

# Analysis Impact of Fiscal Capacity Direct Expenditure and Social Inequality Between Regions in Papua Province

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**Abstract**— This research aims to analysis fiscal capacity to direct expenditure and social inequality between regions in Papua province. This research uses Structural Equation Modeling model namely WarPLS 5. The results of the study indicate that the fiscal capacity has a positive effect on the local direct expenditure, quality of education and revenue inequality, but has no effect on the public health quality. Direct expenditure has no effect on the inequality of income, quality of education and public health quality.

**Keywords**—*Fiscal Capacity, Direct Expenditure, social inequality.*

## I. INTRODUCTION

The local government financials capacity and regional development are two concepts that have causality relationships. The creation of adequate fiscal capacity can improve development quality, minimizing development gaps. Meanwhile, low-power quality is also caused by various factors such as limited availability of financial resources, natural resources, low infrastructure quality, low quality of human resources. Fiscal decentralization is one of the strategic instruments created by the higher organizational unit in this case the central government to meet the need for capital shortage in the unit of Organization below (local government) So that it can increase the fiscal capacity. With the availability of adequate fiscal capacity, programs that are born from a central level organization as well as policy initiatives from the level of the organization under it can be implemented or realized according to the direction of development.

Fiscal decentralization in the policy framework of the government system of the Republic of Indonesia as a means to increase fiscal capacity as well as authorize the management of the fiscal capacity to Governments at the local level to financing the whole process of development so as to improve the quality of development that is in the course and fairness. An inclusive and equitable development is a development that not only prioritizes growth but should also consider equalization.

Development policies that are only growth-oriented are not aware of the interests and needs of marginalized parties or grassroots communities, which ultimately creates gaps in the community. At this time the central government seeks to create an inclusive and equitable development. Equitable distribution is a key issue of national development because of its highly dynamic and dissolute global development demanding intense competition. Associated with the competition, should divide a clear role between the local government and the central government so that it does not overlap in the implementation of development.

## II. LITERATURE REVIEW AND HYPOTHESIS

The implementation of regional autonomy and fiscal decentralization the role of local governments become important and strategic in seeking to be strong competitiveness. Regional autonomy and fiscal decentralization must be dynamic and responsible. Dynamic means based on situation, condition and development in the area. Meanwhile, responsible means the implementation of regional autonomy and fiscal decentralization completely in line with its purpose, namely to facilitate the development of all corners of the homeland without the existence of a policy given by the central government with the operational implementation implemented by the local government so that the regional development is a comprehensive network of national development [1].

The process of birth of fiscal decentralization policy refers to the analysis of data involving a number of variables such as social, economic, infrastructure, organizational governance, implementation of the previous policy. One of the main triggers of fiscal decentralization policy in Indonesia is the centralistic governance of government system during the *Orde Baru* administration which has caused multidimensional problems of development and inequality height development between one island and another. The right of discretion of financial management to the government at the regional level aims to minimize the multidimensional problems of the development.

Fiscal capacity is an overview of the financial capability of each region reflected by the general acceptance of

regional budget and expenditure budgets (excluding special allocation funds, emergency funds, old loan funds, and other admissions). The use is limited to paying certain expenses) to fund government duties after being deducted from employee spending associated with the number of poor people [2].

The social gap between regions contributes to the quality of national development. The characteristics of the region and community are very diverse and the social problems of each group are also very diverse. Therefore, a participatory development approach is required. Participatory development method aims to excavate the problems that exist in the community, the cause of problems, how to overcome them by using local resources on the principle of community empowerment[3].

Papuans have cultural diversity, distinct characteristics and diverse geographies conditions. Most people live in the mountainous region and others live on the coast. Therefore, the development approach should also be carried out from various approaches. The economic approach alone is not enough, it needs another approach.

The concept of social capital has been integral as other concepts such as human capital, physical capital, financial capital, manufacturing capital and natural capital. In the development of the concept of social capital, it turns out not only as an economic approach, but has developed in various disciplines such as law, political science, sociology and anthropology[4].

