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ACCELERATION OF SCIENTIFIC KNOWLEDGE DEVELOPMENT IN THE ERA OF ASEAN ECONOMIC COMMUNITY

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SCIENTIFIC KNOWLEDGE DEVELOPMENT IN THE ERA OF ASEAN ECONOMIC COMMUNITY

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PROCEEDINGS 1st ADRI-UNITOMO 2016

International Multidisciplinary Conference

PREFACE

This book reports the proceedings of the 1st ADRI-UNITOMO 2016 International Multidisciplinary Conference held at University Dr. Soetomo from November 9 to November 10, 2016. The purpose of this conference was to explore scientific knowledge development in the era of ASEAN Economic Community that integrates the immediate and long-term, local and global needs, and regards social, economic and environmental needs. The participants included lectures, researchers, economists, development planners, and national and international administrators.

Papers and discussion focused on the challenges of scientific knowledge development in business, management, education, engineering and the most feasible means of addressing the challenges. The participants included from the United States, the United Kingdom, Australia, Thailand, Malaysia, and Indonesia. An attempt was made to represent as many as possible of the groups and institutions working in areas related to the conference theme. All papers will be published in online Conference Proceeding with ISBN. Selected manuscripts will be published in International Journal indexed by Scopus, by firstly contact the authors

The Editors also wish to thank all the organizing committee for their valuable assistance.

Surabaya, 8 November 2016

Chairman of THE 1st ADRI-UNITOMO 2016 INTERNATIONAL CONFERENCE

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THE INFLUENCE OF VERTICAL FISCAL IMBALANCE AND FUND DECENTRALIZATION ON CAPITAL EXPENDITURE PUBLIC SERVICE OF AUTONOMOUS REGIONS

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Abstract

This research is conducted to examine the influence of vertical fiscal imbalance and fund decentralization variable on capital expenditure public service of autonomous regions using explanatory research.

The conclusion of this research is fiscal decentralization policy has made autonomous regions increasingly dependent on decentralization fund of central government for expending of cost and capital expenditure public service. The Increasing of vertical fiscal imbalances coefficient proven that give the significantly positive influence on capital expenditure public service. This is show that the increasing of capacity ability fiscal autonomous regions for expending of cost and also capital expenditure public service autonomous regions. Fund decentralization significantly positive influence on capital expenditure public service of the autonomous regions

**Keyword : Fund Decentralization, Vertical Fiscal Imbalance, Capital Expenditure
Public Service**

I. INTRODUCTION

Empirically that the amount of development expenditure from year to year increased, though the allocation expenditure for every sector has variation. Development expenditure every regions is an investment. According to Brata (2003) that The sector investment are grouped into three sections, they are economic infrastructure development investment, human resource development investment or public social sector investment and also publik sector investment other. The conclusion of her research also show that generally java regions has allocation public sector investment for infrastructure smaller than another regions.

Based on some consideration and idea mentioned, so the problem of this research is “whether vertical fiscal imbalance and fund decentralization’s influence on capital expenditure public service of autonomous regions?”

The Purpose of this research is to investigate and assess the influence of fiscal imbalance and fund decentralization on capital expenditure public service of autonomous regions. This research is focused on assessing the impact of the central government to

transfer the balance fund in an attempt to close vertical fiscal imbalance, and also the influence on capital expenditure public service of autonomous regions.

This research was conducted with a quantitative approach to assessing fiscal policy in the balance fund. This research is expected to be useful for maker policy in region financial management, especially the central government, local government, academia, researchers and other parties related to fiscal policy

II. LITERATUR REVIEW

2.1 Fiscal Decentralization Policy

Conceptually the government system changes from centralistic to decentralistic, which began in the budget year 2001 (January 2001), the consequence is needed to change of approach in the regions financial management, especially on the fiscal management. Financial balance policy between central government and local also need to adjust with autonomous regions concept, it is implementation of fiscal decentralization

To ensure the good connection central-local financial, then it should be given the division of rational authority from some level of government about dig resources fund government and authority user, presenting an adequate part from sources of funds public funds as a whole to finance deploy functions provision services and development organized by the local government; as far as possible dividing government expenditure equally between regions, or at least giving priority to balance serving of certain basic needs as well as taxes and retribution imposed local government should be in line with the fair distribution of the overall burden of government spending in the community

2.2 Vertical Fiscal Imbalance

Vertical fiscal imbalance showed the differences capacity / potency and necessary fiscal between central government with the lower level of government (Hamid, 2005). Conventionally Vertical fiscal imbalance describe as an imbalance between expenditure and revenue at different levels of government over the period of time (Ruggeri, 1993).According to Jacson and Wu (2001), vertical fiscal imbalance (VFI) is based on incompatibility in the structural budget balance between the level of federal government with the provincial governments. Vertical fiscal imbalance can occur because inconsistent of the distribution of sources of revenues between the central government and provincial with the distribution of expenditure responsibilities.

