12th IRSA Conference

UNIVERSITAS HASANUDDIN

Conference Proceeding of
IRSA 2014

The 12th IRSA International Conference
Political Economy of Regional Development in Indonesia

2-3 June, 2014, Makassar,
South Sulawesi-Indonesia

FAKULTAS EKONOMI
UNIVERSITAS HASANUDDIN

12th IRSA Conference

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Regional
Science
Association

12th IRSA INTERNATIONAL CONFERENCE PROCEEDING

CONTENT

Greetings from Local Organizing Committee (LOC)

It is the great honor as Chair of the Local Organizing Committee, I will be delighted to welcome you to the 12th Indonesian regional Science Association (IRSA) conference from 2 - 3 June, 2014 in Makassar, the capital of South Sulawesi Province, Indonesia and hosted by the Faculty of Economics and Business, Hasanuddin University (FEB UNHAS).

The city of Makassar is the largest city in east Indonesia. Capital of South Sulawesi, Makassar enjoys a central location in the Indonesian archipelago. In fact, ever since the 14th century Makassar was already known as a thriving sea port where merchant vessels from far away China, India and Cambodia. Meanwhile, in this southern peninsula of Sulawesi, the Bugis, Makassar and Mandar ethnic groups, known for their seafaring prowess and boat building skills, had already developed powerful kingdoms that encouraged trade, fishery, rice cultivation as well as literature and the arts. The Bugis epic poem I la Galigo is a recognized masterpiece in Bugis literature, as are the graceful dances and bright silk costumes of court dancers with their richly decorated accessories of wide gold bangles. .

This conference in 2014 marks a new departure and perhaps a new future. For the first time it is being held in Sulawesi, East Indonesia. Many of you have travelled far to attend this meeting, and we hope you will feel your trouble has been rewarded. We have an excellent selection of papers from all over the world from many of the world's experts, embodying the consolidation of tested ideas as well as the latest advances in the subject. These will be set in context by a glittering array of keynote and invited speakers.

The conference is the event of the Indonesian section of the IRSA and will be a venue for regional scientists and researchers of various different disciplines from countries and beyond to share research findings and discuss current topics on the regional aspects of various global issues. The conference theme is "Political Economy of Regional Development in Indonesia". As one of the biggest regional science conference in the world, the IRSA 12th Conference will be attended by around 300 researchers and academicians from Indonesia and other countries who will share their expertise and find out about the latest research on regional science and regional development policies.

On behalf of the Local Programme Committee, I am glad to acknowledge the hard work of the members of the Local Organising Committee in putting the programme together and making all the arrangements, and to accept their hospitality. It is my privilege and pleasure to welcome you all to the 12th Indonesian Regional Science Association Conference here in Makassar. I thank all of them for their sacrifice and contribution, especially the Steering Committees, and the Ministry of National Development Planning / BAPPENAS.

I hope you have an excellent opportunity to exchange knowledge and to make and renew friendships at the conference. Finally, I would like to thank all sponsors and exhibitors for your support in making the 12th Conference of IRSA the landmark event it has become.

Best Wishes,

Dr. Abd Hamid Paddu

Chair of Local Organizing Committee

Greetings from Faculty of Economics, University of Hasanuddin

It is my great pleasure to welcome you to the 12th Indonesian Regional Science Association Conference. This event is proudly organized by Faculty of Economic Hasanuddin University and Indonesian Regional Science Association (IRSA).

Economic Faculty is the oldest faculty in Hasanuddin University and strives to be one of the best economic faculties in Indonesia and in the world. One of the efforts is by conducting this International Conference. It is a great honor specifically for economic faculty and Hasanuddin University, generally, to be trusted to hold such a great conference. We believe that this event will give us the opportunity to increase our standing in the eye of international academia. For that, we would like to thank you IRSA for giving as the chance to hold this event.

The main objective of this international conference is to explore the challenges and obstacles in political economy of regional development, and improvement in the people's welfare, more than 10 years after the implementation of Indonesia's decentralization policy. The conference will facilitate open discussions and debates, the transfer of knowledge, strategies for policy formulation, and networking amongst researchers and policy-makers. Moreover, this event also intends to facilitate academicians in Indonesia to be a part of international communities.

I hope this conference will contribute to the development in Indonesia. Together with other academicians, policy makers and practitioners alike, we are ready to face the challenges ahead of us and to be part of the team to build a better future of our nation. To achieve this, this conference should be a great opportunity to exchange the knowledge and the information in many aspects.

Finally, let me wish you an enjoyable time here in Makassar and I hope you will all have fruitful sessions and discussion. On behalf of the Economic Faculty and UNHAS, I welcome you to this conference.

Prof. Dr. Gagaring Pagalung
Dean of Faculty of Economics, Universitas Hasanuddin

Greetings from the Indonesian Regional Science Association (IRSA)

Dear friends and colleagues,

On behalf of the Indonesian Regional Science Association, it is a great pleasure to welcome you to Makassar, Indonesia, The 12th IRSA International Conference, 2-3 June, 2014. The theme of this year's conference - The Political Economy of Regional Development in Indonesia - is very timely because the people will use their democratic right to decide the country's political leadership for 5 years to come.

IRSA was established in 1997 and now has been recognized as one of the few academic organizations that has been actively promoting the advancement of research through broad participations of researchers across the country. Every year since its establishment, IRSA annual conference has been always attended by a large number of regional scientists from all over Indonesia. A network of regional scientists facilitated by IRSA has now grown to reach a critical mass of scientists from various disciplines that can play a major role not only in the academic arena through research and publications, but also contribute to the evidence-based regional development policies nationally, regionally, and locally.

As I understand, this year's conference will be attended by around 200 regional scientists from all over Indonesia and beyond. I do hope that the conference participants can use this opportunity to learn from other regional scientists and extend their research network for further opportunities.

Finally, on behalf of IRSA I wish that you will enjoy the conference program and your visit this lovely city. Welcome to Makassar!

Prof. Armida Alisjahbana
President of Indonesian Regional Science Association

EFFECT OF REGIONAL ECONOMY FISCAL CAPACITY IN THE DISTRICT/CITY IN SOUTH SUMATRA PROVINCE

Eva Novaria
Abdul Bashir
Evidoni

Faculty of Economic University of Sriwijaya

Abstract

This study aims to determine the effect of regional autonomy and fiscal capacity to stimulate the economy in South Sumatera, the data used is the data panel. It consists of 15 districts/Cities in South Sumatra Province from 2006 to 2010. The analytical tools used in this study include: the degree of fiscal capacity, the inequality index, the index of economic performance, and the simple regression. The Secondary Data used is based on calculations by the relevant institutions. The calculation result shows that the degree of fiscal capacity in most areas is still relatively low. The index shows the inequality of income inequality between regions is still very unequal. Economic performance index shows the economic performance of most areas is still very low Because of the regional divisions. Regression results indicate there is a negative correlation between fiscal capacity and economic growth, while between fiscal capacity and income inequality has a positive correlation, further fiscal capacity has a negative correlation to the number of poor people, then between fiscal capacity has on human development index a positive correlation, and for labor absorption positively correlated. The results of these calculations show that in general the implementation of fiscal policy for 15 regencies/Cities in the South Sumatra province are not running optimally and effectively.

Keywords: Fiscal Capacity, Economic Growth, Regional Inequality, Poverty Population, Human Development Index, and Labor Absorption.

INTRODUCTION

Fiscal Decentralization in Indonesia related to the decision of the government in achieving better development than previously centralized policies through Law Number 5 since 1974. Fiscal decentralization concept is expected to provide a stimulus for regional economic growth and a better high competitiveness and reduce inequality of income distribution vertically or horizontally to all 33 provinces in Indonesia (Simanjuntak, 2005:23).

In practice, decentralization requires readiness of local government to use optimality sources of local revenue such as taxes and levies to achieve better economic independence. However, Indonesia is a rich country with a lot of the island which hasno evenly distributednatural resources (NR). There is a rich area with natural resources but there is also a poor area of natural resource. This is caused by differences in endowmentsfactor such as geography and differences in the characteristics of human resources (Ehtisham, 2002:212).

Management of local governments at both the provincial and district level and the city entered a new era in line with the issuance of Law Number 32 of 2004 and Law Number 33 of 2004 which regulates regional autonomy and fiscal decentralization. This policy is a challenge and an opportunity for local governments to manage its resources efficiently and effectively. For those areas that have the potential for reliable resources, both human resources and natural resources, the policy is welcome, given the nature of autonomy which is the presence of local authorities, not delegation (Saragih, 2003:34). The area is no longer merely execute the instructions of the central government, but it actually has the discretion to increase creativity in developing potential during the era of decentralization can be said to be stuck (Mardiasmo, 2002:57).

