

Original Article

The Impact of Fiscal Decentralization of Expenditure on Economic Performance Southeast Sulawesi

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Abstract - *The main objective of this study is: to investigate the effect of fiscal decentralization on expenditure on economic performance in Southeast Sulawesi. Another aim is to find out whether the new autonomous region has efficiently allocated its regional expenditure and its impact on economic performance. This type of data uses secondary data in the form of Regional Budget and Revenue and Gross Regional Domestic Product data for 2014-2018, sourced from the Ministry of Finance of the Republic of Indonesia and the Central Statistics Agency. The analysis unit uses districts and cities in Southeast Sulawesi, which 17 districts and cities. Data analysis uses the Least Square Structural-Partial Equation Model approach with the help of Smart-PLS 2.0 software.*

The results show that fiscal decentralization of expenditure has a positive and significant impact on economic performance in Southeast Sulawesi. In relation to the allocation of government spending on public services, it has been done efficiently but not yet optimally. The impact of regional autonomy on economic performance is positive for new autonomous regions and old regions.

Keywords - *Decentralization expenditure, Economic Performance, SEM-PLS.*

I. INTRODUCTION

In Indonesia, including Southeast Sulawesi, the implementation of fiscal decentralization began in 2001, which was marked by the issuance of Law Number 22 the Year 1999 (which has experienced a refinement twice, most recently Law Number 5 of 2014) and Law Number 25 of 1999 (turned into Law Number 33 of 2004).

The true implementation of fiscal decentralization will increase the ability of regional governments to develop their regional potential. On the other hand, it should also give birth to a new paradigm in the management of regional finances and regional

and [3]]. In addition, [4] adds that the provision of more efficient and cheaper public goods can be made by local governments.

In correlation with the provision of public goods or public investments that are in accordance with the needs and desires of the community, then how the local government allocates public goods in accordance with the needs and desires becomes very important.

The theoretical study of fiscal decentralization is believed by experts that the impact of fiscal decentralization can improve the efficiency of allocation of various local resources, especially public goods and transparency of local government accountability and reduce corruption.

The formation of a new autonomous region, government regulation Number: 78 of 2007, concerning procedures for the formation, abolition, and merger of regions. The government regulation states that the aim of the regional expansion is to improve the welfare of the community through (1) improving services to the community, (2) accelerating the growth of democratic life, (3) accelerating the implementation of regional economic development, (4) increasing security and order, and (5) increasing harmonious relations between the centre and the regions. Rachim (2013) states that there are two reasons behind the widespread phenomenon of regional expansion in Indonesia, including (1) improving the quality of public services, the service approach through the new local government is assumed to be more effective and efficient compared to the regions according to local needs. (2) Accelerating economic growth, regional expansion is assumed to be able to accelerate regional economic growth through the utilization of local potential.

Fiscal decentralization is believed by experts to have a positive influence on economic growth. But it must be recognized that the theoretical basis that explains



these two things is currently being developed, and there is a lot of debate among experts. In fact, whether fiscal decentralization has a direct impact on economic growth or through the efficiency of allocations, to date, is also a topic of debate in various theoretical and empirical literature [1]. [5], states that fiscal decentralization is able to deliver local governments responsive to the desires and needs of their communities so that it will increase willingness to pay for public goods provided by local governments, which in turn creates economic efficiency.

The issue of fiscal decentralization as a way to encourage economic growth has attracted the attention of many experts, including [6],[7],[8],[9], which state that the surrender of some authority to local governments is expected to further improve community services and in turn will encourage regional economic growth and public welfare.

(Oates, 1999) and [10] argued that fiscal decentralization could encourage economic efficiency and dynamically encourage economic growth in a region because regions know the characteristics of their respective regions. This argument can become a reality if the regions know what their needs are. So, according to this view, local governments are believed to be able to allocate funds in each economic sector efficiently compared to the central government. But economic growth will not occur if fiscal decentralization does not work effectively [11].

In line with [4], the findings of [6], [7], [12], [13] and [14] argue that the decentralization of revenue and expenditure is a way to increase efficiency in the public sector, reduce the budget deficit and encourage economic growth. This argument is based on the assumption that local governments will be more appropriate in meeting regional needs than the central government.

[15], and [16], who believe that fiscal decentralization has a positive impact on future regional economic development. Fiscal decentralization can affect regional economic growth both directly and indirectly. Intuitively it is stated that fiscal decentralization can encourage economic efficiency, especially in the public sector, which in turn can have a dynamic effect on regional economic growth. It was explicitly stated that public expenditure, especially infrastructure spending for the community, would be more effectively carried out by the regional

government (sub-national government) than the central government.

The results of theoretical and empirical reviews, the formation of new autonomous regions should be able to improve the quality of public services and economic growth in Southeast Sulawesi. As it is known since the implementation of regional autonomy, division in Southeast Sulawesi has occurred twice, namely before and after 2012. Before 2012, six new districts were formed, and after 2012 there were five new districts. The next question is whether the formation of a new autonomous region can improve the quality of public services and whether it has an impact on economic growth. These questions will be answered in this study.

