



The Effect of Fiscal Decentralization, Financial Performance and Human Development Index on Economic Growth in Makassar City for the 2011–2021 Period

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Abstract. Economic growth is the main target in the economic development of an area as well as in the city of Makassar where local governments are required to maintain the stability of economic growth in the region. The Fiscal Decentralization in Indonesia has been applied since 2000, the consequences of this policy are given the financial to local governments. However, there are several issues which are whether the delegation of authority given by the central government to the local governments that can contribute to economic growth in the region in the implementation of authority. Fiscal decentralization is one of the indicators affecting economic growth in line with financial performance and the Human Development Index. The purpose of this research is to find out how big the influence of fiscal decentralization, financial performance and the Human Development Index on economic growth in Makassar City for the period 2011 to 2021. The data in this study are secondary data taken at the regional Finance and Assets Office. and the office of the Central Bureau of Statistics. By using the multiple linear regression method and using SPSS application tools, the results of the study were found. Based on the partial test results indicate that Fiscal Decentralization and HDI have a negative and insignificant effect on economic growth, while the financial performance variable has a positive and significant effect on economic growth in Makassar city.

Keywords: Economic Growth · Decentralization Fiscal · Financial Performance · HDI

1 Introduction

Economic growth as a process increases in output over time become an important indicator to measure the success of a country's development [1]. Therefore, identification the various factors that influence it, including the role of the government, are interesting to study more deeply. According to Neoclassical theory of economic growth does not exist the influence of the government's role on growth in both expenditure and taxes [2, 3].

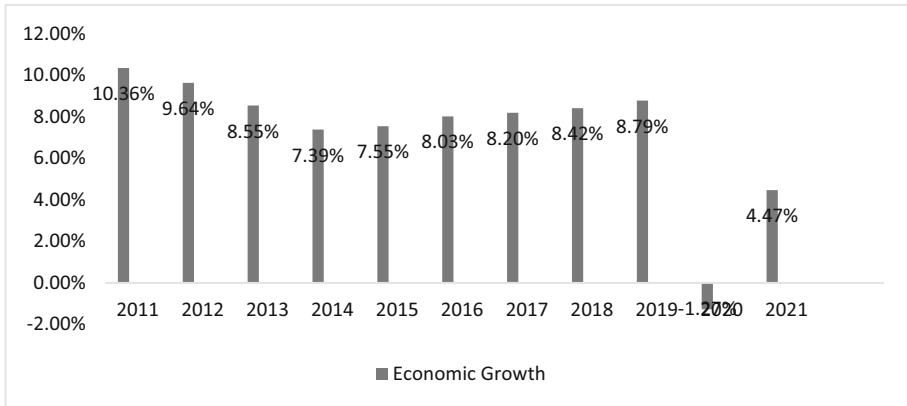


Fig. 1. Economic Growth in City of Makassar 2011–2021. Source: BPS (Makassar in Number 2012–2021)

Economic growth is only influenced by stock of capital, labor and technology is exogenous. The government can influence population growth which will affect the availability of labor but has no impact on growth economy. Endogenous growth theory explains that investment in physical capital and human capital play a role in determining growth long term economy. The government's contribution to economic growth can be explained by its influence in changing consumption or spending on public investment and tax revenues. This group of theories too consider that the existence of infrastructure, laws and regulations, political stability, government policies, bureaucracy, and basic international exchange as an important factor which also affects growth economy.

The problem of economic growth has attracted the interest of economists since the time of Adam Smith to many economists today who in the past time the attention of these economists was mainly focused on the problem of economic growth in developed countries, today the attention of some of the they have also been directed to the problem of economic growth in developing countries, including Indonesia, in this context more specifically the Makassar City Government.

Economic growth on Makassar city from 2011 until 2021 was fluctuate, in the 2011 until 2014 the percentage of economic growth in Makassar city was drop from 10,36% down to 7,39% in 2014, but in 2015 until 2019 the economic growth was up from 7,55% in 2017 up to 8,79% in 2019 (Fig. 1).

Debates about decentralization cover many issues. In relation to macroeconomic management, the key issues that stand out are the effect of decentralization on economic growth, equity, inflation, and public services. Some economists believe that fiscal decentralization promotes growth, improves equity, and improves the quality of public services and public welfare [4]. Others believe that decentralization may improve accountability and efficiency, although the process tends to complicate macroeconomic management, slow growth, increase inequality and inequality, and worsen public services and public welfare. The ambiguous conclusion cannot be separated from the multidimensional character of fiscal decentralization.

