

Fiscal decentralization effect on economic growth in Bali

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Abstract

This study aims to determine the effect of fiscal decentralization on economic growth mediated by financial performance in Bali Province. The source of data employed in this study was secondary data from the financial statement of local government in a counties/city in Bali in 2006 to 2014. The data analysis technique employed in this study was Partial Least Square (PLS). The results show that 1) fiscal decentralization was significantly influential on financial performance measured using the financial independence ratio of local government in Bali; 2) fiscal decentralization was significantly influential on financial performance measured using the ratio of conformity in Bali; 3) fiscal decentralization was significantly influential on economic growth in Bali; 4) financial performance measured using the financial independence ratio of local government had no significant effect on economic growth in Bali; and 5) financial performance measured using the ratio of conformity was significantly influential on economic growth in Bali.

Abstrak

Penelitian ini bertujuan untuk mengetahui pengaruh desentralisasi fiskal terhadap pertumbuhan ekonomi di Provinsi Bali. Sumber data yang digunakan adalah data sekunder dari laporan keuangan pemerintah daerah di kabupaten/kota di Provinsi Bali pada tahun 2006 sampai 2014. Teknik analisis data yang digunakan adalah *Partial Least Square* (PLS). Hasil penelitian menunjukkan bahwa 1) desentralisasi fiskal secara signifikan berpengaruh terhadap kinerja keuangan yang diukur dengan rasio kemandirian keuangan pemerintah daerah di Provinsi Bali; 2) desentralisasi fiskal secara signifikan berpengaruh terhadap kinerja keuangan yang diukur dengan rasio kesesuaian di Provinsi Bali; 3) desentralisasi fiskal secara signifikan berpengaruh terhadap pertumbuhan ekonomi di Provinsi Bali; 4) kinerja keuangan yang diukur dengan rasio kemandirian keuangan pemerintah daerah berpengaruh tidak signifikan terhadap pertumbuhan ekonomi di Provinsi Bali; dan 5) kinerja keuangan yang diukur dengan rasio kesesuaian secara signifikan berpengaruh terhadap pertumbuhan ekonomi di Provinsi Bali.

Introduction

The study of fiscal decentralization and regional autonomy not only into the economic sphere, but it has close linkages with other dimensions such as political, administrative, and geographic. The study of some experts such as Davoodi & Zou (1998) and Woller & Phillips (1998) show that fiscal decentralization have not a significant impact on economic growth in developing countries. Research conducted by Zhang & Zou (1998) also obtained the result that the negative impact of fiscal decentralization on economic growth and less influential for development. Instead, the study results Iimi (2005) and Malik (2006) indicate different results, that fiscal decentralization has a positive influence on economic growth.

According to Badrudin & Baldrice (2015), regional autonomy in Indonesia has not succeeded in achieving its goal of accelerating the welfare of society. The purpose of regional autonomy has not been successful in improving the welfare of society due to various factors such as the inability of local governments in managing finances and the budget fraud. The unsuccessful implementation of regional autonomy, particularly ineffectiveness in local government budget allocations, related to the opportunistic behaviour of politicians and local government officials. On the expenditure side, the effectiveness of the budget used for public interest is still low. The public spending which not optimal lead to economic activi-

ties that add value to the welfare of society does not function properly. In addition, capital expenditure is only capable of creating an exclusive and low quality economic development. According to Badrudin (2016), the capital expenditure on districts/city of APBD in Bali Province significant effect on society welfare districts/city in Bali Province; there is no difference between capital expenditure in the budget districts and city in Bali Province; and there is no difference between society welfare districts and city in Bali Province. Means, the districts/city in Bali Province in its efforts to improve development outcomes and society welfare as measured by the HDI has been using a strategy of economic development-oriented economic development model inclusive.

Act 32 of 2004 on Regional Government and Law No. 33 of 2004 on Financial Balance between the Central Government and Local Government as the primary basis in the implementation of regional autonomy, in effect providing a greater opportunity for regions to further optimize the potential of each region. The implementation of regional autonomy in local government is expected to become more independence and reduce dependence on the central government in financing the development and management of regional finances. Local government efforts in tapping the financial capacity of the viewable area of the financial performance as measured by financial ratio analysis local government, the regional financial independence ratio, ratio compliance, efficiency ratio, ratio effectiveness and growth ratio.

Economic growth is used as a measure of progress or economic progress of a country on the territory as closely related to the activity of economic activities, especially in terms of increased production of goods and services. According to Oates (1993), fiscal decentralization can increase economic growth and public welfare, because the regional government more efficient in production and procurement of public goods. Oates (1993) also state that fiscal decentralization increases economic efficiency related to the dynamics of economic growth. Local governments are given the ability and authority to explore any potential area and make every area has a local source of revenue for financing development expenditure. The more independent area is the desire of each local government, as an area that has significant revenue and independent have a better position than those dependent on central government funding.