This study aims to investigate the impact of spending decentralization on economic growth using the Partial Least Square (PLS) structural equation modelling approach. The reason for using the structural equation model is: researchers want to know in detail whether new autonomous regions (districts) can improve public services and economic growth. Furthermore, whether the parent district or the new district is the strongest reflects the decentralization of expenditure which most strongly influences economic performance.

Based on the research objectives, the hypothesis that will be proven consists of two: measurement model hypothesis and structural model hypothesis. The hypothesis of the model to be tested is: investigating the efficiency of the allocation of new autonomous regional expenditures can improve economic performance. And the structural hypothesis is: to investigate the effect of decentralization of expenditure and a significant positive effect on economic performance. The following formulated hypotheses used for the study:

H₀₁: Allocation of spending in the new autonomous region is inefficient, so it does not have an impact on economic performance.

H₀₂: Fiscal decentralization of expenditure does not affect economic performance.

II. CONCEPTUAL FRAMEWORK

A. Fiscal Decentralization of Expenditures (DFI)

The variable fiscal decentralization of expenditure is defined as fiscal decentralization of district and city government expenditure in Southeast Sulawesi. This variable is calculated using the formula:

$$DFI = (\text{District / City Expenditure}) / (\text{Expenditure (Central Province)}) \times 100\%$$

Operationalization of this variable is formed based on the district/city division category, namely the fiscal decentralization variable of district/city expenditure that bloomed before 2013 and blooming after 2012. Thus this latent variable is operated in four variables,

namely the City Parent Decentralization variable (IKO_DF1), Regency Parent (IKA_DF1), Mekar Regency before 2012 (Mekar 1_DF1) and Mekar Regency after 2012 (Mekar 2_DF1). These four variables are defined as follows:

- i. The latent variable of Fiscal Decentralization of Municipal Master Expenditures (IKO_DF1) is the Fiscal Decentralization of Expenditures of Kendari City and Bau-Bau City.
- ii. Latent variable Fiscal Decentralization of District Parent Expenditure (IKA_DF1) is Fiscal Decentralization of Expenditures of Buton, Kolaka, Konawe and Muna Regencies.
- iii. Latent Variables Fiscal Decentralization of Mekar Regency Expenditures before 2012 (Mekar 1_DF1) is Fiscal Decentralization of Expenditures for Konawe Selatan, Bombana, Wakatobi, North Kolaka, North Konawe, and North Buton Regencies.
- iv. Latent variable Fiscal Decentralization of Mekar Regency Expenditures after 2012 (Mekar 2_DF1) is the Fiscal Decentralization of Expenditures of Konawe Islands, West Muna, East Kolaka, Central Buton, and South Buton.

B. Economic Performance (KE)

Economic Performance is defined as the added value of goods and services divided by the total population of Regencies and Cities in Southeast Sulawesi. This variable is calculated using the formula:

$$\text{KE Regency / City} = (\text{Regency / City GRDP}) / ((\text{Provincial GDP GRDP})) \times 100\%$$

Operationalization of this variable is formed based on the category of district/city expansion, namely variable fiscal decentralization of district/city income that blooms before 2013 and blooms after 2012. Thus this latent variable is operationalized in four variables, namely the City Parent Economic Performance (IKO_KE), Regency Main Economic Performance (IKA_KE), Mekar Regency Economic Performance before 2012 (Mekar 1_KE) and Mekar Regency after 2012 (Mekar 2_KE). These four variables are defined as follows:

- i. The latent variable of City Main Economic Performance (IKO_KE) is the Economic Performance of Kendari City and Bau-Bau City.
- ii. Latent Variables of District Main Economic Performance (IKA_KE) are the Economic Performance of Buton, Kolaka, Konawe and Muna Regency
- iii. The latent variables of the Mekar Regency's economic performance before 2012 (Mekar 1_KE) were the Economic Performance of Konawe Selatan, Bombana, Wakatobi, North Kolaka, North Konawe, and North Buton Regencies.
- iv. The latent variable of Economic Performance of Mekar Regency after 2012 (Mekar 2_KE) is the Economic Performance of Konawe Kepulauan Regency, West Muna, East Kolaka, Central Buton, and South Buton.

III. LITERATURE REVIEW

A. Traditional Theory

The traditional theory view of fiscal decentralization emphasizes the benefits of the allocation of fiscal decentralization to obtain information convenience from the public. There are two ideas that underlie the benefits of allocation, namely: (1) the use of knowledge in a society where the decentralized decision-making process will be facilitated by the efficient use of information [2]. In the context of Indonesia, allocation benefits should be felt by the community marked by the allocation of various public funds in accordance with the wants and needs of the community. (2) the use of a laboratory of freedom where decentralization allows local governments to see and learn from the success of other regions so that they can mimic the successes and failures of other regions. This form of experimentation will reduce the failure costs of a centralized government system. The first generation theory of fiscal federalism was motivated by [2]Hayek (1945), [17], [3], [16], [18] and [19].