South Sumatra economically disadvantaged because it has abundant natural resources. This leads to the ability of the economy of South Sumatra to export their products out areas/ abroad. Based on BPS data export value of South Sumatra in 2010 until February 2010 stood at U.S. $352.44 million or an increase of 32.27 % compared for the same period of 2009. Meanwhile, in the same period the value of U.S. imports of South Sumatra $ 29.3 million. Thus South Sumatra trade balance surplus of US $323.14 million, but there are still manygoods export of mines and plantations which are its added value are not too big due to the export only deals with raw materials.

General Allocation Fund is intended as an instrument to overcome the problem of horizontal imbalances allocated financial ability to bring equality among the regions where its use is determined entirely by the area (Block Grants). The basic concept formulation DAU as mandated by the Law Number 33 of 2004 it is implicitly an elaboration of the theory of governmental transfers based on the conception of the fiscal gap. With the conception of the fiscal gap, future fiscal gap is the difference between the negative fiscal needs with fiscal capacity that needs to be considered as covered by the central government transfers (Machfud, 2002:13). Basically the areathat have better relative growth rates have a better level of preparation to deal with decentralization anyway. Experience and capabilities in financial management becomes a strong capital base to increase self-sufficiency in the area of fiscal decentralization.

Listening to various positive view on the benefits of decentralization, it can be said that the elaboration of fiscal decentralization can make an economy more developed regions, as indicated by the increase in local revenues, GDP growth, income per capita. In the end, efforts to improve income distribution, and reducing poverty, improving the quality of the community is reflected through the human development index and a decrease in the unemployment rate in the national economy can be better realized through the implementation of fiscal decentralization (Vazquez and Robert, 2001:186).

Based on the description of some indicators of the regional economy, the paradigm of economic indicators in the province of South Sumatra will be measured. Furthermore, look at the influence of fiscal decentralization on economic growth, inequality of income, human development index, the number of poor people and the workforce. This is related to the dense concentration of local revenue allocation for expenditure through the budget planning. Based on the above researchers are interested in measuring and analyzing the fiscal capacity of the Effect of Regional Economic Regency/City in the province of South Sumatra.

FORMULATION OF PROBLEM

Based on the background described above, the issues to be taken in this study as follows:

(1) How does the fiscal capacity effect of the economic growth of the district/city in South Sumatra Province?
(2) How does the fiscal capacity effectsof the income inequality districts/cities in South Sumatra Province?
(3) How does the fiscal capacity effects of the poor population of the district / city in South Sumatra Province?
(4) How does the fiscal capacity of the human development index of the district/city in South SumatraProvince?
(5) How does the fiscal capacity of the labor market districts/cities in South Sumatra Province?
(6) What about economic performance between regions in the province of South Sumatra after fiscal decentralization?

LITERATURE REVIEW

Concept of Fiscal Decentralization

Application of autonomy and fiscal decentralization is characterized by the enactment of Law Number 22 of 1999 and Law Number 25 of 1999 on January 1, 2001. Along the way both these laws pose some problems later corrected by the government through the revision of the legislation into Law Number 32 of 2004 and Law Number 33 of 2004 on the financial balance between the center and the area that was enacted in December 2004. In Law 32 of 2004, decentralization is defined as the delivery of government authority, by the central government to the autonomous regions to organize and administer governmental affairs in the Homeland system. According to Ebel and Yilmaz (2002:245) there are three variations of decentralization, in relation to the degree of independence of decision-making is done in the area, namely:

(1) Deconcentration is the delegation of the authority of the agent-central government agencies that exist in the nation's capital, the agents in the area.
(2) Delegation is an appointment by the central government to local authorities to carry out the duties of government with the responsibility of central government
(3) Devolution is an affair delivery functionsof the central government, the local government, where regions are also given the authority to manage the revenues and expenditures of the region.

Given the principle of money follow function in the implementation of regional autonomy, the fiscal decentralization in Indonesia is the third form of decentralization (Devolution). Further Slinko (2002:214) states that:

> Under the concept of "fiscal capacity" we understand the assignment of fiscal responsibilities to the lower levels of Government, that is, the degree of regional (local)

autonomy and the authority of the local Government to decide upon its own expenditure and its ability to generate local revenues.

Slinko statement (2002:201) reinforce the notion of fiscal decentralization, which is a form of transfer of authority (responsibility and functions) from the central government to local governments, including the granting authority for local governments to manage revenues and expenditures of its own country. The purpose of the application is to bring government closer to the people, which the government can work better (efficient) under these conditions (Machfud, 2002:18)

Concept Development and Regional Economic Growth

To see the performance of the economy of a region or a province normally used macroeconomic indicators, such as the increase in people's income, increased employment and income distribution (Tarin, 2004:82). In the context of regional input-output analysis and economic structure of the display area in the regional input-output table, then some sense worthy to be discussed in order to analyze the performance of the economy of a region or province are: (1) economic growth or regional areas, (2) regional income in the form of regional gross domestic product (GDP), and (3) the distribution of income or per capita income.

Understanding economic growth is basically associated with the increased production of goods and services in an economy. Growth concerns about development of a single dimension measured by increased production (output) and income. In contrast to economic development, it implies a broader meaning and includes changes in economic arrangements of society as a whole.

The Concept of Poverty

The concept of poverty in general, according to the Central Bureau of Statistics and the types of factors that cause the occurrence of poverty and described some of the indicators that are used as benchmarks to measure the level of poverty, poverty concerns multi-dimensional concept in this study is limited to the concept of poverty associated with economic factors and criteria used in measuring poverty is the criterion according to the Central Statistics Agency (CSA).

According Sajogyo (1996:23) poverty line has the following characteristics: (1) the specification of three poverty line that includes the conception of "food sufficiency threshold"(food threshold), and (2) linking the level of household expenditure with food sufficiency size (calories and protein). The first feature of the poverty line expressed in Rupiah/month, in the form of equivalent exchange rate of rice (kg/person/month) compared with each other in order to exchange between regions and between times.

Indicators used to see poverty is the poverty rate and the poverty gap, the approach in measuring the poverty level are (1) the headcount measure, which estimates the number of people who fall below the poverty line, and (2) take into account the poverty gap is the amount of funds required for addressing the problem of poverty. Another measure used to look at levels of poverty that exist at the community level is to look at per capita revenues and expenditures will be compared with poverty rates issued by the Central Bureau of Statistics.

PREVIOUS RESEARCH

Review of previous research conducted on the influence of research on the topic and the fiscal capacity of the regional economy. Differences of research is being done with previous studies is the scope of previous research studies national aggregate, while the scope of the research being conducted at the regional aggregate assessment district/city level which is a reflection of the implementation and effects of fiscal decentralization on the economy more focused on the regional economyindicators.

Fiscal decentralization in this study translates as freedom of innovation and creativity of local government as the implementing function initiator, facilitator and regulator role in optimizing the umbrella scope of Law Number 32 and Law Number 33 of 2004 to manage the local government budget spending to boost economic growth, reduce inequalities interregional income, reduce poverty, improve the quality of Human Resources (HR), and increase employment in the area.

In aggregate effect of the fiscal capacitycan be seen throughAzwardi research (2007:7), entitled The Impact of Fiscal Capacity on Interregional Economic Performance in Indonesia stated that construction spending multiplier and the multiplier is routinely causes revenues to rise. When it is viewed in Java and between regions those have a greater impact from outside the island of Java. Then the results of the simulation scenario, the reduction in current expenditure led to a decrease in economic performance between regions.

Meanwhile, according to Susetyo (2010:31) in her study of Fiscal Decentralization, Fiscal Gaps and Disparities Regional state that fiscal decentralization has not had a significant impact on reducing the fiscal gap counties/cities, because its level is still high fiscal dependence districts/cities in South Sumatera. Fiscal decentralization is intended to reduce regional disparities, but in nearly all areas of fiscal dependence district and cities in South Sumatra in the category is still lacking.

Research of Carlos, et al (1996:22), entitled Decentralization and Regional Economic Disparities states that the effect of fiscal decentralization on economic growth that has received attention in recent years, showed a strong negative correlation between decentralization,especially fiscal decentralization and regional disparities.