This study aims to determine the effect of fiscal decentralization on economic growth mediated by financial performance in Bali Province. Bali Province as one of the provinces in Indonesia is the barometer of national tourism defined as tourism destination of Indonesia. As a tourist destination, Bali Province puts the tourism sector as the main sector. Bali Province as one of the areas that implement the autonomy is reflected in the revenue areas dominated by the regional revenue. Bali Province has the characteristics of a good tourism and attracting visitors both local and foreign visitors to come to visit in Bali Province. Bali Province is expected to improve the original income so as to increase economic growth, reduce the unemployment rate and poverty rate.

According to Badrudin (2015), public economics is a branch of economics that studies the activity of the government and alternative way of financing government spending. Public economics is the study of how governments do tax and levies to the principles of taxation in order to increase the power of government revenue and expenditure budget. In the modern economy, the government's role can be classified in three major categories, (i) Role of Allocation, the role of the government to see to it that the allocation of economic resources can be implemented efficiently, (ii) Role of Distribution, the role in the distribution of public policy has the function of adjustment to the distribution of income and wealth to ensure distributive justice, and (iii) Role of Stabilization, in public policy, the role of stabilization has the function to use budgetary policy as a tool to maintain the level of employment, economic growth and economic stability, by taking into account the result of policy on trade and balance of payments.

In the public sector accounting, decision-making related to the economic, social, and political. The scope of government financial accounting includes all activities such as data collection, analysis, classification, recording, and reporting on financial transactions of government as an entity as well as the interpretation of the results. Local government accounting system includes a series of process or procedures, both manual and computerized, starts from recording, classifying, summarizing financial transactions and financial reporting in the context of accountability of the budget relating to expenditure area.

According to Law No. 32 Year 2004 on Regional Government Article 1, paragraph 5, regional autonomy is the right, authority, and duties of the autonomous regions to set up and manage their own affairs and interests of local communities in accordance with the legislation. The fiscal decentralization as means to achieve a purpose of the state to create public decision-making process is more democratic and providing better public services. The successful implementation of fiscal decentralization will greatly depend on the design implementation process, political support both at the level of decision-making at each

level of government, and society as a whole, the readiness of the government administration, institutional development and human resources, coordination mechanisms to improve the performance of the bureaucratic apparatus, changes in value systems and behaviour of the bureaucracy to meet the wishes of the people, especially in the public sector services. The most important factor in determining the fiscal decentralization is to extent the authority of local governments to determine the allocation of expenditure.

The financial performance is a measure of performance using financial indicators achieved by a region within a certain period. The local government as the party entrusted with the task of the government, development, and social service should submit their public financial accountability report to assess whether the local government managed to carry out their duties properly or not. Performance measurement in government agencies cannot measure with the usual ratio obtained from a financial statement in a company like Return on Investment (ROI), because the main performance of the government is not to produce a profit. The government liabilities is to accountable for its performance by giving a relevant information in relation to the results of programs implemented for the people's representatives and a group of people who really want to assess the government's performance.

Analysis of financial performance is basically done to evaluate the performance in the past by perform various analyses to obtain the financial position an entity representing the reality and potential performance will continue. Analysis of the financial performance of local governments is important information for decision making, especially in the area of financial management and assess whether the local government successfully manages the financial, as well as a positive impact on the welfare of society. Financial performance analysis can be done using the regional analysis of financial ratios area. In this study, researchers used two local financial ratio is the ratio of the area of financial independence and ratio of conformity.

Regional financial independence ratio indicates the ability of local governments in financing their own activities of governance, development, and service to the public who have paid the taxes, levies, and other sources of income is the legitimate source of income needed by the regions. The ratio of local financial independence is shown by the size of the original income compared with the regional revenue derived from other sources eg the Central Government aid or loans. The ratio of the area of financial independence is formulated as follows:

$$\text{Independence Ratio} = \frac{\text{Local Revenue}}{\text{Total Revenue Region}} \times 100\%$$

The higher ratio of local financial independence local government implies the level of dependence on the central government decreases, and the otherwise.

The ratio of conformity describes how local authorities prioritize the allocation of funds in development expenditure and recurrent expenditure optimal. Ratio of conformity is formulated as follows:

$$\text{Ratio of conformity} = \frac{\text{Capital Expenditure}}{\text{Total Expenditure Areas}} \times 100\%$$

The higher percentage of funds allocated for recurrent expenditure means expenditure percentage of investment/development expenditures are used to provide community economic facilities and infrastructure tend to be smaller.