B. Second Generation Theory

The second-generation theory view explains that decentralization will influence the behaviour of local governments. The behaviour of regional governments should be different when the central government devolves various authorities to local governments. In short, the regional government is increasingly trying to improve the welfare of its people. An important implication of this theory is that decentralization will drive regional economic growth and prosperity. Basically, the second-generation theory explains how decentralization will influence the behaviour of local governments with the main focus on two mechanisms of alignment between the interests of local governments with economic performance, horizontal interactions between local governments and vertical interactions between levels of government. First: competition between local governments is an important incentive tool for the provision of public services. Competition among regional governments will encourage economic growth in the regions. Second: the relationship between regional revenue and expenditure as an incentive tool for local governments to increase economic prosperity in the region. The second-generation theory about fiscal federalism has been motivated by [2] and [17], [20].

C. RESEARCH METHODOLOGY

D. Data

This study uses panel data which is a combination of time series data and cross-section. The observation Because the author uses all districts and cities in Southeast Sulawesi as a unit of analysis and the availability of data due to the availability of districts up to 2013 in Southeast Sulawesi, the data units used are regencies/cities in Southeast Sulawesi province, which consist of 17 regencies and cities consisting of 15 regencies (Buton, Kolaka, Muna, Konawe, Konawe Selatan, Wakatobi, North Kolaka, North Konawe, North Buton, Konawe Kepulauan, Kolaka east, West Muna, Central Buton and South Buton) and 2 cities (Kendari and Bau-Bau).

Formation of regencies based on the results of the division can be grouped according to the year of expansion, namely regencies formed from the results of the division prior to 2012, namely: Konawe Selatan, Wakatobi, North Kolaka, North Konawe and North Buton districts. At the same time, the Regency was formed from the results of the division after 2012, namely Konawe Kepulauan Regency, West Muna, East Kolaka, Central Buton and South Buton. Furthermore, the Regencies and Cities which underwent an expansion in this study are called the Regency/City of the Parent and are distinguished by

period is five years, namely 2014-2018. The reason for using the observation interval is only five years,

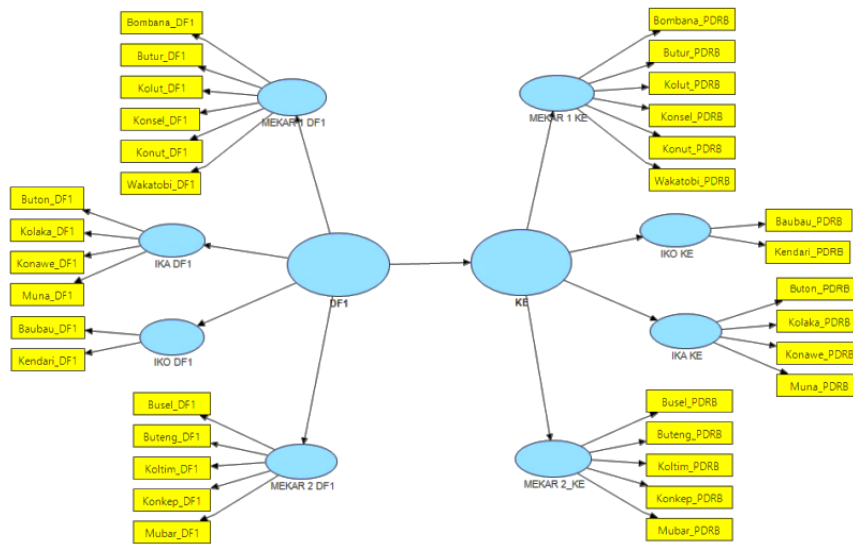
their status, namely the parent city and the main district.

The grouping of regencies and cities is carried out with the aim of obtaining a picture of the independence of regencies and cities after the enactment of regional autonomy and its impact on economic performance. In addition, the authors also want to find out whether there is a difference in the effect of fiscal decentralization between the City, the Main Regency and the Regency of Pemekaran on economic performance in the period of observation of this study. Based on this, the latent variables of fiscal decentralization and economic performance are operationalized in the second order.

E. Spesifikasi model

The analysis technique in testing the hypotheses in this study uses PLS. PLS is a powerful analytical method because it does not assume the data must be measured on a certain scale (nominal, ordinal, interval, and ratio), and the sample size does not have to be large.