Vertical fiscal imbalance region can be seen by the magnitude of coefficient of vertical fiscal imbalance between 0 till 1. The lower of the coefficient, then the higher vertical fiscal imbalance which means the regions is increasingly dependent on the central government. Conversely the greater of the coefficient vertical fiscal imbalance indicates more independent these regions in finance expenses (Hamid, 2005).

2.3 The Influence Of Fund Decentralization On Capital Expenditure Public Service

Specific research to assess the policy of decentralization of funds against capital expenditure public services has not been much research. Generally the researchers assess the influence of the policy of fund decentralization on local government expenditure. This is consistent theory of allocation of public goods provision by the government in a way to maximize the expenditure budget for the necessary of public goods, including capital expenditure public service regions.

Gemmell, Morrissey and Pinar (1998) reported that the fund decentralization influence on expenditure is greater than revenue. The results of the research prove that the fund decentralization policy applied in England and Wales gave rise to the impact of fly-paper effect. Other researchers who studied the influence of fiscal decentralization on regional necessary expenditure in the United States by Gamkhar and Oates (1996), Legrenzi and Milas (2001) and Gorodnichenko (2001).

III. RESEARCH METHODS

In general, this research used explanatory research. The research focused on the Regional Government Budget (APBD), especially in terms of revenue and expenditure APBD on Region and City in East Java province after the enactment of UU No. 22 of 1999 and UU No. 25, 1999 which was replaced by UU No. 32 of 2004 and UU No. 33 of 2004. The data used in this research is secondary data sourced from the Bureau of the Finance Secretariat of the Province of East Java, the Central Bureau Statistics Agency (BPS) East Java and in each region and city.

The definition of operationally research is structured:

- a. Fund Decentralization (DD) is a financial transfer in the form of equalization funds from the central government to the autonomous regional government in the form of Revenue Sharing Fund Tax and Non-Tax (BHPP), General Allocation Fund (DAU) and Specific Allocation Fund (DAK). The amount of equalization funds is expressed in units of billion rupiah.
- b. Vertical fiscal imbalance variable (KFV) represent disparity between the capacity / potency fiscal and the necessary fiscal of the central government with the lower levels of government (in this research is the region and city governments). Measuring the vertical fiscal imbalance using the formula of the Shah and Qureshi (1994), Hunter (1977) and Hamid (2003) as follows:

$$KFV = 1 - \left[\frac{DAU + DAK + BHPP}{EXP} \right]$$

in wich :

KFV is coefficient vertical fiscal imbalance of autonomous regional

DAU is general allocation fund for period after autonomous

DAK is specific allocation fund for period after autonomous

BHPP is revenue sharing fund tax and non-tax

EXP is total region expenditure in APBD

- c. Capital Expenditure Public Services (BMPP) is the realization of capital expenditure on the part of public services based on the budget each autonomous region. The amount of capital expenditure public service is expressed in units of billions of rupiah.

Test analysis of this research using Eviews program. Model equality of this research refers to the research model Langoday (2006) and Hamid (2003). The model equations to estimate the influence of Vertical fiscal imbalance variable (KFV) and Decentralization Fund (DD) on Capital Expenditure Public Service (BMPP) in regions and cities formulated:

$$BMPPFV_{it} = \beta_0 + \beta_1 DD_{it} + \beta_2 KFV_{it} .$$

In wich : β_0 is a constant, β_1 , β_2 s the regression coefficient.

