THE IMPACTS OF FISCAL DECENTRALIZATION ON ECONOMIC GROWTH AND SOCIAL WELFARE IN MALUKU PROVINCE

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Abstract: The regional autonomy that taken place by government gives an unhampered chance to the autonomous region increasing the society welfare. The regional autonomy carrying out the principle of decentralization, deconcentration, and the duty of helping implicated on the equitable and balanced development growth. It was hoped this regional autonomy will give positive impact of society welfare on the region through fiscal decentralization. This study be aimed to know and to analyze the influence of fiscal decentralization degree and the special allocation fund to the welfare of the society both as directly or by the economic growth, and the influence of the economic growth to society welfare of regency/municipality in Maluku Province. The using of the data model was panel data as combining of time series from 2010 to 2016 and the cross-section data from eleven regencies/municipalities and using by regression analysis of panel data helped by the Eviews 9 program. The research yield shown that directly the fiscal decentralization degree and the special allocation fund positively influenced and significant to society welfare and indirectly the effect of fiscal decentralization degree and the special allocation fund can be mediated by the economic growth and was had a positive and significant influenced to the community welfare.

Keywords: degree of fiscal decentralization, special allocation funds, economic growth, community welfare.

INTRODUCTION

The success of the development can be done by economic growth increasing synergized with the society welfare improvement as the main goal of a country. Through the regional autonomy policy that implemented by government effectively by 1st January 2001 and thought as a very democratic policy because the governance system in Indonesia held the principle of decentralization, deconcentration and the duty of helping which implicated on the equitable growth, fair and balanced hopefully give a positive impact to the society welfare in the autonomous region.

According to Todaro and Smith (2006), the community welfare shown the dimension of the society development result in gaining a better life included capability increasing and the equitable of distribution on main demand as food, housing, health, protection, the increased of living level, income level, better education, and the increased of attention to cultural and humanity values; enlargement of economy scale and social availability from individual and nation.

The regional autonomy was a realization of decentralization of idea. The autonomy region is a real form and embraced deconcentration principle as the meaning of decentralization itself. In this context, the autonomy must be functionally understood means that the autonomy orientation must be placed on maximum effort of government function, that is: servicing, arrangement and the empowerment so can be done immediately, closely, and accurately with the society demand.

In relation with the society welfare, based on the research of Lindaman and Thurmaier (2002), Badrudin (2011), and Saputra and Mahmudi (2012) found if there was a positive influence about fiscal decentralization to society welfare, and this was consistent with the argumentation that the fiscal decentralization will give a clear description to local government about the community need and willing. In one side, fiscal decentralization can be also lead negative consequences such as inequality among the regions, instability of macroeconomic conditions and so on. This was enforced by the research of Suryanto et al, (2005) found that fiscal decentralization has not been much beneficial yet of increasing the people welfare because there was a gap between planning and community demand in the regions.

The issue of fiscal decentralization in relation with the economic growth has been studying much by the experts. By the implementation of fiscal decentralization, the service was expected getting efficient to the society and of course finally will encourage the rate of the economic growth (Akai et al., 2007; Martinez and McNab, 2001; Vazques and McNab, 1997; Prud'homme, 1994; Sasana, 2009; Wibowo , 2008; Widhiyanto, 2008; Ismail et al., 2004; and Adi, 2005). On the other hand, fiscal decentralization can have a negative impact on economic growth (World Bank 1997; Martinez and McNab, 2001; and Parhah, 2002).

The synergy and the consistency of the relationship among fiscal decentralization, the economic growth, and the society welfare shown that if the fiscal decentralization getting higher then so as the economic growth (Sasana, 2009) and the society welfare will too (Badrudin, 2011). According to Mirza (2012), the economic growth has a positive relationship

to society welfare, this means when the economic growth getting higher will increase the society welfare.