Fig. 1 Model Specifications Based on Theory



Based on Figure 1, the structural equation is the measurement model:

i. Measurement Model DecentralizationFiscal Expenditure (DF1)

- Induk Kota (IKO_DF1= λ_{11} DF1 + e₁₁)
 BauBau_DF1 = λ_{111} IKO_DF1 + e₁₁₁
 Kendari_DF1 = λ_{112} IKO_DF1 + e₁₁₂
- Induk Kabupaten (IKA_DF1 = λ_{12} DF1 + e₁₂)

- Buton_DF1 = λ_{121} IKA_DF1 + e₁₂₁
- Kolaka_DF1 = λ_{124} IKA_DF1 + e₁₂₄
- Konawe_DF1 = λ_{122} IKA_DF1 + e₁₂₂
- Muna_DF1 = λ_{123} IKA_DF1 + e₁₂₃
- Mekar Kabupaten sebelum tahun 2012 (Mekar1_DF1= λ_{14} DF1 + e₁₃)
 Bombana_DF1 = λ_{136} Mekar 1_DF1 + e₁₃₆
 Butur_DF1 = λ_{133} Mekar 1_DF1 + e₁₃₃
 Kolut_DF1 = λ_{135} Mekar 1_DF1 + e₁₃₅

$$\begin{aligned} \text{Konsel_DF1} &= \lambda_{132} \text{ Mekar 1_DF1} + e_{132} \\ \text{Konut_DF1} &= \lambda_{134} \text{ Mekar 1_DF1} + e_{134} \\ \text{Wakatobi_DF1} &= \lambda_{131} \text{ Mekar 1_DF1} + e_{131} \end{aligned}$$

- Mekar Kabupaten setelah tahun 2012 (Mekar2_DF1= λ_{14} DF1 + e_{14})

$$\begin{aligned} \text{Busel_DF1} &= \lambda_{145} \text{ Mekar 1_DF1} + e_{145} \\ \text{Buteng_DF1} &= \lambda_{144} \text{ Mekar 2_DF1} + e_{144} \\ \text{Koltim_DF1} &= \lambda_{142} \text{ Mekar 2_DF1} + e_{142} \\ \text{Konkep_DF1} &= \lambda_{141} \text{ Mekar 2_DF1} + e_{141} \\ \text{Mubar_DF1} &= \lambda_{143} \text{ Mekar 2_DF1} + e_{143} \end{aligned}$$

ii. Model pengukuran kinerja ekonomi (KE)

- Induk Kota (IKO_KE= λ_{41} KE + e_{41})
 $\text{BauBau_PDRB} = \lambda_{411} \text{ IKO_KE} + e_{411}$
 $\text{Kendari_PDRB} = \lambda_{412} \text{ IKO_KE} + e_{412}$
- Induk Kabupaten (IKA_KE = λ_{42} KE + e_{42})
 $\text{Buton_PDRB} = \lambda_{421} \text{ IKA_KE} + e_{421}$
 $\text{Kolaka_PDRB} = \lambda_{422} \text{ IKA_KE} + e_{422}$
 $\text{Konawe_PDRB} = \lambda_{423} \text{ IKA_KE} + e_{423}$
 $\text{Muna_PDRB} = \lambda_{424} \text{ IKA_KE} + e_{424}$
- Mekar Kabupaten sebelum tahun 2012 (Mekar1_KE= λ_{43} KE + e_{43})
 $\text{Bombana_PDRB} = \lambda_{431} \text{ Mekar 1_KE} + e_{431}$
 $\text{Butur_PDRB} = \lambda_{432} \text{ Mekar 1_KE} + e_{432}$

$$\begin{aligned} \text{Kolut_PDRB} &= \lambda_{433} \text{ Mekar 1_KE} + e_{433} \\ \text{Konsel_PDRB} &= \lambda_{434} \text{ Mekar 1_KE} + e_{434} \\ \text{Konut_PDRB} &= \lambda_{435} \text{ Mekar 1_KE} + e_{435} \\ \text{Wakatobi_PDRB} &= \lambda_{436} \text{ Mekar 1_KE} + e_{436} \end{aligned}$$

- Mekar Kabupaten setelah tahun 2012 (Mekar 2_KE= λ_{44} KE + e_{44})

$$\begin{aligned} \text{Busel_PDRB} &= \lambda_{441} \text{ Mekar 1_KE} + e_{441} \\ \text{Buteng_PDRB} &= \lambda_{442} \text{ Mekar 2_KE} + e_{442} \\ \text{Koltim_PDRB} &= \lambda_{443} \text{ Mekar 2_KE} + e_{443} \\ \text{Konkep_PDRB} &= \lambda_{444} \text{ Mekar 2_KE} + e_{444} \\ \text{Mubar_PDRB} &= \lambda_{445} \text{ Mekar 2_KE} + e_{445} \end{aligned}$$

F. Goodness of Fit Model

Evaluation of the goodness of fit model against the Outer Model is measured using convergent validity, discriminant validity, and t-statistics. Evaluation of the model's goodness of fit against the Inner Model is measured using Q-Square predictive relevance. The predictive relevance Q-Square formula is:

$$Q^2 = 1 - (1 - R_{12})(1 - R_{22}) \dots (1 - R_{p2})$$

This shows that: R_{12} , R_{22} , and R_{p2} are Rsquare endogenous variables in the model. The interpretation of Q^2 is the same as the coefficient of total determination in the path analysis (similar to R^2 in the regression).

