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## The Effect Of Fiscal Decentralization And Economic Growth On Poverty In Gorontalo Province

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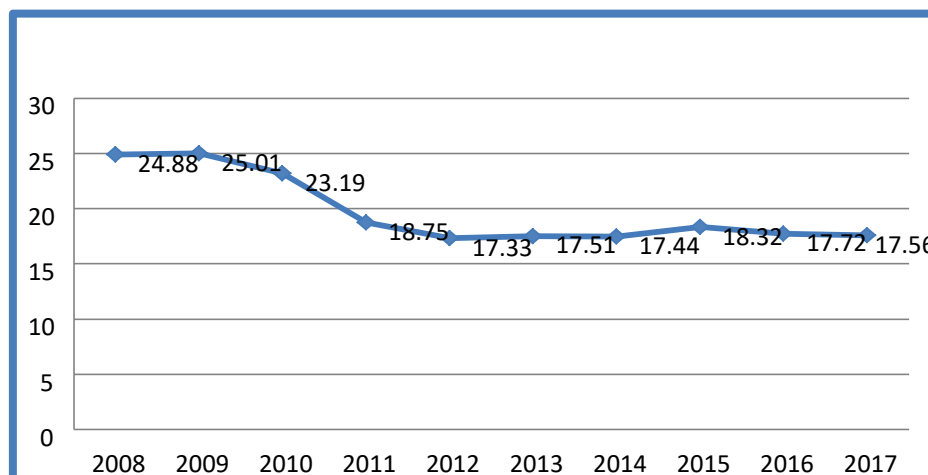
**Abstract.** *The implementation of fiscal decentralization policy has a good impact on the development of the potential and creativity of local governments. Effectiveness in managing the results of regional wealth will affect the original income of the region which can then be utilized for the welfare of the community. This study aims to determine the effect of fiscal decentralization and economic growth on poverty in Gorontalo Province. This research uses quantitative methods. The data used in this study were sourced from the Central Statistics Agency and the Directorate General of Fiscal Balance so that the data in this study were secondary data using the econometrics method through a panel data regression equation in the form of a combination of 10-year time series data (2008-2017) and cross section data 6 Regency / City areas in Gorontalo Province. Estimation is done using the Fixed Effect Model (FEM). The results of this study indicate that (1) Partially the degree of fiscal decentralization has a negative effect (unidirectional relationship) and significant on poverty means that the greater the fiscal decentralization variable will have an impact on reducing the level of poverty (2) Partially economic growth has a negative effect (unidirectional relationship) and significant to poverty means increasing economic growth can reduce poverty levels (3) Simultaneously the degree of fiscal decentralization and economic growth have a significant effect on poverty in Gorontalo Province.*

**Keywords:** *fiscal decentralization, economic growth, poverty*

The high poverty rate in Indonesia is one of the problems that is still difficult to overcome by the central government and regional governments. Poverty in Gorontalo Province is not much different from the central government. The poverty rate in Gorontalo is still relatively high

when compared to other provinces in Indonesia. The Central Statistics Agency noted that the percentage of poverty in Gorontalo Province is still relatively high. Poverty in Gorontalo Province can be seen in Figure 1 below.