Correspondingly, Priyo Day's research (2005:19) the effect on the fiscal capacity of the Economic Growth in the County and City Java-Bali stated that economic growth during the implementation of fiscal decentralization significantly better than before the operation. Other results showed that regions with better economic growth before fiscal decentralization is still better than the economic growth during the implementation of fiscal decentralization.

Based on the research results of Rao (2000:75) called on Poverty Alleviation under Fiscal Capacity in Transitional Economy The Case of Vietnam found that the effect of fiscal decentralization and effective in reducing poverty due to the efficiency in the identification of poverty and able to formulate poverty reduction strategies are more appropriate in the condition of the area.

Specifically Bonet (2006:689) examines the Fiscal Capacity and Regional Income Disparitiesfrom The Colombian Experience Evidence states that the effect of fiscal capacity is estimated to be more objective than previous research which shows the variation of culture,history, and institution. Finally, other limitations observed in earlier work, such as the absence of spatial dependence and sensitivity of our conclusions on the use of fiscal decentralization efforts.

Widely in terms of the allocation of expenditure Vazquez and Robert (2001:243) examines the Fiscal Capacity and Economic Growth in Vietnam stated that the effect of decentralization on allocated efficiency and production efficiency because local government more responsive to the needs and preferences of the community that will provide better public services both will have an impact on economic growth better.

FRAMEWORK FOR THINKING

Based on the study of theory and previous research, it can be prepared a framework of thought about the effect on the economy of interregional fiscal decentralization in South Sumatra Province. In this study, the degree of fiscal decentralization is reflected by the ratio of local revenues and local revenues through tax revenue and non-tax total regional spending and regional economic indicators reflected through economic growth, inequality of income per capita, percentage of poor people, the level of quality which is reflected by human development index, and the percentage of employment. The reason is, the six indicators thought to reflect the indicators of economic conditions in an area that is consistent with human development.
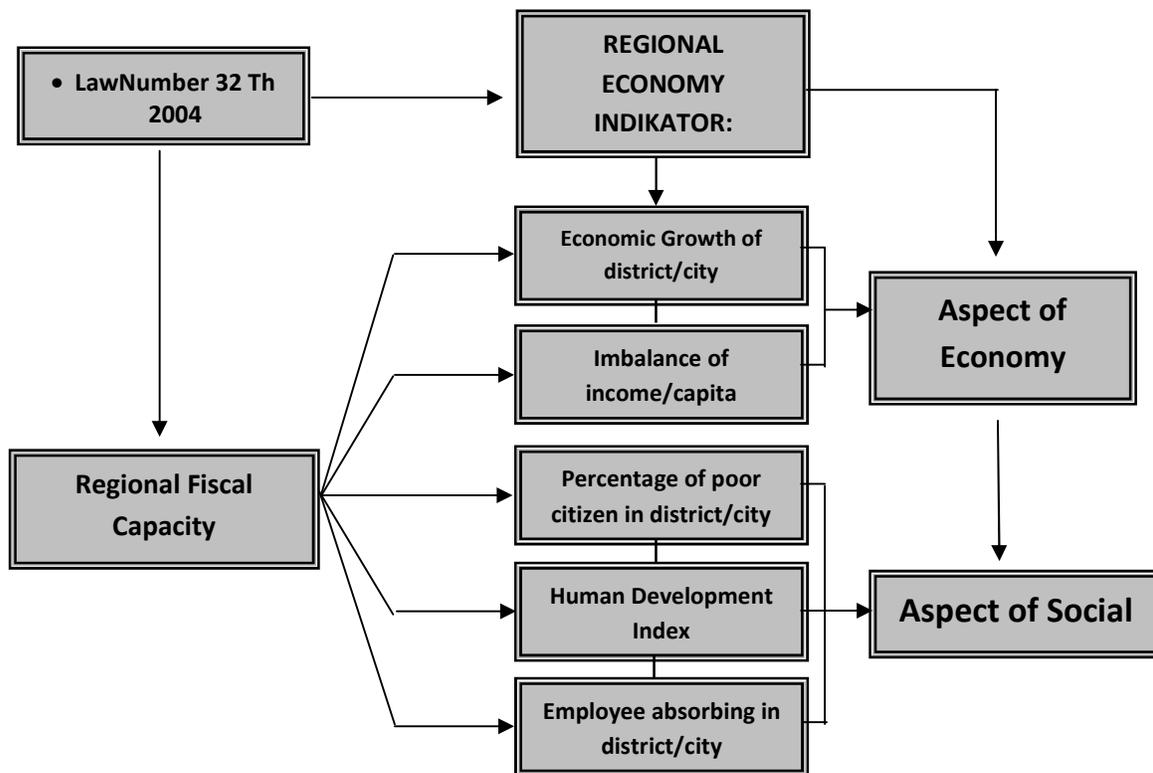
Figure1
Framework

The main objective of fiscal capacities in order to encourage the independence of a region in order to enhance regional development, among others, increasing the resource potential of an area in order to stimulate local fiscal capacity, economic growth, equitable distribution of per

capita income, reduce poverty, the quality of the community to be further increased and the level of unemployment is reduced, thus the local government is able to improve the performance of the regional economy.

Fiscal capacity gives an important role to the functions and authority of the government. In the implementation of fiscal decentralization, the role of local government in its efforts to explore the potential fiscal as a source of local revenue and the role of government in the spending of public facilities will greatly affect regional economic indicators such as economic growth, equitable distribution of per capita income, reduce poverty, improve Human Quality (HQ) and employment. The role of government should be optimized in order to intervene with certain social costs will give maximum impact on regional economic indicators.

RESEARCH METHODOLOGY

The scope of the study covers 15 districts/cities in the province of South Sumatera. Selection of South Sumatra Province as the study area on the basis that the area is including the largest area and rich in natural resources as well as local economic level is still relatively high after fiscal decentralization.

Sources of data used in this study secondary data with the observations from 2005 to 2009 with variable indicators of fiscal decentralization and regional economic indicators. Furthermore, the *times series*data combined with the known cross section (pooled data/panel data). The period taken under consideration the dynamics of economic growth and the onset of regional expansion occurred in several districts/cities in South Sumatera, and availability of data.

In this study, data from 2005 to 2009, for some districts/cities that do not have data in the area because of the new conduct division/separation from the parent or control, the data in the estimation using data extrapolation approach is the growth geometry (geometric mean).

Data on GDP, growth, per capita income, percentage of poverty, and labor sourced from the Central Bureau of Statistics and the Department of Manpower and Transmigration South Sumatera and local fiscal data sourced from the Ministry of Finance Directorate General of Fiscal Balance. While the Human Development Index data obtained from the Office of Population of South Sumatra Province. Besides, it also can use the data from the results of other scientific publications related to research sourced from articles, newspapers, internet, and magazines.

TECHNICAL ANALYSIS

The analysis technique used in this paper is the technique of qualitative and quantitative descriptive analysis. Techniques of qualitative and quantitative descriptive analysis are used to view and analyze the effect of the fiscal capacity of the local economy in the province of SouthSumatra used analysis tools as follows:

Fiscal Decentralization

The concept of fiscal decentralization by Zang and Zou (1998:217), Mahi (2000:58), Mursinto (2004:170) regarding the measurement of fiscal decentralization in this study performed using

local revenues and expenditures, those are ratio between revenue (PAD) and for tax and non-tax results with total expenditures of district / city , in this case the value in decimal units.

$$DF_{a=} \quad DF_{it} = \left(\frac{PD_{it}}{TPD_{it}} \right) \quad \text{..} \ (1)$$

Description:

Dfit   = Degree of Fiscal Decentralizationdistrict/ city i, in year t
PTID   = Total revenue and DBHP/BHBP district/city i, in year t
TPDit = Total Expenditure Regional district/city i, in year t

The greater the degree of fiscal decentralization (DF), it indicates the higher degree of fiscal decentralization in the region, and vice versa. Unit of fiscal decentralization variable is a decimal.

Income inequality

Bonet (2006:670) conducted an empirical study on the effect of the fiscal capacity of the inequality between regions, Bonet (2006) formulate a way to measure inequality between regions as follows:

$$I_{i,t} = \left[\frac{PCGDP_{i,t}}{PCGDP_{PROV,t}} - 1 \right] \quad \text{..} \ (2)$$

Description:

$I_{i,t}$ = Income Inequality i in year t
$PCGDP_{i,t}$ = per capita GRDP District / City i , in year t
$PCGDP_{Prov,t}$ = GDP per capita province in year t

The formula states that perfect equality occurs when GDP per capita is equal to the area of national GDP per capita. Therefore, inequality is measured region of the difference between GDP per capita relative (local district/city of the province) and the value of one (perfect equality conditions), which is absolute.

