

Fiscal Decentralization and Poverty in Papua Province

Suwandi, Nuralam
University of Cendrawasih Jayapura Papua, Indonesia
wandi1212@gmail.com

Abstract: In Papua province, fiscal decentralization policy had a positive impact on the potential development and regional government creativity. The effectiveness in managing regional wealth will affect to the regional revenue which can further determine the effect of fiscal decentralization and economic growth to improve on poverty. The method used is multiple linear regression analysis technique. The results showed simultaneous fiscal decentralization and economic growth has a significant effect on poverty. In partial result, the negative fiscal decentralization variable and significant fiscal decentralization on poverty means there is decreased percentage in the number of the poor people.

Keywords: *Fiscal decentralization, poverty, economics growth*

1. Introduction

Problem back ground. The development failure in Indonesia is caused by misleading policy has an impact widening inequality of development among regions and among income groups. This situation will be constantly threatened and overshadow the process of development in Indonesia, therefore it is vulnerable to make repeated shocks and it will cause the economic crisis, social and political that afflict most of the Indonesian nation. Regional autonomy is one of the reformation agendas, is used to dampen the upheavals caused by the imbalance of development among regions. By implementing fiscal decentralization policy through the financial balance between the central and regional government as stipulated in Law No. 33 of 2004, is expected to attend sense of fairness in the distribution of development among regional revenues and regions, thus the development gaps among regions can be reduced. According to Adi (2005), fiscal decentralization is proven to boost economic growth in regional revenue. Similarly, the results of Wong (2004) found that: there is a significant effect of economic growth in reducing poverty. Papua today is filled with paradox, on the one hand, it shows Papua has entered a new century marked by modern bureaucracy, the use of information technology, and economic activities of money which is part of the global economy. On the other hand, there are still many people who live in traditional subsistence culture and isolated. Correspondingly, Suwandi and Warokka (2013) stated, there is a significant relationship between fiscal decentralization and economic growth.

The impact of fiscal decentralization in the district / city Papua Province on the scope of macro-economic and social conditions showed, it is relatively good although it is not optimal. There are several indicators to look at the performance of regional development. First, judging from the results of the output of regional development which is reflected in the Gross Domestic Product (GDP). Data indicate that real GDP growth in the district / city in the province of Papua, over the last three years shows, its trend is increasing. The rate of economic growth in the district / city in the province of Papua in 2005 to 2010 is experienced positive growth, but it has not been able to solve the basic problems in each area, the weakness of unemployment and poverty. Almost in all areas of Papua, the economy tends to increase, but the growth has not been able to absorb a large enough number of unemployed in this region, so that the required rate of growth even further to encourage regional macro-economic performance. Fiscal decentralization will have a positive impact on reducing the number of poor people if it is followed by an increase in per capita income. The increase in revenue is a reflection of the existence of an economic growth. Any potential areas that will produce the form of goods and or services that have a value in order to increase sales and appeal to consumers. Fiscal decentralization can not only know the problem of poverty but it can be a driving force for economic growth prospects in the area of economic autonomy. The economics growth can increase the number of jobs that can

reduce the number of unemployed and poor people. Increased employment can absorb lot of labors so that the poverty can be reduced.

Papua Province as one of the areas that runs the autonomy authority is reflected in its high revenue. The ratio of the fiscal decentralization Papua Province showed an average of 63.8 percent, thus it can be concluded that fiscal decentralization in Papua province worked as well. The development of fiscal decentralization has a positive impact on the establishment of local financial self-efficiency of Papua province. The level of local financial independency of Papua province in the period of 2003-2011 is categorized as self-sufficiency with an average ratio of 62.2 percent. This means that more than 50 per cent of the total expenditure of the area can be met by even, the local revenue of low fiscal capacity; illustrating there is low level of autonomy with high fiscal capacity. In other words, there is high degree of ability of self – sufficiency. Based on the description above, the issue is, whether fiscal decentralization and economic growth simultaneously and partial give effect on poverty in Papua Province. The purpose of this study is to determine the effect of fiscal decentralization and economic growth simultaneously and partially against poverty in Papua. According to the background, there is a need of acknowledgement, if fiscal decentralization and economic growth simultaneously give significant effect on poverty in Papua Province. Is the fiscal decentralization and economic growth partially giving significantly of negative effect on poverty in Papua?