There have been many social protection programs created by the government. However, social inequality is still a determinant of the inequality of national and regions development. The failure of community management is due to less precise program objectives, poor quality manageability as well as a lack of adequate support facilities.

The implementation of social protection programs or their true community empowerment encourages them to reign and control over potential development. The participation of the poor in deciding the essence of development at the national and regional level is needed to fulfill the obligation that the development power is destroyed in accordance with the needs and prerogative of the poor [3]. The gap between regional development is one of the fundamental problems that have been, and will be faced by the Indonesian people in general and more specifically Papua. Therefore, the agenda of Medium-term development plan and long-term development of national and local areas always presents a program that aims to minimize the gap. To minimize the development gaps, the policy makers in the region must understand the gap comprehensively, which is then expressed in the strategic program.

Comprehensively understanding of the problem of interregional gaps need to be a reference in the formulation of development planning, so as to support national policy in the efforts to equitable development in Indonesia. Aspects that have high urgency to be seen in the context of gaps are the gaps in the regional economy and community welfare, as well as aspects that affect them[5].

There have been many research about, fiscal capacity management and social disparities between regions. For example Adam (2018) found a component of a transfer fund from the central government could lower the revenue

inequality of the 3T region category in the Papua province but characterized by increasing Gini ratio[6]. Meanwhile, direct spending has been partially significant to the poverty of West Java province[7]. The capital expenditure is effective in improving economic growth and poverty reduction in Indonesia[8]. The fiscal capacity derived from the transfer positively affects the welfare of the people in Java Island [9]. Meanwhile, government spending variances are weak and negative to economic growth. Government expenditure is positive and significant to the insecurity of income[10]. The cost of government social function positively affects the income inequality. Reduced revenue gaps when government social spending increases. The cost of social functioning is more effective in reducing income inequality of education[11]. The humanitarian principles that have become established in a civilized society require that every one have an adequate minimum standard of living. Thus, task of the states' social policy under condition economic growth is the elimination of those differentiation factors that generate excessive inequality. An important direction of resolving the problems of social inequality is the creation of quality publicly accessible social infrastructure[12].

The diversity of research findings should be suspected that the quality of the budget management is not evenly distributed. Other determinants, from the governance side of the implementation of the program have not been organized and less effective. This negative impact is as a result of the surveillance system and the implementation of less effective programs. It is worth guessing that the weakness in the management of the program has less impact on social inequality between regions. During this study period, the central government raised a large number of funds to the territory of the Papua province to cope with the many missed developments. For the support of the fiscal capacity, local governments are given the discretion to manage the capacity to minimize the multidimensional problems of development scattered throughout the city/municipality.

The study of fiscal capacity and expenditure of government on social gaps because of expenditure sourced from its fiscal capacity is crucial for the government because, the government is appointed to improve the living standards of society and As early as possible minimizing the inequality of development. The objectives achieved in this study are to determine the impact of regional fiscal capacity and direct expenditure (capital expenditure and goods and services expenditure) on social inequality between regions in Papua province.

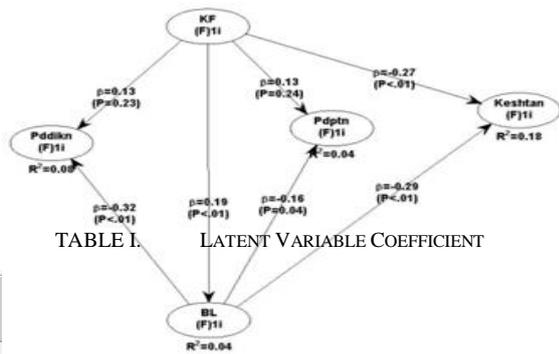
### III. METHODOLOGY

The research Model is structural equation modeling. WarpPLS 5 is used Model analysis. Evaluation of the model WarpPLS in can be done with one Step approach, Namely to evaluate the structural model (Inner model). The data processing process, among others, designs models, examines line charts, performs estimates, evaluates inner models, and tests hypotheses.