Regional Economic Performance

Theoretically, to see the development of an area, it is necessary to such inter-regional comparisons of economic performance. From this it will be seen, if there is a change (progress) in an area that significant. To see the impact of the condition or the National Development Planning Agency (Bappenas) and the United Nations Development Programme (UNDP, 2007:7) Do your research and see one of the region's economicperformance. The focus of economic performance used to measure, how the economic conditions between regions in Indonesia.Indicators that will be used as a measure of regional economic performance are:

(1)   Non -oil GDP growth (LPE)This indicator measures the motion of the regional economy that can create jobs and prosperity. Economic growth is calculated using GDP at constant 2000 prices.

(2)   GDP per capita (KAP)This indicator reflects the level of welfare in the region.

(3)   Ratio in Regency/City Against GRDP (R/N)This indicator to see how much the levelof economic development in the region compared to other regions in the province. The level of development is correlated with improvements in economic performance.

(4)   Poverty (PM)Economic development should reduce the level of poverty as measured using the head-count index, that is percentage of the total population of the poor against the District/City.

To determine the general economic development of the area, then made the Regional Economic Performance Index (REPI), which in principle is the average of the four indicators above. For county i in year t, the index isformally defined as follows:

$$IKE_{i,t} = \frac{(LPE_{i,t} + R/N_{i,t} + KAP_{i,t} + (100 - PM_{i,t}))}{4} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(3)}$$

This analysis method to look at the concept of economic performance between regions, the larger the index value, the better the economic performance of a region.

Econometrics Model Construction

Regional economic model built with the system of simple linear regression equations were constructed into 5 (five) simple linear regression model. (1) The first model illustrates the effect of the degree of fiscal decentralization on regional economic indicators such as GDP Growth; (2) The second model illustrates the influence of the degree of fiscal decentralization on regional economic indicators such as per capita income inequality; (3) The third model illustrates the influence of the degree of fiscal decentralization on regional economic indicators such as the number of poor people; (4) The fourth model illustrates the influence of the degree of fiscal decentralization on regional economic indicators such as the human development index; (5) The fifth model illustrates the influence of the degree of fiscal decentralization on economic indicators such as employment areas . The simple linear regression equation as follows:

(1)   Effect of Fiscal Decentralization on Economic Growth
$$LPE_{i,t} = \alpha_0 + \alpha_1 DF_{i,t} + \ldots \mu_{i,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(4)}$$

(2)   Effect of Fiscal Decentralization on the Income Inequality
$$KP_{KAP_{i,t}} = \beta_0 + \beta_1 DF_{i,t} + \ldots \mu_{i,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(5)}$$

(3)   Effect of Fiscal Decentralization on the Percentage of Poor
$$JPM_{i,t} = \partial_0 + \partial_1 DF_{i,t} + \ldots \mu_{i,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(6)}$$

(4)   Effect of Fiscal Decentralization on the Human Development Index
$$IPM_{i,t} = \rho_0 + \rho_1 DF_{i,t} + \ldots \mu_{i,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(7)}$$

(5)   Effect of Fiscal Decentralization on the Labor Absorption
$$PTK_{i,t} = \upsilon_0 + \upsilon_1 DF_{i,t} + \ldots \mu_{i,t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \text{(8)}$$

Description:

DF	: Degree of Fiscal Decentralization County/City of year t
LPE	: Growth District/City of year t
KPKAP	: Per Capita Income Inequality County/City of year t
JPM	: Number of Poor District/City of year t
HDI	: Human Development Index Regency/City in t
TOD	: Labor Absorption County/City of year t
$\alpha_0, \beta_0, \partial_0, \rho_0, \upsilon_0$	: Coefficient Constants
$\alpha_1, \beta_1, \partial_1, \rho_1, \upsilon_1$	: Coefficient Parameters
μi	: Other Endocrine Factors
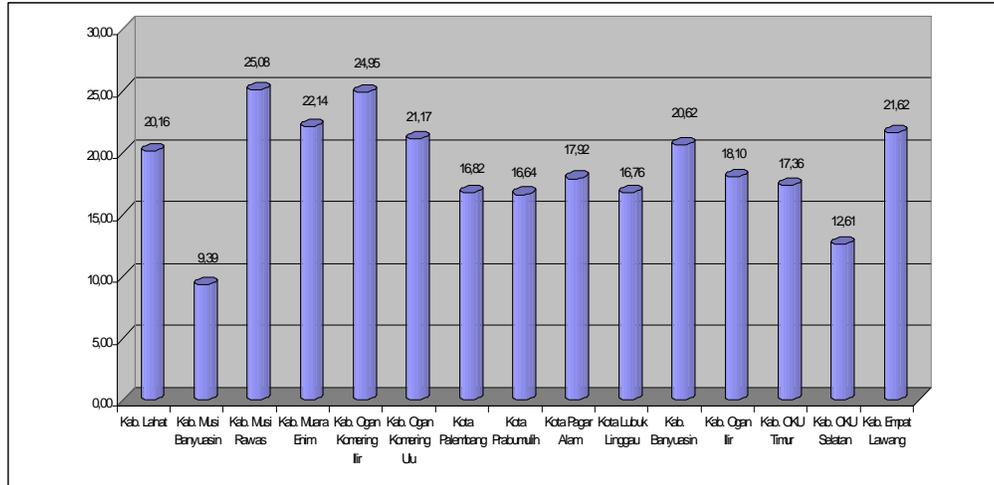
Based on a simple linear regression model equations mentioned above i showed cross sectionunits and t indicates the time period. The model consists of independent variables (free) and the dependent variable (bound).

RESULTS AND DISCUSSION

One result of this study is the effect of the fiscal capacity of the local economy in the province of South Sumatera. Fiscal Decentralization in general is a process of budget distribution of the higher levels of government to lower governmental functions or duties to support the government and public services in accordance with the number of areas of government delegated authority. If the local government can carry out its functions effectively, and given the freedom in decision-making in the public sector service provision, it must be supported financial enough resources, both derived from the Original Income (OI) including surcharge of taxes, and the tax-sharing not taxes, loans, and subsidies/aid from the central government. While the local economy is an indicator reflecting the results of the physical achievement of economic development that occurred in the region, such as the number and increase the production of goods/services, increase the amount of infrastructure, educational facilities, additional production activities of existing economic and other developments such as the reduction income inequality, poverty reduction, improving the quality of human resources, an increase in employment.

Analysis of Implementation of Fiscal Decentralization
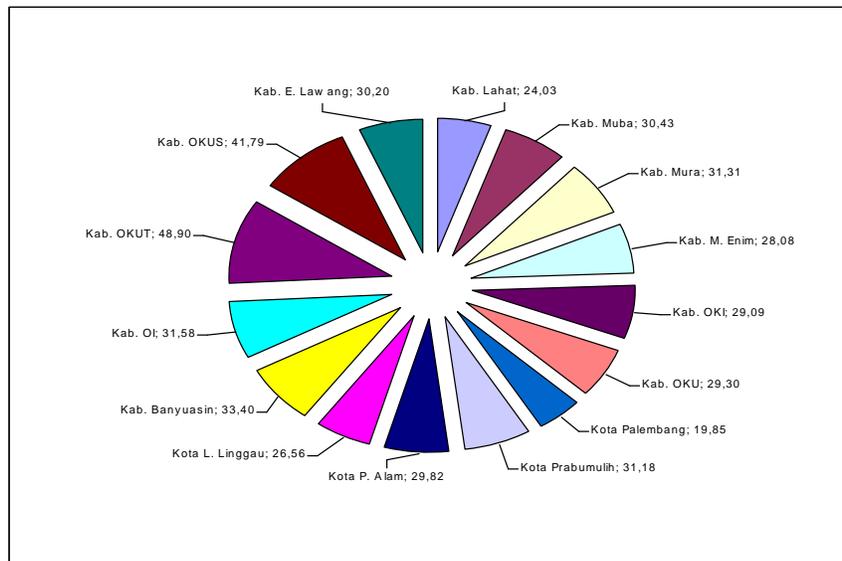
Fiscal decentralization has brought about significant changes in the conditions of reception and shopping district/city in the province of South Sumatera. During the period 2006-2010, rising fairly good reception area, an average growth of 15 districts / cities reached 18.75 percent or 9.39 percent ranged up to 25.08 percent.