Figure 1 Percentage of poor population



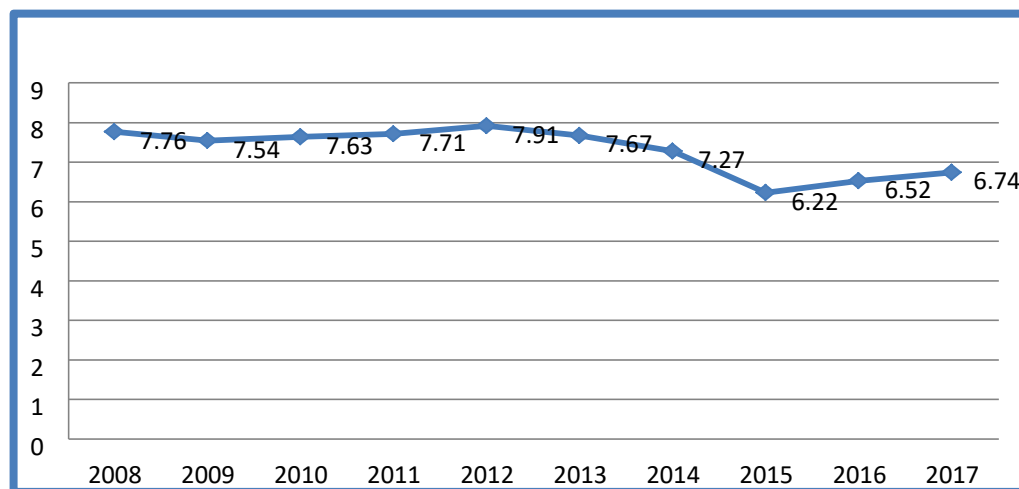
Source: Badan Pusat Statistik, 2018

In 2008 the percentage of poor people was 24.88% and increased by 25.01% in 2009 and continued to decline until in 2010 to 2011 which was around 23.19% to 18.75% and in 2012 it fell to 17.33 %. In 2013 the percentage of poor people rose to 17.51% then decreased in 2014 and again increased to reach 18.32% in 2015. Entering 2016 the poverty rate decreased to 17.72% and until 2017 the poverty rate became 17, 56%. The decrease in the number of poor people in Gorontalo Province is indicated by the reduction in the number of people below the poverty line. Referring to it, It can be said that Gorontalo Province in overcoming poverty has not been fully successful. This can be seen from the average level of Gorontalo poverty over the past 10 years which is above 15 percent.

One solution that can be done to reduce poverty is to encourage economic

growth in each region. High economic growth will have an impact on employment so that those who previously did not have an income are now able to meet the necessities of life and this means the poverty rate will decrease (Sukirno, 2004). On figure 2, the economy of Gorontalo Province in 2008 to 2010 was around 7.76% to 7.63%. In 2011 to 2012 the rate of growth of Gorontalo economy continued to increase, namely by 7.71% to 7.91%. Then in 2013 to 2016 the economy of Gorontalo Province slowed compared to the previous year's growth of 6.52 percent and in 2015 amounted to 6.22 percent. In 2017, it accelerated compared to previous years' growth. The rate of economic growth Gorontalo in 2017 reached 6.74 percent, all other economic categories of GDP in 2017 recorded positive growth.

Figure 2 Gorontalo Province Economic Growth Rate



Source: Badan Pusat Statistik, 2018

Although economic growth in Gorontalo Province is currently experiencing an increase and is superior in terms of production, but this does not make Gorontalo independent of the problem of poverty. Thus it provides an interesting picture where economic growth does not always have a good effect on poverty reduction in Gorontalo Province. For example in 2017 economic growth increased by 6.74 percent and in the same year the number of poor people also increased by 205 thousand people (Bps, 2018). The emergence of various problems in each region has an impact on the relationship between the local government and the central government, especially in the financial aspect. The emergence of problems in the financial aspect has made the government respond to these conditions

by implementing fiscal decentralization policies. Fiscal decentralization in the sense of the transfer of fiscal authority from the central government to regional governments.

The implementation of fiscal decentralization basically aims to make autonomous regions (districts / cities) more independent in financing public services and development. Or at least the proportion of Local Own Revenue (PAD) to the total revenue of each region is increasing every year, and conversely the proportion of transfers is decreasing (Arham, 2014., Estomihi dan Sriyono, 2015., Rustan, 2013). Fiscal decentralization not only recognizes the problem of poverty but can be a driver for the prospects for economic growth in the autonomous region. Economic growth can increase the number of jobs so that it

can reduce the number of poor people. Increased employment can absorb a lot of labor so that the poor population can be reduced (Sudewi, 2013., Akai & sakata, 2002., Lin & Liu, 2000).

The problem of poverty is important to study in relation to fiscal decentralization. If the increase in GRDP cannot overcome poverty then the government must review policies to create GRDP that touches directly on the community. The economy is not merely to increase the GRDP, but also has a tangible effect on the community, which is to get out of poverty and have a decent income to live well.