Table 2. Good of Fit Models Criteria

Parameters	Outer Models	Inner Models (Model Structural)	Note
AVE		≥ 0.5	Reliabel
ρ_c = Composite Reliability		0.6 – 0.79	Reliabel
R^2		≥ 0.7	Strong
Reliability α Cronbach		≥ 0.5	Good
Lambda – λ (loading factor)	0.5 – 0.69		Valid
t – statistics (Bootstrapping)		$t > 1.96$	Significant

Source: [21]

G. Statistical Testing of Hypotheses

The significance of the path coefficient in the PLS model is related to hypothesis testing. To increase the significance of the path coefficient, a resampling mechanism is adopted. The application of the resampling method allows distribution data to be free (distribution-free) so that the statistical test t or the t-test does not require the assumption of a normal distribution and does not require a large sample size. The significance test aims to determine the effect of independent variables on the dependent variable. In this study, the dependent variable (KE) is predicted by the independent variable (DF1) with the equation:

$$\text{KE} = \beta \text{ DF1} + \varepsilon$$

Note:

KE = Economic Performance

DF1 = Fiscal Decentralization Expenditure

β = Path Coefficient

ε = error

Based on the structural equation that has been stated, the formulation of a statistical hypothesis is: Statistical hypothesis for the inner model: latent variables exogenous to endogenous:

$$H_0 : \beta_i = 0$$

$$H_1 : \beta_i \neq 0$$

Statistical hypothesis for the outer model:

$$H_0 : \lambda_i = 0$$

$$H_1 : \lambda_i \neq 0$$

Test statistics: t-test; t-statistics ≥ 1.96 (Z-scores at alpha 5%); significant. A significant inner model means that there is a significant influence. Significant Outer model means the indicator is valid.

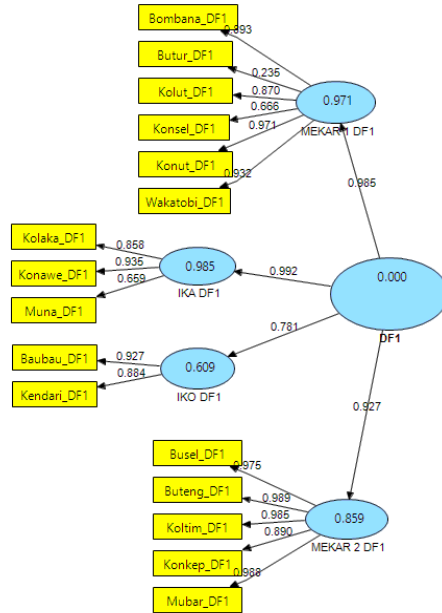
IV. RESULT AND DISCUSSION

A. Good of Fit Measurement Models

i. Measurement Model Fiscal Decentralization Expenditures (DF1)

The results of processing the decentralization expenditure measurement model with Smart-PLS 2.0 are shown in Figure 2.

Fig. 2 Decentralized Fiscal Expenditures Models



Based on Figure 2, the structural equation model of measurement of latent variables of fiscal decentralization expenditure is:

- Latent Variables in Decentralization Fiscal Expenditure of the Old Cities (IKO_DF1)

Baubau_DF1 = 0.927 IKO DF1
 Kendari_DF1 = 0.884 IKO DF1

- Latent Variables in Decentralization Fiscal Expenditure of the Districts (IKA_DF1)

Buton_DF1 = -0.627 IKA DF1
 Kolaka_DF1 = 0.914 IKA DF1
 Konawe_DF1 = 0.945 IKA DF1
 Muna_DF1 = 0.614 IKA DF1

- Latent Variables in Decentralization Fiscal Expenditure of the New Districts before 2012 (MEKAR1_DF1)

Bombana_DF1 = 0.893 MEKAR 1 DF1

Butur_DF1 = 0.235 MEKAR 1 DF1
 Kolut_DF1 = 0.891 MEKAR 1 DF1
 Konsel_DF1 = 0.666 MEKAR 1 DF1
 Konut_DF1 = 0.971 MEKAR 1 DF1
 Wakatobi_DF1 = 0.932 MEKAR 1 DF1

- Latent Variables in Decentralization Fiscal Expenditure of the new District after 2012 (MEKAR2_DF1)

Busel_DF1 = 0.975 MEKAR 2 DF1
 Buteng_DF1 = 0.989 MEKAR 2 DF1
 Koltim_DF1 = 0.985 MEKAR 2 DF1
 Konkep_DF1 = 0.890 MEKAR 2 DF1
 Mubar_DF1 = 0.983 MEKAR 2 DF1

Furthermore, based on structural equations, the results of the convergent validity test and the significance of the latent variable fiscal decentralization indicator expenditures are shown in Table I.