Todaro & Smith (2006, p. 9) argue that economic growth increased production of goods and services in the local economy. Economic growth is the study of quantitative measures that describe the development of an economy in a given year compared with the previous year. The definition of economic growth theory by Harrod-Domar is an extension of the analysis of John Maynard Keynes about the activities of the national economy and labour issues. The main principle of the Harrod-Domar theory is a lack of capital, savings, and investments become a major issue in economic growth. Structural transformation of economic growth theory is pioneered by W. Arthur Lewis. In a backward economy there are two sectors that influence, namely agriculture and manufacturing. This theory focus on the mechanisms that make poor countries and development country to increase economic growth by transforming economic structure of the original character of traditional agricultural sector becoming the dominant sector of the manufacturing sector to the more modern and the services sector.

The definition of economic growth theory by Simon Kuznets is as an increase in the ability of a country to provide economic goods for the population. Meanwhile, Robert Solow economic growth theory explains how the level of savings and investment, population growth, and technological advances affect

the level of economic output and growth. The role of technological progress in economic growth is very high, it can bring economic growth in a sustainable manner as to optimize the efficiency of the workforce continues to grow. Theory of economic growth by David Ricardo is determined by population growth, increasing population which will increase employment.

According to Badrudin (2011), economic growth is the change in Gross Regional Domestic Product (GRDP) per year which is expressed in units per cent. Economic growth is formulated as follows:

$$\text{Economic Growth per year} = \frac{GRDP_t - GRDP_{t-1}}{GRDP_{t-1}} \times 100\%$$

To analyze the economic growth is calculated by using Klassen Typology analysis techniques based on the data of GRDP. One of the weaknesses of regional autonomy which commenced in 2001, the Indonesian government did not see if each areas is ready or not to implement the regional autonomy. According to Law No. 22 and 25 of 1999 on Regional Government, all regions in Indonesia should be able to implement the autonomy. But the fact that not all region are capable to implement the autonomy. This is supported by research conducted by Badrudin (2011) that was not all districts/cities in Central Java successfully implement the autonomy.

Sow & Razafimahefa (2015) argue that fiscal decentralization as one of the instruments to provide better public services by way of delegation of authority from the central government to local governments to carry out the functions of regional development. Surely fiscal decentralization is expected to have a significant impact to financial performance. Due to the financial system that systemic between the centres to the regions, the financial performance should be good, because the central government is not overly interfere in the financial management of local governments. This is reinforced by the results of research Lin & Liu (2000), which indicates that fiscal decentralization affects economic performance positively and significantly.

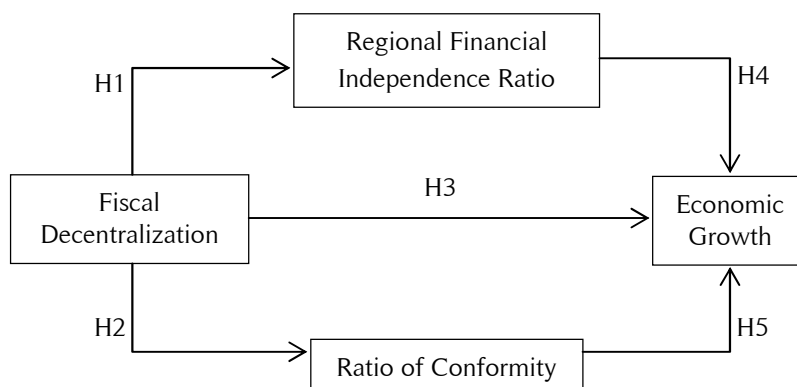


Figure 1: Theoretical Framework

The original income must meet the elements of rationality and should be oriented to the front or in other words could be used for the foreseeable future, and the Local Revenue is also used as a benchmark for the success and failure of an implementation. Revenue is a component of the formula the ratio of local financial independence. The ratio of the level of financial independence that comes into the category of less has a high dependence on central government assistance. This indicates fiscal decentralization in an area influenced by the level of financial independence of the region. It can be concluded that fiscal decentralization has a significant influence on the level of local financial independence as measured by the ratio of the area of financial independence. Based on the description above, the hypothesis is formulated as follows:

H1: Fiscal decentralization significant effect on the ratio of local financial independence in Bali Province.

Barzelay (1991) suggests that contained three missions in fiscal decentralization, one of which is the fiscal decentralization implemented to create efficiency and effectiveness in the management of regional resources. Efficient and effective local government in question is expected to manage and organize the region with balanced finances, not only pay attention to the revenue side alone but the shopping areas should also be considered and managed well. Capital expenditure and total expenditure areas are the variables used to calculate the ratio of conformity. Therefore, in addition to fiscal decentralization is expected

to have a significant impact on financial performance as measured by the ratio of local financial independence, is also expected to have a significant impact on financial performance is measured by using a ratio of conformity. Because the ratio of suitability describes how local governments prioritize the allocation of funds to the shopping area optimally. If the fiscal decentralization significantly affects the ratio of suitability, it will show that local governments managed optimally manage the expenditure area without any interference from the central government.