IV. RESULTS AND DISCUSSION

Analysis result of the influence of vertical fiscal imbalance coefficient and fund decentralization on capital expenditure public service autonomous regions can be seen in Table 4.1. Analysis result of the influence of vertical fiscal imbalance and fund decentralization variable (KFV) on capital expenditure public service autonomous regions (BMPP) has a coefficient of determination (R_2) of 0.4760. That is, the fund decentralization variable (DD) and the coefficient of vertical fiscal imbalance (KFV) is able to explain the capital expenditure public services variable (BMPP) amounted to 47.60 percent, while the remaining 52.4 percent is explained by other variables outside the model equations

Table 4.1
The Influence Coefficients Vertical Fiscal Imbalance and Fund Decentralization on Capital Expenditure Public Services

Variabel	Coefficients	r^2	t	Sig	Description
Konstanta	-34068958				
KFV	1.81E+08	0.0688	6.028698	0.0000	* Signifikan
DD	0.196474	0.3481	10.76016	0.0000	* Signifikan
R Square (R^2)	= 0.4760				
T tabel	= 1.960				
α	= 0.05				

Source: Secondary Data Processed (2008)

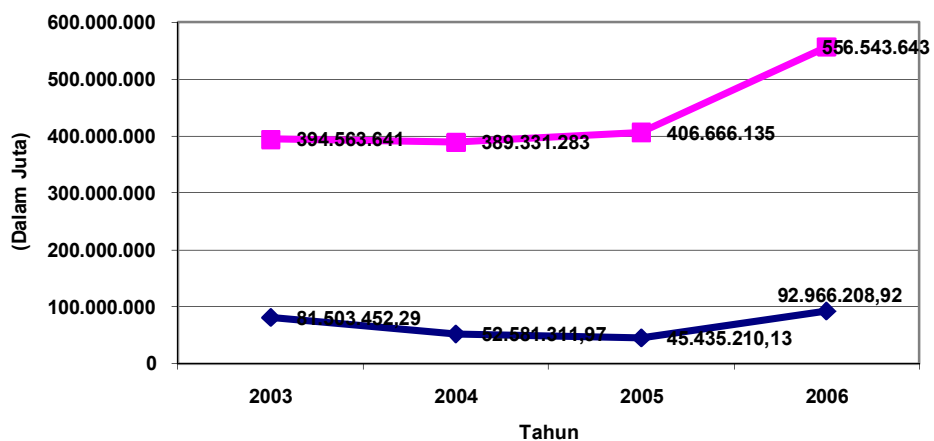
The model equality based on the results of the above analysis are:

$$\text{BMPP} = -34068958 + 1.81E + 08 \text{ KfV} + 0.196474 \text{ DD} \quad (4.1)$$

t	-3.600472	6.028698	10.76016
R ²	= 0.4760	r = 0.262	r = 0.590
Prob.	0.0004	0.0000	0.0000

This research shows that the magnitude of the coefficient beta coefficient vertical fiscal imbalance against capital expenditures public services at 1.81E + 08, with a probability of 0.0000. This implies that the coefficient vertical fiscal imbalance variable positive and significantly influence on capital expenditure public service autonomous regions. Efforts to increase the coefficient of vertical fiscal imbalance followed by an increase in capital expenditure public services significantly. Increasing the value of the coefficient of one percent will increase capital expenditure public services at 1.81E + 09 percent. The value of the coefficient of inequality vertical fiscal autonomous region and cities in East Java during the research were an average size of 23.9 per cent in 2003, dropped to 20 percent in 2004, 17.9 percent in 2005, and dropped to 10.2 percent in the year 2006. this means an average of autonomous local government finance is only able to finance the public service activities of government and community development of the ability itself is only about 18 percent of total necessary fiscal expenditure that exist, the remaining 82 percent of the necessary fiscal of the regions still relies on financing from fund decentralization. The average size of the capital expenditure public services to the expenditure of autonomous regions can be seen in Figure 4.2.

Figure 4.2
An average ratio of capital expenditure public service regions
against expenditure of autonomous regions



Source: Capital Expenditure Public Service and Processed

V. CONCLUSIONS AND RECOMMENDATIONS

Fund decentralization policy proved to have made an autonomous regions increasingly dependent on transfers from the central government to finance its expenditure, including capital expenditures public services. The increase in the coefficient of vertical fiscal imbalance proven to provide significantly positive effect on capital expenditure public service regions. It indicates that the increasing ability of autonomous local fiscal capacity to finance expenditure, will also increase the capital expenditure public service of the autonomous regions. Improving the ability of autonomous local fiscal capacity to do, if the policy changes in the system of state revenue and taxation management for autonomous regions.

Fund Decentralization positive and significantly effect against capital expenditure public service of the autonomous regions. This indicates that the increasing fund decentralization transferred from the central government for the autonomous regions and city, also increase the capital expenditure public service of the autonomous regions.

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