Table 2. Validity and Significance of Indicators DF1

	LoadingFactor	Note
Baubau_DF1 <- IKO DF1	0.927	Valid
Bombana_DF1 <- MEKAR 1 DF1	0.893	Valid
Busel_DF1 <- MEKAR 2 DF1	0.975	Valid
Buteng_DF1 <- MEKAR 2 DF1	0.989	Valid
Buton_DF1 <- IKA DF1	-0.620	NoValid
Butur_DF1 <- MEKAR 1 DF1	0.235	NoValid

Kendari_DF1 <- IKO DF1	0.884	Valid
Koltim_DF1 <- MEKAR 2 DF1	0.985	Valid
Kolut_DF1 <- MEKAR 1 DF1	0.870	Valid
Konawe_DF1 <- IKA DF1	0.945	Valid
Konkep_DF1 <- MEKAR 2 DF1	0.890	Valid
Konsel_DF1 <- MEKAR 1 DF1	0.666	Valid
Konut_DF1 <- MEKAR 1 DF1	0.971	Valid
Mubar_DF1 <- MEKAR 2 DF1	0.989	Valid
Muna_DF1 <- IKA DF1	0.514	Valid
Wakatobi_DF1 <- MEKAR 1 DF1	0.932	Valid

Source: Author Computation, 2019 (Smart-PLS 2.0)

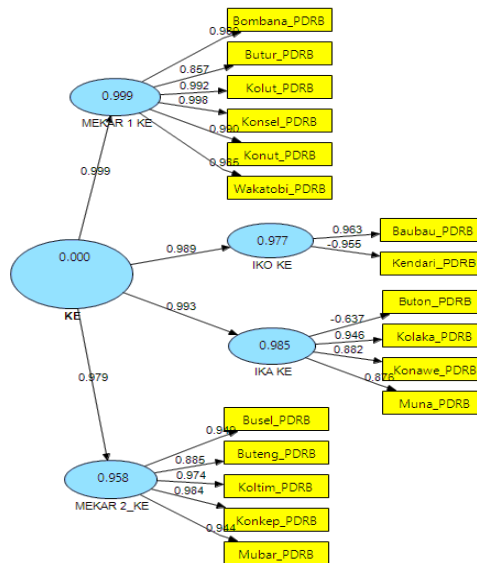
Based on the structural equation of the measurement model and the results of the validity test show that there are two indicators that must be removed in the measurement model of fiscal decentralization of expenditure, namely: the North Buton_DF1 and Buton_DF1 indicators because the loading factor is smaller than 0.5. Thus it can be concluded that the ratio of fiscal decentralization of expenditure (DF1) from Bau-Bau City, Kendari and Kolaka Regency, Konawe, Muna, Bombana, North Buton, North Kolaka, North Konawe, South Buton, Central Buton, East Kolaka, Konawe Islands, and Muna Barat is able to reflect the latent variable of fiscal decentralization of development spending which it measures significantly and validly. This means that changes in

the value of the latent variable decentralization of City Parent expenditure (IKO DF1), District Parent (IKA DF1), Mekar Regency before 2012 (Mekar1 DF1) and Mekar Regency after 2012 (Mekar2 DF1) are valid and significant can be reflected by the DF1 ratio Bau-Bau City, Kendari and Kolaka, Konawe, Muna, Bombana, North Buton, North Kolaka, North Konawe, South Buton, Central Buton, East Kolaka, Konawe Islands, and West Muna.

ii. Economic Performance Measurement Model (KE)

The results of processing the economic performance measurement model with Smart-PLS 2.0 are shown in Figure 3.

Fig. 3 Economic Performance Models



Based on Figure 3, the structural equation of the latent variable measurement model of economic performance is:

- Latent Variables in Economic Performance of the Old Cities (IKO_KE)
 - Baubau_PDRB = 0.963 IKO KE
 - Kendari_PDRB = -0.955 IKO KE
- Latent Variables in Economic Performance of the old District (IKA_KE)
 - Buton_PDRB = -0.637 IKA KE

- Latent Variables in Economic Performance of the New District before 2012 (Mekar1_KE)
 - Bombana_PDRB = 0.980 MEKAR 1 KE
 - Butur_PDRB = 0.857 MEKAR 1 KE
- Latent Variables in Economic Performance of the New District after 2012 (Mekar2_KE)
 - Kolaka_PDRB = 0.946 IKA KE
 - Konawe_PDRB = 0.882 IKA KE
 - Muna_PDRB = 0.876 IKA KE

- Kolut_PDRB = 0.992 MEKAR 1 KE
- Konsel_PDRB = 0.998 MEKAR 1 KE
- Konut_PDRB = 0.990 MEKAR 1 KE
- Wakatobi_PDRB = 0.985 MEKAR 1 KE
- Busel_PDRB = 0.949 MEKAR 2 KE
- Buteng_PDRB = 0.885 MEKAR 2 KE
- Koltim_PDRB = 0.974 MEKAR 2 KE
- Konkep_PDRB = 0.980 MEKAR 2 KE
- Mubar_PDRB = 0.985 MEKAR 2 KE

• Latent Variables in Economic Performance of the New District after 2012 (Mekar2_KE)

Based on structural equations: validity and significance tests are performed. The results of the

validity and significance indicators of latent performance indicators are shown in Table II.