The fiscal decentralization has not been able to improve the quality of governance, but can improve the financial performance of a region. This explanation is reinforced by the results of the study Gemmell, Richard, & Ismael (2013), which indicates that fiscal decentralization and regional expenditure simultaneous and partially significant. The government spending has some impact to economic performance. Where capital expenditure is one of the indicators used to measure the ratio of conformity. Based on the above it can be formulated the hypothesis that the second as follows:

H2: Fiscal decentralization significant effect on the ratio of conformity in Bali Province.

Barzelay (1991) said that one of the main mission possessed fiscal decentralization is to empower and create a space for the community to participate in the process of economic growth. Fiscal decentralization in Indonesia has given the regional government greater responsibility in the establishment of the authority that the authority will be used to boost economic growth. If to achieve good economic growth, the fiscal decentralization is also expected to run well. Vazquez & McNab (2003) concluded that decentralization has a very significant impact on economic growth. Huther & Shah (1998) said that fiscal decentralization can make climate for stable economic growth. Based on the description it can be established that the third hypothesis as follows:

H3: Fiscal decentralization significant effect on economic growth in Bali Province.

Financial performance is increasing, allegedly not always able to boost economic growth. In addition as a measure of performance using financial indicators, financial performance is also a financial performance achieved in a given period. Local governments are required to account for its financial performance, whether its financial performance so far has been good or not. Analysis of financial performance is said to be important information for policy making in the area of financial management and as an assessment of whether local governments can manage their finances properly. If the ratio of local financial independence has increased not significant, the economic growth is not increased. It clearly shows that the area of financial independence ratio should have a significant impact on economic growth. If the ratio of local financial independence is experiencing a significant increase, then economic growth will also increase. Based on the description it can be established hypothesis as follows:

H4: The ratio of local financial independence significant effect on economic growth in Bali Province.

The expenditure side of the budget in local government finance is one of the things that must be considered by the local government. The financial performance of local governments will be judged as good if not overly experienced extravagance in the expenditure side. Financial performance will be able to create a good economic growth. Multiply the expenditure side and the revenue side pressed. The capital expenditure and significant positive effect on the acceptance of regional revenue, and indirectly have a significant impact on economic growth (Huther & Shah, 1998). Based on the above description it can be arranged hypothesis is as follows:

H5: The ratio of conformity significant effect on economic growth in Bali Province.

Based on the above hypothesis formulation, it can be structured theoretical framework. The theoretical framework of this research is economic growth as the dependent variable can be influenced by fiscal decentralization as an independent variable directly and can also be affected by the financial performance as measured by the ratio of the area of financial independence and suitability as a mediating variable.

Research Method

In this study, the area that will be the object of research is the whole districts/city in Bali Province. The study population was 8 districts and 1 city in Bali Province with the time period from 2006 until 2014. The sample in this study is Badung, Bangli, Buleleng, Gianyar, Jembrana, Karangasem, Klungkung, Tabanan, and Denpasar.

The source of data in this study was secondary data from the financial statement of local government in all of districts/city in Bali Province and data GRDP from the Central Bureau of Statistics in 2006 to 2014. The data analysis technique in this study was Partial Least Square (PLS), because the amount of data used in this study slightly. PLS is a program that can perform the accurate data if the data though a little bit. Klassen Typology analysis tool used to describe the structure of economic growth in each region. Typology Klassen basically divided the areas based on two main indicators, namely regional economic growth and GRDP per capita. By determining the average of economic growth as the vertical axis and the average of GRDP per capita as the horizontal axis, the area that can be observed is divided into four quadrants.

Table 1. Research Variables

No	Variable	Variable	Definition	Measurement
1	Exogenous	Fiscal Decentralization	Process fiscal devolution by the central government to autonomous regions to support the functions or duties Indonesian Government.	$\frac{\text{Local Revenue} + \text{Sharing Fund (tax and non tax)}}{\text{Total Regional Expenditures}}$
2	Endogenous Intervening	Regional Financial Independence Ratio	The ratio shows the ability of local governments in financing their own activities of government.	$\frac{\text{Local Revenue}}{\text{Total Revenue Region}} \times 100\%$
3	Endogenous Intervening	Ratio of Conformity	Compliance Ratio illustrates how local governments allocate its own funds.	$\frac{\text{Capital Expenditure}}{\text{Total Expenditures Areas}} \times 100\%$
4	Depending Endogenous	Economic Growth	Growth Describes the development of an economy in a given year compared with the previous year.	$\frac{\text{GRDP}_t - \text{GRDP}_{t-1}}{\text{GRDP}_{t-1}} \times 100\%$