Besides analyzing the influence of fiscal decentralization of society welfare, this study will also analyze the effect of special allocation fund (SAF/DAK). The human capital factors also influenced society welfare rate allocated by the special allocation fund (SAF/DAK). Based on several researches, be done in relation betwen the DAK/SAF and the community welfare shown that the special alloction fund (SAF/DAK) positively influenced to the HDI/IPM (Anggraini and Sutaryo, 2015; Putra and Ulupui, 2015; Ardiansyah and Widiyaningsih, 2014; Lugastoro, 2013; and Setyowati and Suparwati, 2012). This was contrasted to Sarkoro and

Zulfikar, (2016) in their research concluded that, the special allocation fund (SAF/DAK) had no influenced to HDI/IPM. These two researches were confirmed by the research done by Harahap (2011) found that simultaneously the special alloction fund (SAF/DAK), the economic growth and the society welfare, Kusumastuti (2012) in her research states that the special allocation fund (SAF/DAK) has a positive influence to economic growth and the HDI/IPM.

This research was taken place on regency/municipality conducted in Maluku Province based on the data from 2010 to 2016. The chosen of this Province as a research location with assumption that since of the year 2010 till 2016 the regency/municipality in Maluku Province did not have any area/district expansions. This was to be related with the limitation of the research that just to study the regency/municipality that have no districts expansions, so it will be seen the origination or the authenticity of districts/municipality area intact since the implementation of regional autonomy policy on 1st January 2001.

The society welfare data was projected with Human Development Index (HDI/IPM) on regency/municipality continuously in Maluku Province got increased year to year which then described that the regional autonomy implementatition (1st January 2001) had a positive impact on society welfare level. However, the achievement rate at Human Development Index (HDI/IPM) each regency/municipality be mostly on lower middle category (50<66). Just Ambon town and Central Maluku regency from 2010 till 2016 and Buru regency in 2016 be in the upper middle category (66 <IPM <80). This shown that the Human Development Index (HDI/IPM) of regency/municipality was still in problem because it was not yet be in high level of achievement.

The increasing of regency/municipality continuously from year to year was not followed by the economic growth increasing. The economic growth data of

regency/municipality from 2011 to 2016 shown a fluctuation condition but rather declining in recent years (West Southeast Maluku regency, Southeast Maluku regency, East Seram regency, Ambon municipality, and Tual town), rather enclosed in the last year (Central Maluku district, Buru district, Aru Islands district, West Seram district, Southwest Maluku district, and South Buru district). The average of the economic growth rate for last six years shown that Southwest Maluku district has the highest average (6.69 percent) followed by Ambon municipality (6.62 percent), while the lowest average was Buru regency (5.40 percent). If compared with growth rapidly of provincial and national, then the average of regency/municipality of economic growth of regency/municipality, province, and national be fluctuated and decreased on the last year. In 2011, the average economic growth rapid of municipality (6.09 percent) and still below of province (6.34 percent) and for national (6.17 percent), while in 2016 the average of economic growth rapid of municipality was the same with province (5.76 percent) and higher than national (5.02 percent) but it still below of the achievement level in 2011. This indicated that the economic growth rate of regency/municipality still low.

The fiscal decentralization was an instrument using by government in managing development to encourage the economy both local or in capital city. The independence of local government in managing the transferred fund given by the central government expected could give an ease to manage the financial so the implementation of the development in local area will gained as well and will turn aside to the welfare. In this study, the fiscal decentralization was measured by the variable of fiscal decentralization degree and the Special Allocation Fund (SAF/DAK). The data of fiscal decentralization degree of regency/municipality in Maluku Province was fluctuated and getting down in the year of 2016 it compared with the beginning of 2010. This shown that the ability of the region in carrying out the local autonomy from year to year was rather getting down and the rate of the independence to central government still quite high, so the implementing of the autonomy was not going on as the hope.