Table 3. Validity and Significance Indicators of Economic Performance

	Loading Factor	Note
Baubau_PDRB <- IKO KE	0.963	Valid
Bombana_PDRB <- MEKAR 1 KE	0.980	Valid
Kendari_PDRB <- IKO KE	-0.955	NoValid
Busel_PDRB <- MEKAR 2_KE	0.949	Valid
Buteng_PDRB <- MEKAR 2_KE	0.885	Valid
Buton_PDRB <- IKA KE	-0.637	NoValid
Butur_PDRB <- MEKAR 1 KE	0.857	Valid
Kolaka_DF1 <- IKA DF1	0.914	Valid
Kolaka_PDRB <- IKA KE	0.946	Valid
Koltim_PDRB <- MEKAR 2_KE	0.974	Valid
Kolut_PDRB <- MEKAR 1 KE	0.992	Valid
Konkep_PDRB <- MEKAR 2_KE	0.985	Valid
Konsel_PDRB <- MEKAR 1 KE	0.998	Valid
Konut_PDRB <- MEKAR 1 KE	0.990	Valid
Mubar_PDRB <- MEKAR 2_KE	0.944	Valid
Muna_PDRB <- IKA KE	0.877	Valid
Wakatobi_PDRB <- MEKAR 1 KE	0.985	Valid

Source: Author Computation, 2019 (Smart-PLS 2.0)

Based on the structural equation of the measurement model and the results of the validity test show that there are two indicators that must be eliminated in the measurement model of fiscal decentralization of expenditure, namely: the Kendari_PDRB and Buton_PDRB indicators because the loading factor is smaller than 0.5.

B. Final Result of SEM-PLS

Based on the results of the validity test of the latent variable fiscal decentralization of expenditure and economic performance, it is known that there are two indicators of each of the latent variables omitted. Then the data is processed again, and the results are seen in Figure 4.

Fig. 4 Final Result of SEM-PLS

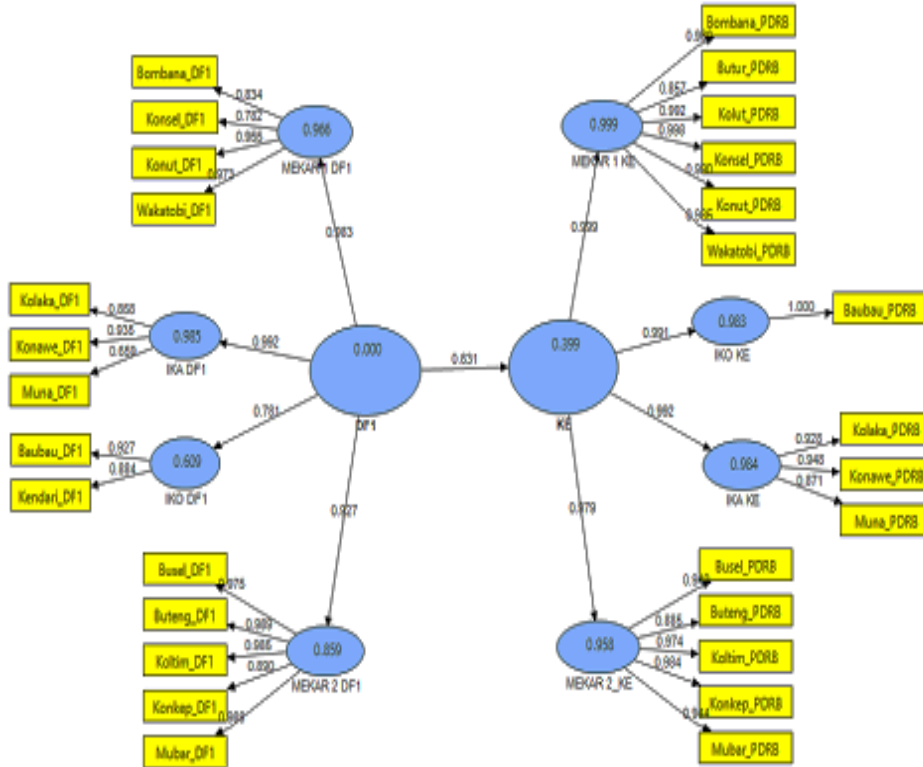


Figure 4 shows that all loading factor values are greater than 0.5 so that all indicators