### IV. RESEARCH RESULT AND DISCUSSION

The test results of the SEM WarpPLS 5 hypothesis are shown in Figure 1 below. Based on Figure 1 shows that each arrow has as many as seven paths indicating the

influence between the variables tested. Meanwhile, any value that is mined by beta ( $\beta$ ) is the value of the meanwhile the value of P is the level of probability or significance.



R-squared	0.036	0.178	0.085	0.042
Adj. R-squared	0.030	0.168	0.074	0.031
Composite reliab.	1.000	1.000	1.000	1.000
Cronbach's alpha	1.000	1.000	1.000	1.000
Avg. var. extrac.	1.000	1.000	1.000	1.000
Full collin. VIF	1.170	1.146	1.581	1.394
Q-squared	0.037	0.184	0.130	0.047

The R-Squared value is generated from the output of the explanatory variable to each small predictor variable. The Q-squared value produced in successive models, 0,037, 0,184, 0,130, and 0,047 > 0 which means this model has predictive validity. The results of this research are free from the problem of multicollinearity because the Full Collinearity value of VIF generated all the variables < 3.3.

The method of fiscal transfer policy is carried out by the central government whose substantiation increases the regional fiscal capacity, so that there is no fiscal inequality between regional and inter-district. The realization report of the inter-region budget in Papua Province shows that the largest source of acceptance is source from the transfer fund reaches 80%. The objectives of the financial management system have succeeded in increasing the fiscal capacity between regions. Another purpose of fiscal transfer is to strengthen the spending and productive expenditure of governance at the local level. In recent years, the realization report of the income and expenditure budget of the area showed that the proportion of shopping operations was still more dominant even each year budget tends to increase than on productive spending (capital expenditure and shopping Goods and services). Analysis of the line of Warpls 5 on figure 1 between fiscal capacity (KP)– BL (direct expenditure) has significant impact. Coefficient value 0, 01 < 0.05 means that regional fiscal capacity can increase direct shopping. However, its contribution is only 36 percent, while the 64 is explained by other variables. So statistically it supports hypotheses stating that fiscal capacity can increase direct expenditure. However, the financial management practice is still low-quality and unproductive in the research period.

Besides to strengthening expenditure, the adequate regional fiscal capacity can reduce the income inequality per capita between regions. Figure 1 The interpretation result of WARPLS shows that the variance of the line of the construct KF-pdptn that proxy demurs Gini positive impact ratio with a probability value of 0, 24 > 0.05 until H → 2 is rejected. This means that the central government policy of increasing the fiscal capacity of each district/city is incapable of minimizing the income gap between the Papua

Fig. 1. Test Result WarPLS Hypothesis

province. In terms of contribution is still weak because the fiscal capacity only describes 4.2 percent. While 95.8 percent is explained by other factors that are not included in this research model. The level of community inequality in this model proxy with Gini ratio. This ratio shows almost all Regency and municipality the province still experiencing a narrow inequality or have not reached the zero point. By this, empirical results of this study are weak, because the variable exogenous has not been a maximum role explain its endogen variable. The policy side is right, but from the implementation it still needs to be evaluated and make improvements.

The other development construct targeted by the regional fiscal capacity to improve the quality of education. Illiterate in the Papua region can spread throughout the regency and municipality. The challenge of this development has not been solved maximally to the time of the 4.0 industry. The path value of KF-PDDKN showed 0.13 with a probabilities rate of 0.23 > 0.05. These regression results mean that fiscal capacity has not been able to contribute to increasing interregional education. The contribution of the explanatory variable to the weak predictor variables is only 8.5 percent while the 91.5 percent is explained by other variables. Therefore, it is worth assuming that an increase in the opportunity to acquire public education is largely influenced by other variables outside of fiscal capacity. The average length of the school showed a rising trend but small improvements. The trend is shown in the 1 chart carried this.