The transferred fund Allocation of central government in the form of the General Allocation Fund (GAF/DAU) be expected give an influenced in increasing the society welfare compared with the component of other transferred funds because the budget allocation was more dominant than the component of another transferred fund. However, in its developing, the existence of the General Allocation Fund in the form of block grant more dominant the budget allocating by local government for indirect expenditure than direct expenditure in the form of investment of public facilities and infrastructure to increase the society. Furthermore, the special allocation fund (SAF/DAK) to be more strategic of regional development, because

more in touch with the of human development increasing the society welfare in local area specially on the sectors of education and health. The allocation of SAF on education and health when compared with the total allocation of the special allocation fund (SAF/DAK) from 2010 to 2016 found fluctuated and inclined with sharp declining.

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Based on the description in the background explaining about the influence at fiscal decentralization to economic growth, and the society welfare in regency/municipality in Maluku Province, then the problem formulation arranged, and the research hypothesis is as follows: First, problem formulation: The fiscal decentralization degree significantly influenced to society welfare in Maluku Province, both directly or indirectly through the economic growth.

Based on the first problem formulation, then the research hypothesis

H_1a: The fiscal decentralization degree positively influenced and significant to society welfare in Maluku Province

H_1b: The fiscal decentralization degree positively influenced and significant to society welfare in Maluku Province by the economic growth.

Second problem formulation: The Special Allocation Fund (SAF/DAK) significantly influenced to society welfare of Maluku Province both directly or indirectly through the economic growth.

Based on the second problem formulation then the research hypothesis is as follows:

H_2a: The Special Allocation Fund (SAF/DAK) Positively influenced and significantly to society welfare in Maluku Province

H_2b: The special allocation fund (SAF/DAK) positively and significantly affected to community welfare in Maluku Province through the economic growth

Third problem formulation: The economic growth has a significant influenced the society welfare in Maluku Province.

Based on the third problem formulation, then the research hypothesis is:

H_3: The economic growth has a positive and significant influenced to people welfare.

RESEARCH METHODS

This research is a quantitative study using with secondary data of time series form of 2010 to 2016 and the cross-section data consisting of eleven regencies/ municipalities and was as panel data as combining between time series data and cross section. The secondary data was the data obtained based on the information that has been arranged and published by Central Bureau of Statistics (BPS/CBS) and other relevant agencies. The types of sampling taken in this research was saturated sampling whereas the sample chosen technique was taking the population as the sample (Sugiyono, 2011).

The data collecting was a process of data procurement of the research purposes. Considering, that all data used in this research was secondary data, then the procedure of the data collection from the related institutions like the Ministry of Finance, the Ministry of Home Affairs, and the Central Statistics Agency, Province, and Regency/municipality. The data found from various reports/books/compact discs published by the relevant institutional. The data and the supporting of the research collected through the website as references from books, paper, scientific journals, and the research report.

The operational definition of this research is:

1. **Degree of Fiscal Decentralization (X1)**

In this research, the variable of fiscal decentralization degree is proxied with the ratio between the local-generated revenue (PAD) plus Tax and Non-Tax Revenue (DBH) with the total expenditure of regency/municipality. The usage of this variable refers to Mahi research (2005). The fiscal decentralization in this study is expressed in the term of the percentage unit.

2. **Special Allocation Fund (X2)**

The special allocation fund (SAF/DAK) was a fund that sourced from the income of Expenditure Budget (APBN) that allocated to certain regions in order to assisting as funding of special activities which are be a regional affair in accordance with national priorities. In this research the special allocation fund (SAF/DAK) is proxied by the ratio between the special allocation fund (SAF/DAK) in education field plus the special allocation fund (SAF/DAK) in health sector with totally allocation of regency/municipality and expressed in percentage unit.

3. **The Economic Growth (Y1)**

The economic was meant as the increasing of Gross Domestic Product (PDRB) without looking of wheatear the increasing is greater or lower than the rate of population growth, or whether the changing of the economic structure was happened or not. The Gross Regional Domestic Product (PDRB) based on constant prices in 2010. The economic growth in this research measured by the ratio between the Gross Regional Domestic Product (PDRB) year y minus Gross Regional Domestic Product (PDRB) year y-1 with the Gross Regional Domestic Product (PDRB) y-1 stated in percentage unit.