Table 4. Reliability DF1 and KE

	AVE	Composite Reliability	R Square	Cronbachs Alpha
IKA DF1	0.682	0.863	0.985	0.757
IKO DF1	0.821	0.902	0.609	0.784
MEKAR 1 DF1	0.644	0.907	0.971	0.860
MEKAR 2 DF1	0.934	0.986	0.859	0.982
IKA KE	0.839	0.940	0.984	0.904
IKO KE	1.000	1.000	0.983	1.000
MEKAR 1 KE	0.938	0.989	0.999	0.986
MEKAR 2 KE	0.899	0.978	0.958	0.972

Source: Author Computation, 2019 (Smart-PLS 2.0)

Table 5. Model Outer

Measurement Model	Path Coefficient	Mean	Standard Error	T-Statistics	Note
Fiscal Decentralization Expenditure (DF1)					
DF1 -> IKA DF1	0.992	0.992	0.001	729.824	Significant
DF1 -> IKO DF1	0.781	0.781	0.026	30.268	Significant
DF1 -> MEKAR 1 DF1	0.983	0.983	0.002	454.541	Significant
DF1 -> MEKAR 2 DF1	0.927	0.926	0.013	71.922	Significant
Economic Performance (KE)					
KE -> IKA KE	0.992	0.992	0.001	704.852	Significant
KE -> IKO KE	0.991	0.991	0.001	753.922	Significant
KE -> MEKAR 1 KE	0.999	0.999	0.000	11070.030	Significant
KE -> MEKAR 2 KE	0.979	0.979	0.002	431.802	Significant

Source: Author Computation, 2019 (Smart-PLS 2.0)

Table 6. Model Inner

Model Structural	Path Coefficient	Mean	Standard Error	T-Statistics	Note
DF1 -> KE	0.631	0.629	0.058	10.957	Significant

Source: Author Computation, 2019 (Smart-PLS 2.0)

Table 7. Total Effect

Path	Total Effect	T-Statistics
DF1 -> IKA KE	0.627	11.178
DF1 -> IKO KE	0.624	11.243
DF1 -> MEKAR 1 KE	0.631	11.186
DF1 -> MEKAR 2_KE	0.618	11.204
DF1 -> KE	0.631	11.188
KE -> IKA KE	0.993	1513.752
KE -> IKO KE	0.989	773.105
KE -> MEKAR 1 KE	0.999	11114.363
KE -> MEKAR 2_KE	0.979	423.582
DF1 -> IKA DF1	0.983	819.894
DF1 -> IKO DF1	0.781	28.631
DF1 -> MEKAR 1 DF1	0.985	394.949
DF1 -> MEKAR 2 DF1	0.927	72.089

Source: Author Computation, 2019 (Smart-PLS 2.0)

C. Statistical Test of Hypothesis

Hypothesis one

H₀₁: Allocation of spending in the new autonomous region is inefficient, so it does not have an impact on economic performance.

From Table V, the results of the t-statistical calculation of the effect on economic performance are 394.949 and 72.089. This value is greater than the Z-scores at alpha 5% (1.96) and therefore rejects the null hypothesis. It can be concluded that the Allocation of spending in the new autonomous region is efficient, so it does have an impact on economic performance in Southeast Sulawesi.

Hypothesis two

H₀₂: Fiscal decentralization of expenditure does not affect economic performance.

From Table VI, the t-statistic results of the influence of fiscal decentralization expenditure on the economic performance is 10.957. This value is greater than the Z-scores at alpha 5% (1.96) and therefore rejects the null hypothesis. It can be concluded that the influence of the fiscal decentralization expenditure has a significant influence on economic performance in Southeast Sulawesi.

V. DISCUSSION AND FINDING

Based on the calculation results obtained, t-statistics of 10.957 and critical values of 1.96. Because the value of t-statistics 10.957 is greater than the critical value of 1.96, thus the first hypothesis is proven, namely Decentralization of Fiscal Expenditures has a significant effect on Economic Performance in Sulawesi in 2014-2018. The direction of the influence of fiscal decentralization on expenditure on economic performance is positive. This means that the higher the regional expenditure/expenditure allocated by the Regency and City Governments, the higher the economic performance reflected by the

Southeast Sulawesi Gross Regional Domestic Product (GRDP).

The results of this study imply that fiscal decentralization of expenditure succeeded in driving economic growth in Southeast Sulawesi in the 2014-2018 period, as the same results were found by [14], who concluded that if the direction of positive and significant influence, then fiscal decentralization of expenditure succeeded in driving growth the economy. Hasil penelitian ini juga didukung [11], [22], [23], [24], [25], [26], [27], [28], [29].

VI. CONCLUSION

Based on the analysis and discussion, the following conclusions are drawn: Fiscal decentralization of expenditure has a positive and significant effect on economic performance in Southeast Sulawesi in 2014-2018. The implication of the results of this study is

that the more efficient the allocation of spending for public services and the higher the expenditure of local governments, the higher the economic performance in Southeast Sulawesi.

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