Result and Discussion

Bali's annual economic growth in 2015 to reach 6.04%, lower than the previous year to reach 6.73%. Based on the supply side, the slowdown of economic growth comes from the slowdown field performance processing industry, wholesale and retail trade, as well as the undertaking of provision of accommodation to eat and drink. Based on the demand side, the slowdown of economic growth comes from a slowdown in household consumption and investment. In general, the economic structure of Bali Province in 2015 contributed by providing accommodation eat and drink (23%); agriculture, forestry, and fisheries (15%); construction (9%); transportation and warehousing (9%); and wholesale and retail trade (8%). The tourism industry still dominates the business sector contribution in Bali Province with the achievements of 31%. Based on the budget side, Bali Province government revenue in 2015 reached Rp4.97 trillion, while Bali Province government spending in 2015 reached Rp4.99 trillion. The employment rate in Bali Province is quite as reflected in the figures unemployment rate stood at 1.99%. Figures unemployment rate was lower than national figures unemployment rate by 6.18%.

The highest budget is still owned by Badung as the county with the largest economies of scale in Bali Province. In 2015, the income ceiling of Badung recorded at Rp3.6 trillion and expenditure ceiling amounted Rp4.05 trillion. On the other hand, Bangli District has the lowest budget, with a maximum income of Rp826 billion and the expenditure ceiling amounting to Rp930 billion. Based on the region's ability to finance spending, the Badung has the highest fiscal independence compared to other regencies/city in Bali Province. This is reflected in the ratio of revenue (PAD) to total revenues amounted to 85.73%. Districts/city others have fiscal independence ratio below 50% and is still dependent on the Balance Fund to finance expenditures. Bangli District has recorded the lowest ratio of fiscal independence, amounting to 8.77%.

The role of Bali Province budget on the economy of Bali is quite limited, both in terms of consumption and investment. Indirect expenditures contribution to the components of government consumption in the GDP Bali in 2015 amounted to 19.62%. Capital expenditure contribution to the components of the GDP investment in Bali in 2015 amounted to 1.02%. As a stimulus in the economy, the government's fiscal spending is not only distributed in the form of recurrent expenditure, but also directed at the development and improvement of infrastructure to support economic growth in Bali Province. This is achieved through the expansion of capital expenditure which encourages the economic development of Bali Prov-

ince. The Bali Province still faced with the challenge of high growth disparities. Districts/cities that have growth rates above the rate of growth of Bali Province is the districts/city located in the southern area of Bali Province namely Denpasar, Badung, and Gianyar. This area is the centre of government as well as the concentration of development centre of the tourism industry is a mainstay of Bali Province. While other districts/cities tend to have lower growth rates the rate of growth of the Bali Province.

The agricultural and tourism sector are the main sectors in the economy of Bali Province. The economic structure of the Bali Province is very specific and has its own characteristics compared with other provinces in Indonesia. Economic in Bali Province is built by relying on the tourism industry as the leading sector and has been able to encourage the occurrence of a change in structure.

Table 2. Variable Description

Variable	Minimum	Maximum	Mean	Standard Deviation
Fiscal Decentralization	8%	97%	26%	0.23
Regional Financial Independence Ratio	3%	79%	20%	0.20
Ratio of Conformity	6%	45%	16%	0.70
Economic Growth	7.3%	4.02%	5.8%	0.72

Based on Table 2, variable fiscal decentralization has average for all districts/cities in Bali Province every by 26%, the lowest fiscal decentralization is indicated by Bangli District in 2011 amounted to 8% and the highest fiscal decentralization is indicated by Badung District on a tender in 2011 amounted to 97%. The high average value of fiscal decentralization Badung District due to the many attractions seeded Bali Province is located in this area, so that regional revenue receipts in these two regions is very high, considering the tourism sector is one of the leading sectors for the revenue of Bali Province. For variable area ratio of financial independence for the districts/cities in the Bali Province has a 7-year average of 20%, with a number of financial independence ratio indicated by the lowest area Bangli District in 2008 amounted to 3% and the ratio of the amount of financial independence the highest area indicated by Badung District in 2013 amounted to 79%. Badung District has a high degree of regional autonomy because it is in the position of 79%, which indicates that the area specifically for Badung District has a high degree of local autonomy. Badung District does not depend on the central government in implementing local authority, because Badung District already rely on revenues from tourism. This is affected because in the Badung District there are many well-known tourist attractions in Bali Province.