4. The Community Welfare (Y2)

The society welfare is a condition that shown about the condition of society life that can be seen from the standard of community life. The community welfare variable as latent variable in this study was measured by Human Development Index (HDI) expressed in percentage unit.

The hypothesis testing in this research was done using by regression and analysis method of panel data which aimed to test the relationship of influence between one variable to another. The variable be influenced was called dependent variable (endogen), while the variable that influenced was called independent variable (exogenous).

The process of coefficients calculating in this research was approached through data panel regression analysis that standardized (standardized regression) formed through functional equation in simultaneous model with reduce form as follows:

Equation 1:

$Y_{1\,it} = f\,(X_1, X_2)$

$\qquad = \alpha_0 + \alpha_1\,X_{1\,it} + \alpha_2\,X_{2\,it} + \mu_{1\,it}$ ***Reduce Form Y1:***

$Y_{1\,it} = \alpha_0 + \alpha_1 + \alpha_2 + \mu_{1\,it}$ ***Equation 2:***

$Y_{2\,it} = f\,(X_1, X_2, Y_1)$

$\qquad = \beta_0 + \beta_1 X_{1\,it} + \beta_2 X_{2\,it} + \beta_3\,Y_{1\,it} + \mu_{2\,it}$ ***Reduce Form Y2:***

$Y_{2\,it} = \gamma_0 + \gamma_1\,X_{1\,it} + \gamma_2\,X_{2\,it} + \mu_{12\,it}$

Where:
i	=	*cross section (district/city)*
t	=	*time series (year)*
X_1	=	*degrees of fiscal decentralization*
X_2	=	*special allocation fund*
Y_1	=	*economic growth*
Y_2	=	*community welfare*
α, β, γ	=	*regression coefficients*
μ	=	*error term*

THE RESEARCH YIELD AND THE DESCUSSION

The research using panel data has three model testing methods that are common effect model, fixed effect model, and random effect model through several tests such as Chow Test, Hausman Test, and Langrange Multiplier Test (LM). Then proceeding with testing against violation of Classical Assumption through Multicollinearity Test, Heteroskedasticity Test, Autocorrelation Test, and Normality Test.

The result of panel data regression analysis using Eviews 9, shown that the equation Y1 model used is common effect, for the equation Y2 model used is fixed effect model. Both models are then tested by Classic Assumption, obtained the result that both models are free from the violation of Classical Assumption.

Based on the data analysis using with eviews 9 got the research yield shown, that:

1. **The Effect of Fiscal Decentralization on the Welfare of the Community Directly or through Economic Growth**

The fiscal decentralization degree has a positive and significant impact on welfare of the regency/municipality community in Maluku Province. This was seen from the coefficient value about 0.5924, t-Statistic of 3.218178, and the probability of 0.0020 <0.05 at 95 percent confidence level ($\alpha = 5$ percent) indicating that there was an acceptance of hypothesis 1a, so be concluded that hypothesis 1a was proved. The coefficient in the relationship was 0.5924. Furthermore, the result of the analysis also shown that the effect at the fiscal decentralization degree on people welfare through the economic growth was significant. This shown that there was an acceptance of hypothesis 1b, so it was concluded that the hypothesis 1b was proven.

2. **The Influence of Special Allocation Fund (SAF/DAK) on Community Welfare Directly or through Economic Growth**

The special allocation fund (SAF/DAK) has a positive and significant impact on society welfare of regency/municipality in Maluku Province. This can be seen from the coefficient value of 0.1511, t-Statistics of 2.961184, and the probability 0.0143 <0.05 at 95 percent confidence level ($\alpha = 5$ percent). This shown that the acceptance of hypothesis 2a be indicated that the hypothesis 2a was proven. Furthermore, the indirect correlation analysis of the special allocation fund (SAF/DAK) influence on people's welfare through economic growth was significant. This shown that the hypothesis 2b was acceptable and concluded that 2b hypothesis was proven.