## METHODS

This study uses quantitative methods that aim to analyze the percentage of the number of poor people, the rate of economic growth and the degree of fiscal decentralization in Gorontalo Province. The data collection process was obtained from government institutions such as the Central Statistics Agency (BPS), relevant agencies and other sources that discussed poverty issues such as economic journals and books

Description of the degree of fiscal decentralization, economic growth, and poverty especially in Gorontalo Province:

on economic development. The number of samples in this study were 60 panel data namely 10 years / research time series (2008 to 2017) and 6 districts / cities / cross sections. The regression used in this study is multiple regression with the panel data construct. In the panel data itself, there are 3 testing models due to the possibility of slope and interception. The test is the Common Effect Model, Random Effect Model and Fixed Effect Model. The models developed in this study are as follows:

$$\text{Poverty}_{it} = \beta_0 + \beta_1 \text{FD}_{it} + \beta_2 \text{EG}_{it} + \varepsilon_{it}$$

Poverty = Gorontalo Province / Regency poverty rate (percent)

FD = ratio between PAD divided by total expenditure of Gorontalo district / city local government (percent)

EG = Provincial regency / city Gross Regional Domestic Product (million rupiah)

$\beta_0$  = Constant  $\beta_1$   $\beta_2$  = Regression Coefficient  $i$  = Regency / City  $t$  = Time

$\varepsilon$  = confounding variable (error term)

## RESULTS AND DISCUSSION

Table 1. Characteristics of Research Variables

Variable	Minimum	Maximum	Average	Std. Deviation
Poverty	5.23000	24.10000	17.90750	5.74852
Degree of Fiscal Decentralization	0.63866	25.05129	7.56950	5.72089
Economic Growth	6.08000	7.93000	7.19317	0.50066

Source: Data Processing Eviews 9, 2019

1. Poverty

The minimum value of 5.23%, namely in the City of Gorontalo in 2017. Maximum value of 24.10%, namely in the District of Pohuwato in 2015 which means that poverty in the area is very large. The average value of poverty from the regency / city which is the object of research is greater than the standard deviation or standard deviation so that the poverty data can be justified with the average value of poverty percentage.

2. Degree of Fiscal Decentralization

Regional Original Income to finance development. Minimum value of 0.63% owned by North Gorontalo Regency in 2013. Maximum value of 25.05% owned by Gorontalo City in 2017. The average value of the degree of fiscal decentralization of the Regency / City which is the object of research is greater than the standard deviation or standard

deviation so that the data of the degree of fiscal decentralization can be justified with an average value.

3. Economic Growth

The minimum value of 6.08% is by Pohuwato District in 2015. The Maximum value of 7.93% is by Gorontalo City in 2014. The average value of economic growth that is the object of research is greater than the standard deviation or standard deviation so that the data economic growth can be justified by an average value.

**The influence of the degree of fiscal decentralization on poverty in Gorontalo Province**

Based on the analysis, the tcount value for the fiscal decentralization variable is -3.067. The probability value (P-Value) degree of fiscal decentralization is smaller than the probability value of 0.05 (0.0034 <0.05). So it can be concluded that the degree of fiscal decentralization has a

negative and significant effect on poverty in Gorontalo Province. The regression coefficient, which is negative, indicates that the degree of fiscal decentralization has a unrelated relationship to poverty. In other words, when the variable degree of fiscal decentralization gets larger, there is a large allocation of local own-source revenue for development purposes so that it has an impact on reducing poverty levels in Gorontalo Province.

According to Kuncoro, (2004) that the problem that often occurs related to the implementation of regional autonomy and decentralization is how regions can overcome dependence on the central government in the right of fiscal dependence for the needs of all regional development activities. Nevertheless the Regency / City government in Gorontalo Province should strive to continue to increase its PAD by continuing to maximize public services, even more so by adopting a public service law that has implications such as privatization of the public sector.

### **The effect of economic growth on poverty in Gorontalo Province**

Based on the analysis in Table 4.11, the calculated value for the economic growth variable is -3.785. The probability value (PValue) of economic growth is

smaller than the probability value of 0.05 ( $0.0004 < 0.05$ ). So it can be concluded that economic growth has a negative and significant effect on poverty in Gorontalo Province. The regression coefficient, namely negative economic growth, shows that it has a unrelated relationship to poverty. In other words, when the economic growth variable gets bigger, there will be a decrease in poverty because the increase in economic growth is a sign of the high level of community income, which means it can reduce the level of community poverty.