Source: Ministry of Finance, Directorate General of Fiscal Balance RI (www.sikd.djpk.go.id) processed

Figure 2
Average Growth Rate of Local Revenue by Regency/Cityin South Sumatera Province Year 2006-2010 (Millions Rupiahs)

The highest regional average growth rate from 2006-2010, the reception area is the MusiRawas (25.08 percent), and OKI (24.95 percent), this was due to increased revenues from the fund balance primarily DAU. While the lowest, were in Banyuasin (9.39 percent) and South OKU (12.61 percent). This decrease is caused by the expansion of thearea in 2003.

Source: Ministry of Finance , Directorate General of Fiscal Balance RI (www.sikd.djpk.go.id) processed

Figure3
Average Growth Rate of Expenditure by Regency / Cityin South Sumatra Province Year 2006-2010 (Million in Rupiah)

Furthermore, when viewed from the side of spending or shopping area, the average growth of 15 regional shopping districts/cities reached 31.04 percent, the average general shopping areas of highest 2006-2010 average growth rate shopping area is East OKU regency reached 48.90 percent and the lowest was 19.85 percent of Palembang. However , when viewed from the level of local independence 15 districts/cities in South Sumatra Province from 2006-2010 , as measured by the ratio of local revenue (PAD) and DBH (DBH), the Shopping Area, it appears that development is still very small. In 2006-2010, the average of self-sufficiency ratiois only 0.41 or 41.00 percent. This figure shows that the average fiscal autonomy only areas contributing to regional expenditure by 41.00 percent. Meanwhile, if viewed by the value of the average contribution level of independence of the local shopping area in 2006-2010 that the highest Banyuasin of 0.89 or 89 percent, and the lowest is OKI by 0.24 or 24 percent (Table 1).This show that the level of fiscal independence in district MusiBanyuasin is high enough, but the level of fiscal independence in district OKI is still very low.

Table 1
Ratio PAD and DBH to the regional expenditure based on districts/city
in South Sumatera of Year 2006-2007

District/City	Year					Average
	2006	2007	2008	2009	2010	
Lahat District	0,45	0,37	0,34	0,33	0,41	**0,38**
MusiBanyuasin District	1,27	0,83	0,70	0,83	0,83	**0,89**
MusiRawas District	0,52	0,46	0,32	0,44	0,44	**0,44**
MuaraEnim District	0,53	0,52	0,42	0,43	0,46	**0,47**
OganKomeringIlir District	0,31	0,24	0,22	0,21	0,23	**0,24**
OganKomeringUluDistrict	0,53	0,37	0,33	0,33	0,37	**0,39**
Palembang City	0,34	0,30	0,30	0,28	0,33	**0,31**
Prabumulih City	0,66	0,56	0,46	0,37	0,33	**0,48**
PagarAlam City	0,48	0,41	0,34	0,36	0,29	**0,38**
LubukLinggau City	0,55	0,40	0,42	0,30	0,26	**0,39**
Banyuasin District	0,62	0,48	0,36	0,31	0,30	**0,42**
OganIlirDistrict	0,49	0,38	0,34	0,30	0,48	**0,40**
OKU TimurDistrict	0,38	0,22	0,21	0,21	0,29	**0,26**
OKU SelatanDistrict	0,49	0,34	0,27	0,26	0,21	**0,31**
EmpatLawangDistrict	0,36	0,43	0,46	0,48	0,32	**0,41**

Source: Ministry of Finance, Directorate General of Fiscal Balance RI (www.sikd.djpk.go.id) (processed)

Correspondingly, the need to reduce inequalities in the financing and control of taxes between the Centre and the Regions has been overcome with the financial balance between central and regional, especially from the DAU will provide certainty for the region in obtaining financing sourcesto finance expenditure needs its responsibility.

Degree of Fiscal Decentralization or Fiscal Autonomy is the degree of financial capacity of local governments in order to increase Local Revenue (LR) to finance the construction. According to the Research Affairs in David (2005:17) to determine the financial capacity of the area is used a measure called Degree of Fiscal Autonomy (DFA). To measure the DFA terms of

the ratio of the Local Revenue Total Local Revenue (TLR), will then be compared with the standards ofthe Ministry of Home Affairs.

Table 2
Ratio PAD and DBH to the regional income based on districts/city in South Sumatera of Year 2006-2007

District/City	Year					Average
	2006	2007	2008	2009	2010	
Lahat District	0,046	0,039	0,040	0,058	0,051	**0,047**
MusiBanyuasin District	0,016	0,037	0,022	0,024	0,027	**0,025**
MusiRawas District	0,031	0,041	0,039	0,032	0,054	**0,039**
MuaraEnim District	0,074	0,068	0,068	0,066	0,058	**0,067**
OganKomeringIlir District	0,042	0,040	0,033	0,035	0,035	**0,037**
OganKomeringUlu District	0,050	0,042	0,045	0,056	0,064	**0,051**
Palembang City	0,113	0,101	0,112	0,118	0,152	**0,119**
Prabumulih City	0,043	0,048	0,045	0,041	0,041	**0,044**
PagarAlam City	0,020	0,021	0,021	0,028	0,028	**0,024**
LubukLinggau City	0,041	0,051	0,048	0,053	0,065	**0,052**
Banyuasin District	0,022	0,028	0,023	0,017	0,024	**0,023**
OganIlirDistrict	0,020	0,030	0,024	0,022	0,023	**0,024**
OKU TimurDistrict	0,015	0,025	0,015	0,020	0,015	**0,018**
OKU Selatan District	0,014	0,021	0,027	0,030	0,010	**0,020**
EmpatLawangDistrict	0,003	0,005	0,009	0,010	0,017	**0,009**

Source: Ministry of Finance, Directorate General of Fiscal Balance RI (www.sikd.djpk.go.id) (processed)

Table 2 shows the degree of fiscal autonomy (DOF) or the financial independence of local counties and cities in the province of South Sumatra 2006-2010. When viewed from the value of the average level of Independent fiscal there is one area that has the highest financial capability Palembang at 0.1192 or 11.92 percent, while the lowest value was 0.008 for the District EmpatLawang, or 0.88 percent, at 2005 looks fiscal capacity is the highest Palembang at 0.1126 or 11.26 percent, while the lowest value possessed by Lawang Four Kabuapten 0,034 or 0.34 percent. Later in 2009 the highest financial capacity is still owned by the city of Palembang at 0.1523 or 15.23 percent and the lowest value is OKU Regency South of 0.0103 or 1.03 percent. When compared with the classification according to the Ministry of Internal Affairs DOF, then almost all counties and cities in the province of South Sumatra shows fiscal capacity in the category of very less (0-10 %), except for the city of Palembang less category (Sukanto, 2006:25).

When compared with the average value of 2006-2010, the ability of counties and cities of 0.0399 or 3.99 percent, there are nine areas that are under the average value is Muba District, District Mura, OKI, LubukLinggau city, Banyuasin district, OganIlir regency, East OKU regency, South OKU District, and District Four Lawang (Table 2). These conditions indicate that the majority of the district 's financial ability level and town in the province of South Sumatra is very low , to the local governments need to optimize the potential of local revenue sources in order to increase the area of financial capability . This is consistent with the purpose and form of fiscal decentralization is the provision of sources of revenue for the area that can be extracted and used in accordance with their own individual potential. Local authority to levy taxes and

levies are set by Act No. 34 of 2000 and its implementing regulations followed by PP No. 65 Year 2001 on Local Taxes and Government Regulation No. 66 Year 2001 on Levies. Under the Act and the Regulation, the area was given the authority to levy taxes 11 types and 28 types of levies. Determination of the types of taxes and levies based on the consideration that the type of taxes and levies are generally collected in almost all regions and are the types of charges that are theoretical and practical contributions which is good. In addition to the types of taxes and levies, the area is also given the authority to levy taxes (except for the province) and other levies according certain criteria set out in the legislation.

According Machfud (2002:8) if the terms of the contribution of local taxes and levies, to date distribution of taxation powers between the Central Region with a relatively large imbalances occur. Similarly, regional tax distribution between regions is also very lame once and varied. This indicates also that the role of taxes in the financing area is very low and highly variable also occurs because of the considerable differences in the number of population, geographical conditions, and the ability of the community.