Based on Table 2, the average ratio of the overall suitability of the districts/cities in the Bali Province every 7 years by 16%, while the districts/cities has a ratio value is in the lowest suitability Buleleng District in 2010 amounted to 6% and the value of the highest ratios are in conformity Karangasem District in 2008 amounted to 45%. Karangasem District has the highest suitability percentage ratio, meaning that the local authority has not been able to manage or allocate funds held well in the provision of community facilities and economic infrastructure. As evidenced by the average value of fiscal decentralization and the average value of the ratio of local financial independence owned Karangasem District little value all, indicating that the region of Karangasem District is still very dependent on the central government in implementing local authority, even in terms of allocating its own funds. So Karangasem District still needs the help of the central government in the provision of community facilities and economic infrastructure. Table 2 is based on the average economic growth in all districts/cities in Bali Province for 7 year amounted to 5.8% with the lowest economic growth shown by Bangli District in 2008 which was 4.02% and the highest economic growth shown by Badung District 2008 which was 7.3%. Based on Table 2, the value of the standard deviation of all variables showed a larger amount than zero (0). Standard deviation of fiscal decentralization variable is 0.23, regional financial independence ratio variable is 0.2, ratio of conformity is 0.07, and standard deviation of economic growth is 0.72. This means that the data in this study is spreading and has the tendency of any data are different from each other.

The districts/city in Bali Province based analysis techniques Typology Klassen can be classified as an area of excellence when growing rapidly and major contributions, a potential area where grew slowly but the contribution large, underdeveloped regions where growth is slow and the contribution of small and developing areas where growing fast but small contribution. Grouping of districts/city in Bali Province is divided into diagram 4 quadrants clockwise, the first quadrant (located at the upper left corner), quadrant II (located in the upper right corner), quadrant III (located in the lower right corner), and quadrant IV (in the bottom left corner).

		PDRB Contribution	
		Low	High
High (above average)		Buleleng District	Badung District, Gaynyar District, Denpasar City
	Low (under average)	Klungkung District, Jembrana District, Tabanan District, Bangli District	Karangasem District

Figure 2. Characteristics of Districts/City in Bali Province Based Typology Klassen 2006-2014

Table 3. Characteristics of Districs/City in Bali Province Based Typology Klassen 2006-2014

Number	Characteristics Area	Amount	Percentage (%)
1	Fast Growing Area	1	11
2	Developed Area	3	33
3	Potential Area	1	11
4	Underdeveloped Area	4	45
	Total	9	100

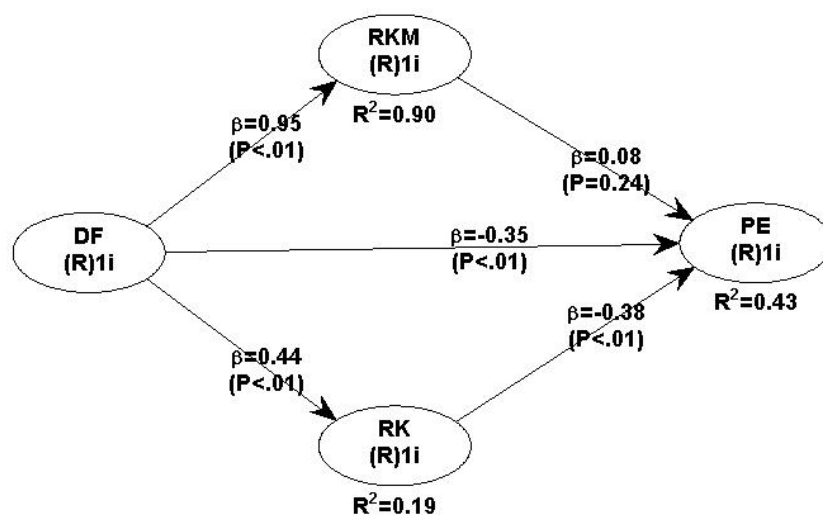
In this study, no judgment outer covering models Validity and Reliability Test for the data used in this study is the measured data. Goodness of Fit Inner model in PLS analysis using size Stone-Geisser Q-Square test in the form of Q-Square predictive value relevance is calculated based on the value of R2 each endogenous variable, the variable ratio obtained Regional Financial Independence RRK2 value of 0.880; Ratio of Conformity variable values obtained RRK2 of 0.153; and Economic Growth variables obtained RPE2 value of 0.403. Thus, the value of the Q-Square predictive relevance for:

$$\begin{aligned}
 Q^2 &= 1 - (1 - RRK2) (1 - RRK2) (1 - RPE2) \\
 &= 1 - (1 - 0.880) (1 - 0.153) (1 - 0.403) \\
 &= 1 - (0.12) (0.847) (0.597) \\
 &= 0.94
 \end{aligned}$$

Based on these calculations, the value of the Q-Square predictive relevance of 0.94 or 94%, so the model is said to have a strong predictive value for the variables in the model which includes the variables of fiscal decentralization, local financial independence ratio, and the ratio of suitability, able to explain variable economic growth of 94%, while the remaining 6% is a variation of other variables outside the model. Therefore, the model meets the criteria Banks Model and testing structural model (Inner Model). The following table is a structural model test results:

Table 4. Results of Hypotheses Testing

No.	Variable Relation	Path Coefficient	p-value	Conclusion
1	Fiscal Decentralization → Regional Financial Independence Ratio	0.95	0.01*)	Significant
2	Fiscal Decentralization → Ratio of Conformity	0.44	0.01*)	Significant
3	Fiscal Decentralization → Economic Growth	-0.35	0.01*)	Significant
4	Regional Financial Independence Ratio → Economic Growth	0.08	0.24	Not Significant
5	Ratio of Conformity → Economic Growth	-0.38	0.01*)	Significant



Source: Obtained from data processing

Figure 3. Results of the PLS Output Hypothesis Test entire Quadrant

The relationship between the variables of fiscal decentralization and financial independence ratio variable region has a p-value of <0.001 which is smaller than the significance level of 5% (Table 4). Path coefficient of 0.95 (positive) indicates that fiscal decentralization has a positive influence on the ratio of local financial independence. The test results showed that H1 is accepted that fiscal decentralization significantly influences the ratio of local financial independence in Bali Province. This means that the higher the ratio of financial independence the area of fiscal decentralization in Bali Province the better or is said to be going well because if the ratio of the area of financial independence high dependence Bali Province on the lower central government assistance.

The first hypothesis test results in this study proved one of the main missions of fiscal decentralization according Barzelay (1991), Bali Province managed to create space for people to participate in the development process that make Bali Province can be self-sufficient and less dependent on the central government. Because of many attractions in Bali Province, many people are building businesses in the field of tourism, for example many people open a business selling souvenirs such as Joger and Krisna, and merchants in the Market Sukowati, and still many others. The first hypothesis testing results in this study also supports research on Lin & Liu (2000). It can be concluded that the first hypothesis in this study proved that fiscal decentralization has a significant impact on the level of local financial independence as measured by the ratio of the area of financial independence.

Fiscal decentralization and ratio of conformity relationship has a p-value of <0.001 which is smaller than the significance level of 5% (Table 4). Path coefficient of 0.44 (positive) indicates that fiscal decentralization has a positive influence on the ratio of conformity in Bali Province. Increasing proxy of fiscal decentralization leads the higher the value of the ratio of compliance. The test results showed that the H2 is accepted, the fiscal decentralization significantly influence the ratio of conformity in Bali Province. This means that the Provincial Government of Bali successfully manage regional shopping without any interference from the central government. Results of testing the second hypothesis in this study support the research Gemmell et al. (2013) proved that fiscal decentralization and expenditure areas significant effect on regional economic growth. Lin & Liu (2000) also supports the second hypothesis test results in this study. In this study, the second hypothesis is accepted that in Bali Province was fiscal decentralization has a positive effect on the ratio of conformity.

The fiscal decentralization has a negative significant relationship with economic growth in Bali Province. It can be seen from the p-value of <0.001 which is smaller than the significance level of 5%. Path coefficient of -0.35 (negative) indicates that fiscal decentralization has a negative impact on economic growth in Bali Province. The test results showed that the fiscal decentralization significantly influence economic growth in Bali Province. The fiscal decentralization held in Bali Province relate significantly to the success of economic growth in Bali Province but coefficient lines are negative turned out despite having a significant relationship. The fiscal decentralization in Bali Province has not managed to boost economic

growth in Bali Province. Results of hypothesis testing in the third hypothesis in this study suggest that fiscal decentralization significant effect on economic growth. The results supports the results of research conducted Huther & Shah (1998) who prove that fiscal decentralization significantly effect on economic growth in Bali Province.

Path coefficient value on H3 is negative (Table 4) which shows that although the fiscal decentralization significantly influences the economic growth in Bali Province, but it has a negative effect. This means that the fiscal decentralization that occurred in Bali Province still has not increased the economic growth. This is due to the factors unprepared fiscal decentralization in 8 districts and 1 city in to boost economic growth. Based on the analysis using typology Klassen, it is only 33% area of the 100% area in Bali that are considered able to run fiscal decentralization, namely Badung, Gianyar, and Denpasar. The economic growth of Bali Province could be increased if all areas of 8 districts and 1 city in Bali Province in the category primary area. If only 33% of districts in Bali Province fall within the primary areas and 45% of the area fall into disadvantaged areas, it causes economic growth difficult to be increased as a result of fiscal decentralization implementation. The Harrod-Domar theory of economic growth said that lack of capital, savings, and investment became major issues in economic growth. The amount of investment in four disadvantaged areas is still very small as caused that many investors choose to invest in others area such as Badung, Denpasar, and Gianyar. This is as a consequence of many famous sights up to foreign countries are located in the three regions.