Economic growth according to Kuznets in Irawan (2009) is a long-term increase in a country's ability to provide more and more types of economic goods to its population. This capability grows in accordance with technological progress, and the institutional and ideological adjustments that it needs. This definition has 3 (three) components: first, the economic growth of a nation can be seen from the continual increase in the supply of goods; secondly, advanced technology is a factor in economic growth that determines the degree of growth in the ability to supply various kinds of goods to the population; third, the widespread and efficient use of technology requires adjustments in the field of institutions and ideology so that the innovations produced by human science

can be utilized appropriately. The results of this analysis are in accordance with the Stakeholder Theory as revealed by Novalistia (2016) that the Government as the holder of power in the wheels of government must emphasize aspects of the interests of the people as stakeholders. The government must be able to manage regional wealth, regional income and regional assets for the welfare of the people in accordance with the mandate of the 1945 Constitution article 33 which states that all natural resources controlled by the government must be used and utilized for the welfare of the people. Article 33 indicates reciprocity between the government and the people to create a balance in government. In this case, the government has the obligation to improve the economy of a region in the hope of reducing the poverty level of the region.

#### **The influence of the degree of fiscal decentralization and economic growth on poverty in Gorontalo Province**

Simultaneously the test results found that the degree of fiscal decentralization and economic growth together had a significant effect on poverty in Gorontalo Province with a determinant value of 97.38%. As for the ability of other variables in explaining poverty by 2.62%, such as transfer funds from the center for

the benefit of education, health, social and economic, capital expenditure, central government programs related to poverty such as the Family Hope Program (PKH) and the management of productive zakat by Gorontalo Province Baznas.

The problem of poverty certainly has a solution, one of the solutions is by increasing regional original income or in this case it can be analogous to increasing the level of regional financial independence. With regional independence, more social assistance spending will be able to be provided by the government to the community. According to Winarna and Murni (2007), the regional independence ratio has a positive effect on the level of social assistance spending on LKPD. So it can be said that if the PAD gets bigger then the transfer rate will decrease but the amount of regional income or APBD will go along with the increase, in other words the greater regional autonomy, the allocation for social assistance expenditure will increase.

Relation to poverty as expressed by Valaris (2012) that the fiscal decentralization effect on poverty evidence of American states. So it can be said that fiscal decentralization or demonstrated by regional independence will be able to reduce or reduce the increase in poverty.

The higher the ratio of independence, the higher the community participation in paying local taxes and user fees which are the main components of local revenue. The higher local taxes and fees paid by the community illustrate the higher level of welfare (poverty has decreased). Then economic growth becomes very important where it is in accordance with the statement of Soekirno (2004) that economic growth can also be said to be an important factor that supports the success of a country's economy in the long run. To increase economic development in an area of economic growth is also a key condition in its implementation.

## **CONCLUSION**

1. The degree of fiscal decentralization has a negative and significant effect on poverty in Gorontalo Province. The regression coefficient, which is negative, shows that the degree of fiscal decentralization has a unrelated relationship to poverty. In other words, when the variable degree of fiscal decentralization gets larger, there is a large allocation of local own-source revenue for development purposes so that it has an impact on reducing poverty levels in Gorontalo Province.
2. Economic growth has a negative and significant effect on poverty in Gorontalo Province. The regression coefficient, which is negative, indicates that economic growth has a unrelated relationship to poverty. In other words that when the variable of economic growth gets bigger there will be a decrease in poverty because an increase in economic growth is a sign of high levels of community income which means it can reduce the level of community poverty.
3. Secara serempak derajat desentralisasi fiskal dan pertumbuhan ekonomi berpengaruh signifikan terhadap kemiskinan di Provinsi Gorontalo dengan nilai determinan yang relatif kecil. Hal ini karena masih banyaknya variabel lain yang dapat menjadi faktor yang menurunkan kemiskinan seperti dana transfer dari pusat untuk kepentingan pendidikan, kesehatan, sosial dan ekonomi, belanja modal, program pemerintah pusat yang berkaitan dengan kemiskinan seperti Program Keluarga Harapan (PKH) serta pengelolaan zakat produktif oleh Baznas Provinsi Gorontalo.



## SUGGESTION

1. As an effort to increase the value of the degree of fiscal decentralization of the Regency / City in Gorontalo Province, the government should make efforts to intensify and extend especially on local taxes and regional levies. Then make a policy of sanctions to people who are not compliant with taxes and officials / tax collection officers who do not deposit taxes and retribution correctly. The freedom given by the central government and this freedom is a very good opportunity and must be utilized as well as possible for the benefit of the people's welfare.
2. Quality economic growth, namely economic growth in favor of the community. For this reason, as an effort to increase economic growth, it is necessary to increase the independence of the community with the assistance of venture capital, accompanied by assistance, also through the development of industrial and agricultural sectors which have a strong influence in reducing poverty in Gorontalo Province.

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