Table 3
Degree of Fiscal Capacity by Regency / Cityin South Sumatra Province Year 2006-2010

District/City	Year					Average
	2006	2007	2008	2009	2010	
Lahat District	0,45	0,37	0,34	0,33	0,41	**0,38**
MusiBanyuasin District	0,77	0,83	0,73	0,83	0,83	**0,80**
MusiRawas District	0,52	0,46	0,32	0,44	0,44	**0,44**
MuaraEnim District	0,43	0,52	0,42	0,43	0,46	**0,45**
OganKomeringIlir District	0,31	0,24	0,22	0,21	0,23	**0,24**
OganKomeringUlu District	0,33	0,37	0,33	0,33	0,37	**0,35**
Palembang City	0,34	0,32	0,33	0,34	0,38	**0,34**
Prabumulih City	0,36	0,38	0,46	0,42	0,43	**0,41**
PagarAlam City	0,48	0,41	0,34	0,36	0,29	**0,38**
LubukLinggau City	0,55	0,40	0,42	0,30	0,26	**0,39**
Banyuasin District	0,62	0,48	0,36	0,31	0,30	**0,41**
OganIlirDistrict	0,49	0,38	0,34	0,30	0,48	**0,40**
OKU TimurDistrict	0,38	0,22	0,21	0,21	0,29	**0,26**
OKU Selatan District	0,49	0,34	0,27	0,26	0,21	**0,31**
EmpatLawangDistrict	0,36	0,43	0,46	0,48	0,32	**0,41**

Source: Ministry of Finance, Directorate General of Fiscal Balance RI (www.sikd.djpk.go.id) (processed)

Furthermore, in Table 3 above, shows the Degree of Fiscal Decentralization (DFD) is measured by the concept of fiscal decentralization by Zang and Zou (1998:217), Mahi (2000:58), Mursinto (2004:170) which uses local revenues and expenditures, those are the Local Revenue (LR) and Revenue-Sharing (RS) with total expenditures of district/city. Based on the above table shows the condition of DKF counties and cities in South Sumatra Province of years 2006-2010, in 2005 the highest DKF owned by Banyuasin of 1.27 or 127 percent or receipt indicator is sufficient or excess of expenditure total area, while the counties have the lowest value of the OIC of 0.31, or 31 percent of the area is only able to finance spending. Later in 2009 the highest DKF owned by Banyuasin of 0.83 or 83 percent only able to finance expenditures in total area, while having the lowest value of 0.21 or Oku district only able to fund 21 percent of a local shopping.

When viewed from the average value DKF showed that the highest value is owned by Banyuasin of 0.89, or 89 percent, then the lowest average value owned by OKI by 0.24 or 24 percent. This indicates that most of the financing ability of the expenditures in the district/town in South Sumatra province is still relatively low, except Banyuasin which is above 50 percent. If the portion of local revenues has exceeded 50 percent of total revenues, the nature of fiscal decentralization through fiscal decentralization will become a realit
y (Susetyo, 2010:11).

Accordingly, the implementation of the tasks of governance, development and social development are being and will be implemented by the local government district / city enough money as a result of the greater society demands a dynamic and fast moving, while on the other hand are faced with limited financial resources. Now the financial capacity of local governments are still heavily dependent on revenue from the central government. Therefore, the role of local government in exploring and developing various regions as potential revenue sources to determine the success of decentralization and fiscal decentralization.

Analysis of Regional Economic Performance

Regional economic performance is a series of activities to compare the realization of the input (input), output (output), and the results (outcomes) of plans and standards with the goal of making a policy for improving public welfare through the acceleration of regional economic development and improvement of harmonious relations between the central government and regions. In this study the economic performance is measured by the average value of the rank growth rate, GDP per capita, GDP ratio of the area of the provincial GDP, and the percentage of poor people (Bappenas and UNDP, 2007:7). The results of these calculations provide an overview of regional economic performance which is relatively better than other regions.

Table 4
Regional Economic Performance and the City District South Sumatra Province in 2010

District/City	LPE 2006-2010	PDRB /capita (KAP)	Ratio of Regional PDRB to Province PDRB (R/N)	Persentage of Poor People (PP)	Index ofEconomicWork (IEW)	Rank
Lahat District	6.36	6,681	0.042	20.98	1.670	**6**
MUBA District	6.54	8,371	0.193	22.76	2.093	**2**
MURA District	6.94	4,612	0.057	21.40	1.153	**10**
M. Enim District	6.47	7,614	0.133	15.96	1.904	**4**
OKI District	5.75	4,421	0.051	16.17	1.105	**12**
OKU District	6.14	7,966	0.045	13.17	1.992	**3**
Palembang City	7.75	10,444	0.274	14.75	2.611	**1**
Prabumulih City	6.80	6,868	0.022	13.93	1.717	**5**
PagarAlam City	3.77	4,962	0.010	9.66	1.241	**8**
L. Linggau City	6.16	5,704	0.017	15.12	1.426	**7**
Banyuasin District	6.12	4,457	0.074	13.72	1.114	**11**
OganIlir District	8.09	4,686	0.028	15.65	1.172	**9**
OKU Timur District	5.85	3,801	0.036	9.95	0.950	**14**
OKUS District	6.28	3,631	0.020	12.73	0.908	**15**
E. Lawang District	4.83	4,087	0.015	15.80	1.022	**13**

Source: BPS South Sumatra (processed data)

Furthermore, when viewed by per capita income between regions, the city of Palembang is still occupying the top position, while the lowest per capita income is owned by Regency South OKU. Accordingly, when viewed from the contribution of regional GDP to total provincial GDP was still very low with an average of about 6.8 percent. It is relatively constant during the period of 2006-2010. It says that most of the area is relatively smaller role in the regional economy.

Based on the economic performance of district and town in the province of South Sumatera, on the terms of the results of these calculations show that the city of Palembang, Banyuasin and OganKomeringUlu has ranked the best economic performance. When examined two areas that have the highest ratings, most rely on secondary and tertiary sectors. Most of the sub-indicators of economic performance rankings Palembang is the best. Meanwhile Banyuasin have the best ratings in the value of the ratio of GDP and per capita income after the city of Palembang. Then performanceOganKomeringUlu best supported by income per capita and the number of poor people is relatively low , this is due to economic sectors supported by theagricultural sector , where prices are relatively stable.

While the area is classified as medium or ranking is above the average value ranking is Lahat District, MuaraEnim Regency, and Prabumulih city, while the lowest economic performance rank or below the average value of occupied MusiRawas District, OganIlir Histories, Banyuasin, OganIlir, OKU East,, South OKU and EmpatLawang, then the City of PagarAlam, LubukLinggau. There are some areas that are the result of the division in 2005 and 2008, so that the relative performance of the economy slumped. The amount of funds for infrastructure development, provision of office facilities led to the development budget for the economic problems neglected.

In line with the above description, the degree of fiscal decentralization tends to increase the area that in turn affects the performance of the regional economy. Achievement of a better local economy will encourage private investment. These factors have a significant effect in creating the output, income and employment opportunities, both in the developed and underdeveloped regions. In order to increase private investment in the area, it would require a fiscal stimulus adequate government spending for infrastructure and economic sectors, simplification of bureaucracy in managing business licensing, as well as tax incentives, especially in the regions/districts that are relatively underdeveloped.

However, fiscal decentralization policy has yet to be effective in reducing the output gap between regions. However, after two years of implementation of the fiscal decentralization policy, there is a tendency that the policy can reduce the gap (Brodjonegoro, 2003:28). This could be due to the less precisely the strategy used to determine the distribution of central government matching funds. In a certain region, the gap may be caused by the lack of standardized rules for the allocation of expenditure, so that only about 20 percent is used for development expenditure.

Policy changes related to the impact of fiscal decentralization on regional economic performance (production, employment) but the impact varied between regions. In general, an increase in local revenues have a positive impact on regional spending and economic performance. The increase in regional spending sourced from Central Funds Transfer (CFT) and or for the results) have greater impact on the economy of the area compared to the increase in local spending to come from increased taxes or region levies. On the other hand, an increase in investment spending has a greater impact on the economy of the region compared with development expenditure to sectors that have higher productivity (has a large multiplier) impact on improving regional economic performance.

Model Testing Results

Based on a simple linear regression model specification described in the previous chapter, it appears that the model in this study using cross section data (area) and time series data (year). To process such data, it would require the incorporation of data called by pooling data or panel data. Model testing using panel data with E-Views program, there are three analytical techniques that can be used are common effect, fixed effect model and random effect model. To choose an appropriate model of the three analytical techniques, it is necessary to do some testing, the testing of the third test showed that only the common effect Pooled Least Square method that can be used as an appropriate model.