Based on the results of hypothesis testing (Table 4), turns ratio of the area of financial independence does not have a significant relationship to economic growth in Bali Province. This is indicated by a p-value of 0.24 whose value is greater than the significance level of 5% or 0.005. Path coefficient of 0.08 (positive) indicates that the ratio of local financial independence positively affect economic growth in Bali Province. The test results indicate that the H4 hypothesis in this study is rejected. The ratio of local financial independence significant effect on economic growth in Bali Province. This means that the increase in local revenues which became a component in the calculation of the ratio of local financial independence in Bali Province has not been able to show an increase in economic growth in Bali Province.

Klassen analysis shows that 45% of districts in Bali Province are underdeveloped (Table 3). There are still many areas in Bali Province that depend on the central government, so it is still not able to boost economic growth in Bali Province. The results of this study support the research of Vazquez & McNab (2003) which shows that economic growth has a significant impact on the increase in revenue is measured using the ratio of local financial independence.

Fiscal decentralization has a positive effect on economic growth in Bali Province, so it will affect that region's financial independence ratio in each district/ city. As described above, decentralization is a delegation of authority from the central government to local governments, so that the local government is expected to be self-sufficient in implement the government. If fiscal decentralization has been able to boost economic growth, local governments are also considered to have been able to independently run the government, so that the test results the fourth hypothesis is that the ratio of local financial independence positively affect economic growth in Bali Province. Economic growth in Bali Province may be increased if the entire area or most areas of 8 districts and 1 city in Bali Province in the category of excellence in the region. Based on analysis of the Klassen typology, 45% area in Bali Province is classified into the category of disadvantaged areas. So we know why path coefficient in H4 only 0.08. This indicates the number of path coefficient is small. So it is still not capable of being upgraded its economic growth.

Conformity ratio has a significant relationship with economic growth in Bali Province. This is indicated by a p-value of <0.001 which the amount is smaller than the specified significance level of 5%. Path coefficient of -0.38 (negative) indicates that the ratio of conformity has a negative influence on economic growth in Bali Province. This means the higher the ratio of conformity may not be able to increase the growth of economics. It means the Provincial Government of Bali allocates funds will affect the economic growth. However, based on the value of the path coefficient that indicates that financial performance is measured by using a ratio suitability negatively affect economic growth. This means, the regional government has not been able to allocate the allocation of funds in capital spending effectively increase its economic growth.

Financial performance which is measured by ratio suitability negatively affects economic growth. This means that the Provincial Government of Bali has not been able to allocate capital expenditures effectively to increase its economic growth. Klassen typology analysis used in this study show that 45% area in Bali Province included in the disadvantaged area (Table 3). There are four areas that fall into the category

of disadvantaged areas namely Jembrana, Tabanan, Klungkung, and Bangli. Factor that may influence the four regions are still categorized in underdeveloped regions is due to local authority capability in allocating government funds. Economic growth in Bali Province may increase if 45% of the 100% area in Bali Province is not in the category of disadvantaged areas.

Conclusion

Fiscal Decentralization has significant effect on the ratio of local financial independence in Bali Province. The higher ratio of financial independence causes the fiscal decentralization is properly implemented. Fiscal Decentralization has significant effect on the ratio of conformity. This means, the fiscal decentralization affects how local governments manage its own funds. Fiscal Decentralization significantly affects economic growth in Bali Province. Higher independence of provincial government in Bali causes the greater the chances of Bali Provincial Government to increase the economic growth. Although the fiscal decentralization significantly influence the economic growth in Bali Province, but the fiscal decentralization has not well managed to increase the economic growth. This is due to the factors unprepared fiscal decentralization in 8 districts and 1 city in Bali Province to boost economic growth.

Regional financial independence ratio has no significant effect on economic growth in Bali Province. This suggests that the increase in the ratio of local financial independence in the districts/city has not been able to improve the economic growth. This is also due to the 45% area is an underdeveloped area that still depend on central government. The region's autonomy in Bali Province is still not evenly distributed, so that economic growth is still difficult to be improved in all regions. Ratio of conformity significantly effect on economic growth, it means the provincial government of Bali should manage the allocation of funds in capital spending to boost economic growth. Ratio of conformity negatively affects economic growth. This means the Government of Bali has not been able to allocate government capital to increase its economic growth.

Base on analysis PLS, the fiscal decentralization in Bali Province has not well managed to increase economic growth. Base on Typology Klassen analysis, 8 districts and 1 city in Bali Province may be classified in the category primary area. It means that only 33% of districts in Bali Province that may be recorded within the primary areas while another 45% area falls into the category of disadvantaged area. This caused economic growth in Bali Province is still stagnant in the implementation of fiscal decentralization. We conclude that the Bali may be success in implementing fiscal decentralization if the region changes into the prime areas.

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