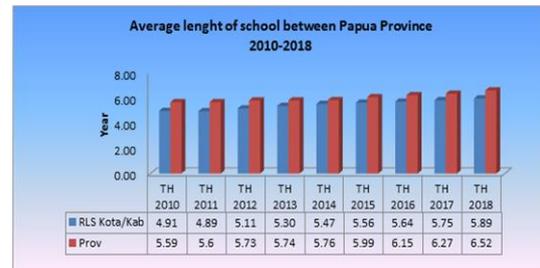


Fig. 2. Average length of school between Papua province Source: Data processed, 2019

Graph 1 shows the inequality of high-regional education, because people who are 25 years old and above only end up in elementary school. Therefore, the problem of education is a priority in the medium and long term development of local governments. The 20 percent budget for education immediately is carried out in accordance with its designation.

Another viable that contributes the greatest contribution to interregional social inequality is the quality of the health that is not evenly distributed. Health indicators are observed to develop this research figure of life expectancy. The direct impact of fiscal capacity to the health level of the

community impacts negatively. This means that the discretion of budget management has not done much to improve the quality of public health. Graph 2 is show the average tendency for quality of life.

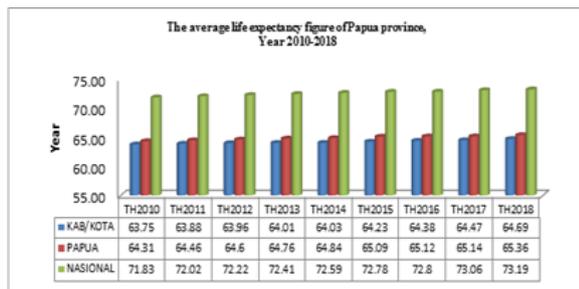


Fig. 3. The average life expectancy figure of Papua province, Year 2010-2018

The above graph information strengthens the results of this study that there is still an inequality of public health quality between regions. The KF-Keshtn line was negative and significant. The contribution of fiscal capacity to health is also very weak, which is only 17.8 percent, while 82.2 percent is explained by the other factors. The movement of health indices is still very slow and far below the national. The lack of quality of life of this society is the accumulation of various shortage like geographic condition, the level of education that is addressed by low society, the quality of service that is not even evenly. For local governments, it can be realised 15 percent health financing that has been carried out from the budget of the local income and expenditure. If the budget is realized, it is necessary to thoroughly evaluate and make preventive repairs. When viewed from physical facilities, each district and city has provided health facilities from the city to the village, and is said to be adequate. But the policy of procurement of health facilities is not accompanied by the procurement of health workers, so that the health facilities are not beneficial to the community over the last few years.

This research Model (Figure1) shows direct shopping in addition to acting as the explanatory variable, also acting as a variable of intervening or liaison between financial capacity and health inequality. The BL-to-three other predictor the is the inequality of income (proxy with Gini ratio), the average education discrepancy of the old school as its proxy way, and the life expectancy figure as a proxy to the quality of health. The three lines show negative and significant impacts. The results of this study reinforce the objective conditions of current financial management. So H5, H6, and H7 was rejected. Therefore, it can be said that the expenditure spending for the research period has not minimizing social inequality between regions in Papua province. If calculating the proportion of capital expenditure on total local government expenditure, the capital expenditure is getting the lowest portion of the expenditure on spending.

Government expenditure management imbalance has a bad impact on the quality of development. Trends in the proportion of operational expenditure increase while the proportion of capital expenditure (development spending) is very volatile and sometimes stagnant. With regard to the very lame financial management conditions, the local government has not yet positioned itself as a productive

public servant. In accordance with the demands of the present that will bring innovation, creativity and productivity. So the next few years the local government can present as a creator who is able to stimulate the community with various policies or development programs that are inclusive-comprehensive so that people become creative and productive. Therefore, social inequality can be solved in line with the quality of the individual.

## V. CONCLUSION

The local government's fiscal capacity has a positive impact on capital expenditure and direct expenditure. These financial capacities also positively impact the quality of education and improve revenue inequality between regions even if the Gini ratio remains high. In contrast, the fiscal capacity has less impact on the quality of health of the community between regions. The second finding, the management of regional finances from the expense (capital expenditure, goods and services expenditure) does not make a positive impact on social inequality. Thus, it can be said that direct expenditure or development spending between Papua province is not quality during the observation period

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