2. Literature Review

Regional autonomy can be implemented, if there is any delegation or authorization from the central government giving to autonomous regions (Adisubrata, 1999). Regional autonomy and decentralization are two sides of one coin that cannot be separated and each gives meaning (Saragih, 2003; Mardiasmo, 2004). Autonomy means a freedom to run or perform something by a political unit or part of the territory / territories in relation to the political community or state (Devas, 1997; Saragih, 2003). In other words, decentralization is authority reduced or the deposit of part or all of the powers of the central government to local government. Decentralization can determine its own way based on its own initiative freely, as something submitted to the local authority. Kaloh (2002) said that regional autonomy should be defined as autonomy for the people of the area and not autonomous "regions" within the meaning of the regional / territorial particular at the local level. Sidik (2000) describes the same thing, that decentralization is an instrument to achieve one of the goals of the state. Beier & Ferrazzi (1998) explain that regional autonomy is generally followed by fiscal decentralization policy, as an instrument in support of local public services with the transfer of funds to the regions. Decentralization is more likely to aspects of state administration (administration aspect) (Stewart, 1988; Pidie, 1997). Litvack et al. (1998) provides arguments in favor of decentralization by saying that the best of decentralization is the most efficient public services. Fiscal decentralization is one of the main components in decentralization (Rosenstein-Rodan Paul, 1943-1957).

Fiscal decentralization policy is used by many developing countries to avoid the ineffectiveness and inefficiency of governance, macroeconomic instability, and the inadequacy of economic growth (Bahl and Linn, 1992). Fiscal decentralization is a process of distribution of budget of the higher levels of government to lower levels, to support the functions or duties of government and public service, (Bird and Vaillancourt, 2000; Manor, 1999). Oates (1972) asserts that the level of economic progress is the outcome of people's preferences conformity with the Regional Government. Fiscal decentralization policy is intended to solve the problem of shortage of income (Buentjen, 1998), addressing externalities and the redistribution of national income (Fisher, 1996), as well as stabilizing the macro economy (Davoodi, 2001). Mardiasmo and Halim (1999) explains that the principle of efficiency also as a provision must be implemented in financing management. To determine the ability of local governments to implement fiscal decentralization can be seen from a comparison of the ratio of the degree of fiscal decentralization (Wahyuni, 2008).

$$DDF = \frac{PAD}{TDP} \times 100\% \quad \dots\dots\dots (1)$$

Where:

DDF = Level of Fiscal Decentralization
 PAD = Regional Income in Real
 TPD = Local Total Expenditure

According to the research team of Social and Political Faculty using interval scale as it is involved in Table 1 as follows (Wahyuni, 2008).

Poverty is associated with discomfort in life, it means that the poor man lives almost always and often uncomfortable. Poverty is associated with discomfort in life, it means the poor live almost always and often uncomfortable. In every field they always become the marginalized, because they can not equate their condition with the condition of the surrounding community (Esmara, 1986). World Bank (2002) divides the poverty dimension into four main points : (1) the lack of opportunity, (2) low capabilities, (3) low level of security, and (4) low capacity. Poverty is often conceptualized in terms of income and wealth insufficiency (lack of income and assets) to meet basic needs such as food, clothing, housing, education, and health, which are all located within the economic dimension. Poverty line consists of two components, a line of food and non-food poverty (BPS, 1999).

Table 1: Fiscal Decentralization Level – Internal Scale

Ability of Regional Financing	Fiscal Decentralization Level (per cent)
Very bad	00.00 – 10.00
Bad	10.01 – 20.00
Enough	20.01 – 30.00
Middle	30.01 – 40.00
Good	40.01 – 50.00
Very good	>50.00

Source: R&D Depdagri–Fisipol UGM (1991)

According to Oates (1993), fiscal decentralization will be able to boost economic growth and welfare of the community, because local governments will be more efficient in the production and providing public goods. Zhang and Zou (1998) said, fiscal decentralization implemented in bamboo curtain (China) has eroded the economic growth of the region. Next, Xie et al. (1999) proved that fiscal decentralization is less favorable for development. Positive contribution of fiscal decentralization on economic performance may be caused by the weakness of research methodology used. Akai and Sakata (2002) criticized the results of research conducted Zhang & Zou (1998) and Xie et al. (1999). Furthermore, Akai and Sakata (2002) also commented on the research result of Davoodi and Zou (1998) that used data across the nation. The downside of this method is the difficulty to analyze the effects of fiscal decentralization in each country given the differences in culture, institutions, and historical experience. Myrdal (1957) suggests, the number of backwash effect is greater than the spread effect will cause imbalances among regions. Backwash effect is caused by the migration of labor and capital from poor areas to rich areas. Hirschman (1968) argued, the trickledown effect from the core region to smaller region will make the polarization effect. Research of L. Jay Helms (1985) using cross-country panel data showed that the tax of central and local government will give impact of slow regional economic growth, if the tax revenue is used for the center-regional equalization funds (Juttin, Kauffmann, Mc Donnell, Osterrieder, Pinaud & Wegner, 2004). Using cross-country data indicated that the relationship between fiscal decentralization with poverty eradication is ambiguous. Research on inequality regions in Indonesia was initiated by Islam (1999). By using secondary data of real GDP, they gave opinion during the period 1968-1997, index of inequality income is getting bigger. DKI Jakarta, East Kalimantan, West Kalimantan, Central Kalimantan, Papua, and Riau are provinces of the most prosperous ones, while the worst affected provinces are: East and West Nusa Tenggara, Bengkulu and Jambi.

