardized regression equation i.e.: $ZY1 = 0.379 + 0.192 ZX1 ZX2$

The coefficient of determination (R^2) = 0.237 which indicates that fiscal decentralization variable (X1) and Papua special autonomy (X2), can simultaneously explains 23.7% of the variation of high and low of the direct expenditure (Y). with the framework as follows:



To determine the significance of the effect of fiscal decentralization variables (X1) and Papua special autonomy (X2) to direct expenditure (Y) partially, then tested the partial using Student test (t-test) as follows. *Standardized coefficients of influence of fiscal decentralization variables (X1) to direct expenditure (Y) of 0.379 with t value of 2.910 at a significance level of 0.005. The standardized coefficients shows that fiscal decentralization variable (X1) effects positively on direct expenditure (Y).* This means that an increase in funding for fiscal decentralization (X1), will be followed by an increase in direct expenditure (Y); conversely, a decrease in funding for fiscal decentralization (X1), will be followed by a decrease in direct expenditure (Y), at a significance level of 0.005, or 0.5%, assuming other factors that affect the size of direct expenditure (Y) is considered constant. The relative contribution of fiscal decentralization influences (X1) to direct expenditure (Y) as shown by the partial determinasi coefficient (r²) of 0.138.

This means that the fiscal decentralization variable (X1) was able to explain 13.8% variation of the level of direct expenditure (Y), while 86.2% is explained by other variables. T statistic values of influence of fiscal decentralization (X1) to direct expenditure (Y) of 2.910 with a significance level of 0,005 or 0.5%. This means that fiscal decentralization (X1) significantly affects direct expenditure (Y). Thus, the results of this study concluded to accept the hypothesis that "fiscal decentralization significant effect on direct expenditure". *Standardized coefficients of influence of special autonomy variable (X2) to direct expenditure (Y) of 0.192 with t value of 1.476 at a significance level of 0,146. The standardized coefficients indicates that Papua's special autonomy variable (X2) has no significant effect on direct expenditure (Y).* This can be seen also on the relative contribution of influence of variables of special autonomy in Papua (X2) to direct expenditure (Y) is very small, as indicated by the partial dererminasi coefficient (r²) of 0.037.

This means that the special autonomy variable (X2) is only able to explain 3.7% of the variation of high and low of direct expenditure (Y), while 96.3% is explained by other variables. T statistic values of influence of Papua's special autonomy (X2) to direct expenditure (Y) of 1,476 to 0,146 or 14.6% significance. This means special autonomy in Papua (X2) has no significant effect on direct expenditure (Y). Thus, the results of this study concluded to reject the hypothesis that the "Papua's special autonomy significantly effects the direct expenditure.", Which will be discussed as follows. Path analysis as presented in Table 5:15 generating coefficient effect path of fiscal decentralization to direct expenditure 0.379 with probability 0.005. Results of this analysis showed that statistically, fiscal decentralization gives significant and positive impact on direct expenditure. This positive effect implies that an increase in funding of fiscal decentralization

will have an impact on the increase in direct expenditure. The Result Findings of this study are consistent with Rappaport (1999), Kawirayu (2000), Abdullah and Halim (2004), and Oates (1996), Litvack, Jennie, Ahmad, Jundid, and Bird, Richard, 1998. and Prakosa (2004) which states that fiscal decentralization has significant effect on direct expenditure. As one source of revenue, fiscal decentralization is the funds allocated by the central government as a consequence of the delegation of authority and responsibility to local governments. This means that fiscal decentralization is intended to finance the implementation of the tasks of government, public services and regional development. In the structure of local budget direct expenditure include (1) personnel expenditure (temporarily honor); (2) expenditure on goods and services; and (3) capital expenditure. Thus, the large-small of fiscal decentralization will directly influence significantly to direct expenditure district / city govern

ents. The influence of fiscal decentralization of funds from the central government to direct expenditure of district / city significantly, on the one hand implies that fiscal decentralization policy tends to improve further fiscal dependence on government expenditure of district / city towards decentralization of central funds. In other words, direct expenditure by the district / city government is still relying on the receipt of funds transfers from the central government. But on the other hand, the effects of fiscal decentralization of funds towards direct expenditure significantly implies that local governments have been able to manage fiscal decentralization fund for the purpose of increasing investment of the authority. One of component in the direct expenditures are capital expenditures that are necessary in the process of accelerated development in districts. Increased expenditure on capital goods as a result of an increase in funding for fiscal decentralization, it is expected to enlarge the capacity of district fiscal.

Thus, in the future it can be expected that even though in absolute terms the fiscal decentralization of funds continues to increase, but in relatively and gradually expected to decline as the impact of the increase in local fiscal capacity which will encourage increased revenue. Descriptive analysis showed that the fund's fiscal decentralization as the central government transfers funds to close the fiscal gap (fiscal gap) in the region is likely to increase. Increased transfer of funds show that the size of the fiscal gap (fiscal gap) in the autonomous region. Fiscal gap is the difference between expenditure needs (fiscal needs) and fiscal capacity (fiscal capacity) in the autonomous region. Low fiscal capacity compared to the autonomous region of the higher fiscal needs in implementing the rule, public services and development, leading to a quantitative fiscal gap getting bigger. Meanwhile, the transfer of funds from the central government, is expected to further empower the revenue sources of local governments that enables increased fiscal capacity, so that the fiscal imbalance will be smaller.

Therefore, in the long term, the increase in the transfer of funds of the central government should be aimed to be able to contribute even more to the increased capital expenditure of public to increase fiscal capacity of autonomous regions, and in turn can reduce the fiscal gap that still faced by the district /

cities, especially in the province of Papua. Path analysis as presented in Table 5:15, yielding the effect path coefficient of the Papua Special Autonomy for direct expenditure of 0.192 with probability 0.146. Results of this analysis indicates that the special autonomy fund has positive influence on direct expenditure. This positive effect implies that an increase in special autonomy funds will have an impact on the increase in direct expenditure, and vice versa, assuming that other factors are constant. *However, the magnitude of the effect is statistically demonstrated that the special autonomy fund no significant effect on direct expenditure.* If explored further, it appears that the main background issuance of Law No. 21 of 2001 on "Special Autonomy" is for speeding the development and empowerment of indigenous people of Papua. Empowerment and siding (affirmative action) against indigenous Papuans is a necessity for the development of Papua in the implementation of special autonomy in Papua.

Conclusion

Fiscal decentralization gives positive and significant impact on direct expenditure, so the up and down of the fiscal decentralization of funds allocated to the region will be followed by the rise and fall of direct expenditure. This indicates that if an area wants to increase its direct expenditure, the allocation of direct expenditure should be increased in line with increased fiscal decentralization fund. Papua Special Autonomy does not significantly influence the rise and fall of direct expenditure so special autonomy fund will not be followed by the rise and fall of direct expenditure. This indicates that the special autonomy fund allocation is more emphasized on other sectors that do not directly affect an increase in direct expenditure.

Tip

In planning of development in Papua, local governments need to consider the factors of funding sourced from the decentralization fiscal fund and special autonomy fund, because both these sources can affect economic growth in Papua.

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