3. **The Effect of Economic Growth on Community Welfare**

The economic growth has a positive and significant impact on society welfare of the regency/municipality in Maluku Province. This was seen from the coefficient value of 0.3414, t-Statistics of 2.058794, and probability 0.0437 <0.05 at 95 percent confidence level (α = 5 percent). This shown that there was an acceptance of hypothesis 3 and then be concluded that the hypothesis is proven.

THE DISCUSSION

The data analysis result shown that the influence of fiscal decentralization degree to the welfare of society gained the coefficient value of relationship about 0,5924. The coefficient was positively valued indicating the value of fiscal decentralization degree was, increased on society welfare. Furthermore, the result of the analysis also shown that the effect of fiscal decentralization degree on people welfare through economic growth was significant. It means, the economic growth could mediate the relationship between the fiscal decentralization degree to welfare society. The finding of this study was also in line with the finding at empirical research done by Lindaman and Thurmaier (2002), Soesilowati (2005), Suryanto et al, (2005), Hirawan (2007), Nasution (2007), Wibowo (2008), and Simanjuntak (2010) which expressed that the fiscal decentralization has a positive and significant impact on people's welfare.

The result of the data analysis shown that the effect of special allocation fund (SAF/DAK) on the society welfare found the coefficient value relationship of 0.1511. The coefficient of positive value indicated that there was any increasing value of special allocation fund (SAF/DAK), then the community welfare was increased. Furthermore, the indirect correlation analysis of special allocation fund's (SAF/DAK) influence on people's welfare through economic growth was significant. That was, the economic growth could mediate the relationship between special allocation fund (SAF/DAK) to the society welfare. The result of this study in accordance with the research yield of Setyowati and Suparwati (2012), Lugastoro (2013), Irwanti (2014), and Putu and Ulupui (2015), which explained that the special allocation fund (SAF/DAK) has a positive and significant impact on community welfare proxied with Human Development Index (HDI).

The result of the data analysis shows that the effect of economic growth of the society welfare found the value of the relationship coefficient about 0.3414. The coefficient with positive value indicated that the value of economic growth increased and, the society welfare

was too. This finding was compatible with the research of Ali (2006) and Sasana (2009) which found the relationship of the economic growth and public welfare where positive and significant. This finding result was also in accordance with the result of the Nasution study (2007) explained that the economic development of Batam City significantly influenced to society welfare level, meant that if the economic development increased then the society welfare did too. The finding of this study differed from the result of Badrudin research (2011) who found that the economic growth were negatively and significantly affected to society welfare.

CONCLUSION AND RECOMMENDATION

Referring to analysis result and the discussion that have been expressed, the conclusion then as follow:

1. The fiscal decentralization degree has a positive and significant impact on people's welfare. Thus, when the fiscal decentralization degree getting higher, then the welfare society will too. The influence of the fiscal decentralization degree indirectly on welfare of society can be mediated through economic growth.

2. The special alloction fund (SAF/DAK) has a positive and a significant influence directly to community welfare. So, if the DAK on education and health are higher of total the special alloction fund (SAF/DAK), than so is the people welfare. The influence of special allocation fund indirectly on society welfare can be mediated through economic growth.

3. The economic growth has a positive and significant impact on people's welfare.

So, when the economic growth becomes higher it will increase the community welfare.

The suggestion can be presented from the results of this study are as follows:

1. The local government of the regency/municipality in Maluku Province in effort to improve the community welfare more effective if the budget spent was in the form of assistance directly given to society who were still low-standard in living through free education, free health and business capital assistance, rather than invested for increasing the community productivity that was expected to increase the economic growth and the community welfare.

2. The local government did not only pursue a high economic growth but also expected to prioritized human development. Higher quality of human resources will provide, the greater opportunity that affected the salary in increasing the community income as well. With the increasing of people's income, no wonder the regional economic growth will be higher.

3. The local government needs to improve the quality of human resources, through increasing the quality of education, increasing the quality of health and fulfilling the primary needs of community through providing the supporting infrastructure such as road infrastructure development, irrigation, electricity, telecommunication, fuel, and so on that be a hope can fulfil the basic need of the society.

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