Generally speaking, provinces in eastern Indonesia occupy low position of prosperity. Research of Syafrizal (2008) using data from GDP of non-oil products, between 1983 -1997 showed that the inequality index moving from 0.49 to 0.54. Indonesian inequality index when it compares with developed countries (0.49 to 0.54) and middle-income (0.46) will be in above of average. Research of (Akita, Kurniawan, Miyata (2003) used data GDP per capita of China and Indonesia with two-stage technique of nested Theil inequality decomposition, produced the following conclusions: (1) In view of efficiency, inter-regional income inequality is caused by the unequal distribution of natural resources and the poor quality of transport in some areas, (2) In China, 60% of the province shows a high income inequality, while in Indonesia half of all provinces is inequality.

3. Methodology

The research was conducted in Papua province involving each district / city. The object of the research are the percentage of the population of poverty, economic growth, and the degree of fiscal decentralization. Types of data used is quantitative data includes data on poverty, economic growth, and the degree of fiscal decentralization. The analysis method used in this research is multiple linear regression, which were used to determine the effect of independent variables on the following variables which can be denoted by the following functions:

$$Y = f(X_1, X_2) \dots\dots\dots (2)$$

Then, the function is transformed into multiple linear regression analysis model then it obtained an equation as follows (Gujarati, 2004):

$$Y = 0 + 1x_1 + 2x_2 + e \dots\dots\dots (3)$$

Where :

- Y = poverty or the number of poor people (percent)
- X₁ = fiscal decentralization (percent)
- X₂ = Economic Growth (percent)
- 0 = constant
- 2 = regression coefficient
- e = disturbance

4. Discussion

The calculation of degree of fiscal decentralization ratio can be seen in Table 2 as follows:

Table 2: Degree of Fiscal Decentralization Ratio in Papua Province on Fiscal Year 2003-2011 (thousands of Rupiah)

Year	Fiscal Decentralization Level (percent)	Regional Financial Ability
2003	61,10	Very good
2004	65,40	Very good
2005	67,30	Very good
2006	66,60	Very good
2007	62,00	Very good
2008	63,30	Very good
2009	63,20	Very good
2010	65,90	Very good
2011	66,50	Very good

Source: Central Bureau of Statistics 2012

Based on the multiple linear regression using the data analysis program obtained the following results:

$$\begin{aligned}
 Y &= 13.221 - 0.072 X_1 - 0.784 X_2 \\
 SE &= 1.138 \quad 0.011 \quad 0.222 \\
 T &= 11.635 \quad - 6.49 \quad - 5.041 \\
 R^2 &= 0.6060 \\
 F &= 49.765
 \end{aligned}$$

The result showed, R-square is 0.6060, means 60.60 percent of the variable of poverty has been affected by decentralization and economic growth, while the rest is explained by variables that are not included in the model. Based on estimates of fiscal decentralization on economic growth in the district / city of Papua Province, showed that decentralization has positive influence on economic growth. The results of this study support the findings of empirical Martinez & Robert McNab (2001), Mahi & Muchtar (2000), Brodjonegoro & Vaques (2002), Dartanto & Brodjonegoro (2003), Nuralam (2010), and Suwandi & Warokka (2013). Regression result showed that the negative effect of fiscal decentralization variable is on poverty. It can be

seen from coefficient of X_1 is - 0.072, which means that each increase in the percentage of fiscal decentralization by 1 percent, there will be a decrease in the percentage of poor people by 0,072 percent, assuming of ceteris paribus. Variable economic growth has - 0.784, which means that each of increase in the rate of economic growth of 1 percent, there will be a decrease in the percentage of the poverty population of 0.784 percent, assuming other factors remain.

Based on regression result, $F_{\text{calculation}}$ is 49.765 with a significant level of 95 percent ($= 0.05$) and the degree of freedom 1 and 7, thus F_{tabel} is 5.14. By simultaneously process, poverty and economic growth have a significant effect on the degree of fiscal decentralization in Papua Province. Based on estimates of the economic growth from the number of poor people in the district / city in Papua, indicated that growth is negatively affected to the number of poor people. This shows that the hypothesis of "economic growth has significantly negative effect on the number of poor people in the district / city in the province of Papua" is acceptable, because statistically proven. This indicates that the higher economic growth, it will reduce the number of poor people. The results of this study support the findings of a study conducted by Strauss (2000), sponsored by the World Bank using the Indonesian Family Life Surveys (IFLS) to examine the factors that affect the welfare of the Indonesian people by using a panel survey of the 13 Provinces in Indonesia.

5. Conclusion

- Simultaneously, fiscal decentralization and economics growth are negative effects and significant to poverty, thus the number of fiscal decentralization fund and economics growth will be followed by poverty. It indicates that in reducing poverty level, it is needed a raise of economics growth and fiscal decentralization fund.
- Partially, variables of fiscal decentralization and economics growth are negatively influence and it is significant to poverty (percentage of poor people) in Papua province

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