Normality Test Data

Testing for normality used the Kolmogorov-Smirnov test. This test is done because it is a requirement prior to regression analysis, which is used to detect whether the data were normally distributed or not . Data can be expressed normally distributed when Asymp Sign > Alpha (0.05), otherwise if Asymp Sign < Alpha (0.05), then the data can be expressed not normally distributed.

Table 5
Test Sample Kolmogorov -Smirnov Test

DESCRIPTION		DKF	PE	KPP	PM	IPM	TK
N		75	75	75	75	75	75
Normal Parameters(a,b)	Mean	38.10	5.28	.913	18.84	69.61	70.15
	Std. Dev	13.889	1.758	.3130	6.816	2.343	5.648
Most Extreme Differences	Absolute	.152	.166	.201	.112	.078	.114
	Positive	.152	.166	.201	.112	.078	.059
	Negative	-.098	-.092	-.130	-.061	-.039	-.114
Kolmogorov-Smirnov Z		1.321	1.442	1.740	.973	.676	.986
Asymp. Sig. (2-tailed)		.091	.073	.064	.300	.751	.285

Source: Data processed with SPSS 13.0

DKF   =Degree of Fiscal Decentralization   PM   = the Poor
PE   = Economic Growth   IPM   = Human Development Index
KPP   = income inequality   TK   = Absorption Income Inequality Labor

Based on the results of tests of normality , it can be stated all the data are normally distributed , since all study variables have Asymp Sign alpha value greater than 0.05. So that the sample data can be used to perform regression analysis.

Effect of Fiscal Capacity on Economic Growth

Based on the results of the model estimation has been carried out , to determine the effect of the fiscal capacity to economic growth and to test the hypothesis in this study , these results can be seen in Table 5 as follows :

Table 6
Estimation Models panel Pooled Least Square

Dependent Variable: PertumbuhanEkonomi				
Method: Pooled Least Squares				
Sample: 2005 2009				
Included observations: 5				
Total panel observations 75				
Variable	Coefficient	t-Statistic	Prob.	Description
C	6.799018	13.65674	0.0000	* Significant
DKF	-3.681031	-3.284565	0.0016	* Significant
R-squared	0.128757	F-statistic		10.78836
Adjusted R-squared	0.116822	Prob (F-statistic)		0.001570

Note: * Significant at 10 % level (= 0.10)
Source: Data processed using the program E - Views 3.0

The coefficient of determination (R2) measures how much the ability of the independent variables in explaining the dependent variable. The larger the value of R2 the independent variables provide almost all the information needed to predict the variation in the dependent variable. Based on the results of the estimation, the coefficient of determination or R squared (R2) is equal to 0.1287. This means that changes in the current economic growth of 12.87 percent can be explained (caused) by fiscal decentralization and the remaining 87.13 percent can be explained by other factors.

Testing is seen from the coefficient of -3.681 and a t - statistic values obtained for fiscal decentralization is worth -3.284 , the value of t - statistics appear larger than t - table value (-3.284 > 1,664). These results indicated the probability value of 0.0016 is smaller than the 0.10 alpha prove that in general there is a negative and significant effect between the fiscal capacity of the local economic growth in South Sumatra Province. With assumption 1 percent increase in local fiscal capacity would reduce economic growth by -3.681 percent. This illustrates that in general, fiscal decentralization has a negative relationship to the economic growth of all regions, but there are some areas that show the positive relationship as unidirectional or district Banyuasin, MuaraEnim, OganKomeringUlu, Palembang, and Prabumulih. The area is a producer of natural resources such as petroleum, coal and gas. In line with the economic growth of a country is affected by the accumulation of capital (investment, technology, facilities and infrastructure), natural resources, humans the resources (human resources) both in quantity and quality level of the population , advances in technology, access to information, the desire to innovate and develop themselves and work culture (Todaro, 2000).

The results are consistent with research Priyo Day (2005:19) states that regional economic growth before fiscal decentralization is still better than the economic growth during the implementation of fiscal decentralization. The degree of fiscal decentralization district / city in the province of South Sumatra is still fluctuating and relatively small, it illustrates that the local government has not been able to reduce fiscal dependence, so that the local government has not been able freely to promote development in order to achieve better economic growth, reflected by the coefficient of determination which describes that the ability only 12.87 % desentraslisasi influence on economic growth.

Fiscal capacity to influence Income Inequality

To see the effect of the fiscal capacity of the regional income inequality in South Sumatra Province, as well as to test the research hypothesis can be seen in Table 6 as follows:

Table 7
Estimation Models panel Pooled Least Square

Dependent Variable: KetimpanganPendapatan				
Method: Pooled Least Squares				
Sample: 2005 2009				
Included observations: 5				
Total panel observations 75				
Variable	Coefficient	t-Statistic	Prob.	Keterangan
C	0.626143	13.28370	0.0000	* Signifikan
DKF	0.602826	5.092292	0.0000	* Signifikan
R-squared	0.912545	F-statistic		761.7119
Adjusted R-squared	0.911347	Prob(F-statistic)		0.000000

Note: * Significant at 10 % level (= 0.10)
Source: Data processed using the program E - Views 3.0

The coefficient of determination (R2) measures how much the ability of the independent variables in explaining the dependent variable. The larger the value of R2 the independent variables provide almost all the information needed to predict the variation in the dependent variable . Based on the results of the estimation, the coefficient of determination or R squared (R2) is equal to 0.9125. This means that the changes in income inequality is currently at 91.25 percent can be explained (caused) by fiscal decentralization and the remaining 8.75 per cent can be explained by factors other than that.

Testing hypotheses views of the value of t - statistics obtained 5,092 worth, value indicates a greater value than the value of t - table (5,092 > 1,664) This indicates that there is a unidirectional relationship between the real and fiscal capacity and inequality. It is shown with a probability value of 0.000 is less than the alpha of 0.10 , this means assuming a 1 percent increase in fiscal capacity will increase income inequality by 0.602 percent. These results prove that in general there is a significant relationship between the direction and the fiscal capacity of the regional income inequality district/city in the province of South Sumatra, but there are some areas that showed a negative relationship between fiscal decentralization to regional income inequality among other districts Banyuasin, MuaraEnim, OganKoomeringUlu, Palembang, and Prabumulih, the area is an area that has the result of natural resources such as petroleum, coal and gas.

In line with the inequality between regions is due to the differences and diversity of natural resources, geographical location, and the quality of human resources in the various regions, followed by the differences in the economic performance of each region. The differences are such as, (1) the availability of infrastructure, especially transport and communications; (2) basic social services is still low; (3) the utilization of resources and development potential of the local economy is not optimal; (4) weak institutional capacity of local governments to manage the potential of local resources; (5) the low level of welfare of the

local community; (6) control system has not been optimal utilization of space , institutional capacities of spatial planning , and an understanding of the spatial arrangement of local governments in lagging regions and borders.

Effect of Fiscal Capacity on Poor People

Based on the results of the estimation is done , to determine the effect of the fiscal capacity of the number of poor people and to test the hypothesis in this study , these results can be seen in Table 7 as follows :

Table 8
Estimation Models panel Pooled Least Square

Dependent Variable: Jumlah Penduduk Miskin				
Method: Pooled Least Squares				
Sample: 2005 2009				
Included observations: 5				
Total panel observations 75				
Variable	Coefficient	t-Statistic	Prob.	Description
C	25.54286	8.812225	0.0000	* Significant
DKF	-10.26715	-1.707402	0.0920	* Significant
R-squared	0.384012	F-statistic		2.915223
Adjusted R-squared	0.252284	Prob (F-statistic)		0.091997

Note: * Significant at 10 % level (= 0.10)
Source: Data processed using the program E - Views 3.0

The coefficient of determination (R2) measures how much the ability of the independent variables in explaining the dependent variable. The larger the value of R2 the independent variables provide almost all the information needed to predict the variation in the dependent variable. Based on the results of the estimation, the coefficient of determination or R squared (R2) is equal to 0.3840. This means that changes in the number of poor people is currently at 38.40 percent can be explained (caused) by the fiscal capacity and the remaining 61.60 percent can be explained by factors other than that .

The test results demonstrate the value of t - statistics obtained valuable -1,707, this value is greater than the value of t - table (-1.704 > 1,664). In line with the probability value of 0.092 is less than the alpha of 0.10, this means assuming a 1 percent increase in fiscal capacity will decrease the number of poor people of -10.267 percent. These results prove that in general there is a negative and significant effect between the fiscal capacity of the number of poor people in the region of South Sumatra Province. This has seen an overview of the results of the coefficient of determination of 38.40 percent that the ability of fiscal capacity has not been fully gives a good overview on poverty. Accordingly, the fiscal capacity of the link with poverty occurs through several programs, among others, (1) support the coordination of decentralized governance with central and local government on poverty by increasing the budget allocation; and (2) the decentralization of public services and the provision of infrastructure facilities for the community; (3) decentralization encourage domestic and foreign investment in pro-poor implementation .

These results are also in line with research Rao (2000:75) states that decentralization is negative and significant effect in reducing poverty, due to efficiency in the identification of poverty and poverty reduction strategies were able to formulate a more precise according to the conditions of the poor.

Effect of Fiscal Capacity of the Human Development Index

Then to see the effect of the fiscal capacity of the human development index and the results of testing the hypothesis of this study can be seen in Table 8 below:

Table 9
Estimation Models panel Pooled Least Square

Dependent Variable: IndeksPembangunanManusia
Method: Pooled Least Squares
Sample: 2005 2009
Included observations: 5
Total panel observations 75

Variable	Coefficient	t-Statistic	Prob.	Description
C	75.75932	57.34008	0.0000	* Significant
DKF	17.60366	-5.217787	0.0000	* Significant
R-squared	0.271641	F-statistic		27.22530
Adjusted R-squared	0.261663	Prob(F-statistic)		0.000002

Note: * Significant at 10 % level (= 0.10)
Source: Data processed using the program E - Views 3.0

The coefficient of determination (R2) measures how much the ability of the independent variables in explaining the dependent variable. The larger the value of R2 the independent variables provide almost all the information needed to predict the variation in the dependent variable . Based on the results of the estimation, the coefficient of determination or R squared (R2) is equal to 0.2716. This means that changes in the human development index (public welfare) is currently at 27.16 percent can be explained (caused) by the fiscal capacity and the remaining 72.84 percent can be explained by other factors.

Based on the results of testing the value of t-statistic worth 11.001, the value of t-statistics indicate greater than t-table value (11.001 >1,664). In line with the probability value of 0.000 is less than the alpha of 0.10, this means assuming a 1 percent increase in fiscal capacity will improve the human development index (public welfare) of 27.20 percent. These results prove that in general there is a unidirectional relationship between the real and the fiscal capacity of the human development index (public welfare) area in South Sumatra Province. In addition , there are some areas that have an average HDI improvement highest among others, East OKU district, OganIlir, grave, and the City of LubukLinggau. In addition, an increase in the HDI itself in the current era of fiscal decentralization is a composite index which is detailed in the thrust of the three main components, among others, (1) the area of government; (2) the development of the region; (3) cultural community.

The results of the study Aisha (2004:129) on the relationship between indicators of economic development and human development index in the Indonesian economy, inter-regional

analyzes lead to the conclusion that the region who possess the funds for NR high results with high economic development turns its human development index on average tend to be similar with other regional economic development was. In general, the relationship of decentralization to increase in HDI can be seen from the revenue side, namely (1) the potential of the area as local revenue, tax revenue and natural resources; (2) encourage increased investment or investment both domestic and foreign area to area.

Fiscal Capacity influence on Labor Absorption

Furthermore, to see the effect of fiscal capacity in the labor market and hypothesis testing results of this study can be seen in Table 9 below:

Table 10
Estimation Models panel Pooled Least Square

Dependent Variable: PenyerapanTenagaKerja				
Method: Pooled Least Squares				
Sample: 2005 2009				
Included observations: 5				
Total panel observations 75				
Variable	Coefficient	t-Statistic	Prob.	Keterangan
C	67.75550	40.18084	0.0000	* Signifikan
DKF	5.850171	1.541169	0.1276	* TidakSignifikan
R-squared	0.031512	F-statistic		2.375203
Adjusted R-squared	0.018245	Prob(F-statistic)		0.127600

Note: * Significant at 10 % level (= 0.10)
Source: Data processed using the program E - Views 3.0

The coefficient of determination (R2) measures how much the ability of the independent variables in explaining the dependent variable. The larger the value of R2 the independent variables provide almost all the information needed to predict the variation in the dependent variable. Based on the results of the estimation, the coefficient of determination or R squared (R2) is equal to 0.0315. This means that the change in employment is currently at 3.15 percent could be explained (caused) by the fiscal capacity and the remaining 96.85 percent can be explained by factors other than that.

Testing the value of t - statistics obtained for the fiscal capacity that is worth 1.5411, t - statistic values show smaller than the value of t-table (1.541 < 1,664). In line with the probability value of 0.1276 is greater than the alpha of 0.10. These results prove that in general there is no influence between the fiscal capacity of the labor market area in South Sumatra Province. Labor is one important factor in the overall production process of both goods and services in addition to the factors of production capital, technology and natural resources. Labor Force Participation Rate is also affected by economic activity. Fiscal decentralization in turn affect regional development, while development was basically requires the involvement of many people , so it will create a number of labor force participation .

As an alternative, the local government district/city in South Sumatra province needs to improve the allocation of capital expenditure. Besides local governments need to do to encourage

infrastructure investment, further local government need to provide adequate infrastructure for the community, so as to encourage economic activities and increase the purchasing power of the community.

CONCLUSIONS AND RECOMMENDATIONS

Based on the description of the discussion that has been done , it can be missed and inferred from some of the problems in this study on the effect of fiscal capacity on the economy of the district / city in the province of South Sumatra is as follows: () the fiscal capacity generally have a negative and significant effect on growth the economy; (2) the fiscal capacity generally have a positive and significant effect on income inequality ; (3) the fiscal capacity generally have a negative and significant effect on the number of poor people ; (4) the fiscal capacity generally have a positive and significant impact on the human development index; (5) the fiscal capacity generally has no effect on employment; (6) Based on the results of the calculation of the index of economic performance between regions in the province of South Sumatra , shows that the city of Palembang, Banyuasin and Ogan Histories Ulu has ranked the best economic performance . While the area is classified as medium or medium ranking is still above the average is MuaraEnim Regency, Lahat District, and Prabumulihcity, while economic performance rating ranking is below average or low occupied MusiRawas, OganIlir Histories, city of PagarAlam, city LubukLinggau ,and Banyuasin district ,OganIlir ,OKU East ,South OKU and EmpatLawang.

Based on the conclusions generated in this study, it is expected to be submitted some recommendations useful for practical purposes and further research, namely:

(1)   In this era of fiscal decentralization in which economic agents such as households, business units, investors , and local governments are required to perform its functions well, of course, necessary support by the financial resources of the government in the provision of public goods to society, other than that government should encourage increased investment in the area. There needs to be coordination between the central and local governments in improving the fiscal capacity of the local revenues and expenditures in stimulating economic activity.

(2)   To promote economic growth and reduce poverty and improve the well-being , can be done by: (a) the revitalization of agriculture from upstream to downstream to help the district / city based primary sector (agriculture). If this program can be effective running , pole growth indirectly spread to the villages, so as to grow the rural economy and reduce economic inequality; (b) Assist the people's business and product marketing of agricultural products, including through the provision of facilities where marketing , marketing information and telecommunication business people in each region; (c) Capital includes: soft bank loans with easy terms , a revolving fund for the people's business right kind of tangible goals such as cows, goats and so forth that could accelerate the economy; (d) The local government facilitating linkage programs and partnerships between business people with big industry, both in the field of raw materials and output so as to encourage economic activity between regions.

(3)   The local government is not only pursuing high economic growth rate, but expected more intensive development with a human -based (human development) to improve the welfare of the community, through: (a) Improving the quality of education, especially primary and secondary education, in accordance with the standards minimum service available to increase budget allocations (20 percent of the budget); (b) In the field of health is

improved health, encourage healthy behaviors community independence, improve public health services to improve the health of the community; (c) The increase in fulfillment of primary needs, district/city government to improve the welfare of the community is expected to meet the basic needs of its citizens. Such as roads, irrigation, electricity, telecommunications, fuel, and so forth.

(4) The need of further research related to this theme, is expected to expand skope/study area and a longer time period, as well as theories newer, so it will deepen the study of the analysis and implications sharpness.

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