The paradigm of regional financial management has undergone a very basic change since the implementation of regional autonomy in 2001. Law (UU) No. 32 of 2004 and Law No. 33 of 2004 which are the main foundations in the implementation of regional autonomy essentially provide more opportunities to the region to further optimize the potential of the region, both concerning human resources, funds, and other resources which are regional assets. With regional autonomy, local governments are expected to be more independent, reducing dependence on the central government, both in terms of development financing and in terms of regional financial management [5].

Regional financial management that is carried out economically, efficiently, and effectively or fulfills the principle of value for money as well as participation, transparency, accountability, and justice will be able to encourage economic growth. Good regional financial management not only requires reliable human resources, but must also be supported by adequate regional financial capabilities. One of the regional financial capabilities can be measured by the amount of regional revenue, especially regional original income. Measurement of financial performance in regional governments is also used to assess regional financial accountability and capability in implementing regional autonomy.

In order to increase investment, the regional financial capacity must also be adequate. An indicator of the size of regional investment is the high ratio of capital expenditures in the APBD. The allocation of capital expenditure to local governments is also influenced by whether or not regional financial performance is good, such as the degree of decentralization, financial dependence, financial independence, effectiveness of Regional Original Revenue (ROI), and the degree of contribution of Regional Owned Enterprises. Thus, there is a link between regional economic growth and financial performance [6].

Economic development that stable is highly expected by the state which is growing like Indonesia because it can overcome problems of poverty, unemployment, illiteracy increase welfare community and pay more attention in the fields of health and education [7]. In other words, growing country high economy then he will able to give high effect to other fields because when a country experiences economic growth, income a country's national will be boosted up so that it can be allocated to infrastructure development financing economy. Therefore, economic growth is a priority main use of a country prosper its inhabitants.

According to Solow growth economy always comes from one or more than three factors increase quantity and the quality of the workforce (through population growth and improvement of education), addition capital and technology. While wrong a tool to measure development quality and quantity of labor is HDI [8].

Human development index is a composite index that includes three the field of human division that considered very basic, namely health as measured by the average age life expectancy, knowledge and education as measured by the average years of schooling and literacy rates and decent standard of living (welfare) overall [9].

2 Introduction

2.1 Decentralization Fiscal

In Indonesia, as stated in Law Number 33 of 2004, the definition of decentralization is expressed as the transfer of government authority by the government to the autonomous regions to regulate and manage affairs government within the framework of the Republic of Indonesia [10]. This means that decentralization is the delegation of authority and responsibility or public functions from the central government to local government.

2.2 Financial Performance

Performance related to the budget is a financial performance in the form of: comparison between the components contained in the budget. Financial performance regions in this study are in the form of independence ratios, effectiveness ratios, and efficiency ratios. Regional independence in question is how big the level of government independence is region in terms of funding or funding all its activities.

Financial performance effectiveness of Regional Government is the ability of local governments to realize Regional Original Income (ROI) is compared with the set target based on the real potential of the region [11]. Regional financial performance efficiency illustrates the comparison of the realization of expenditure with the realization of revenue area [11]. With these ratios, it is hoped that they can be used to encourage and enhance economic growth.

2.3 Human Development Index

In this study we use the data of human development index (HDI) from 2011 until 2021, that the measured with index number.

2.4 Economic Growth

Economic growth measured by GRDP that Gross Regional Domestic Product can be interpreted as an estimate of the total product of goods and services received by the people of a region as a reward for using the production factors they have. In this case, the income generated by using the factors but outside the area 14183 is not taken into account.

The regional concept of Gross Domestic Product is known as Gross Regional Domestic Product (GRDP). GRDP is a macroeconomic indicator of a region, which describes the presence or absence of regional economic development. By calculating GRDP carefully and accurately both on the basis of current prices and on the basis of constant prices, several conclusions can be drawn regarding the success of development in an area, which shows the rate of economic growth that represents an increase in production in various existing business sectors then in the regional concept, regional economic growth is a number indicated by the magnitude of the growth rate of the gross regional domestic product of an area measured on the basis of constant prices.

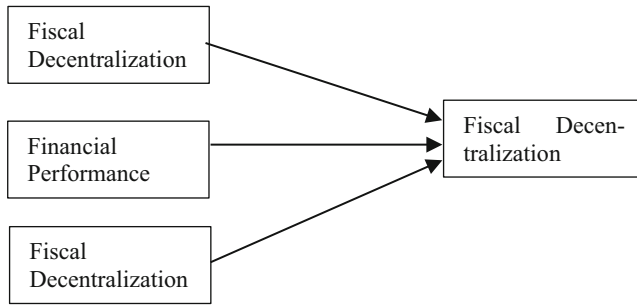


Fig. 2. Conceptual Framework

3 Methodology

This research is empirical research with hypotheses testing, which aims to test the hypothetical model [12]. The population used in this study is the City/Makassar. The sample in this study used the purposive sampling method, namely sampling based on subjective considerations of research that were adjusted to the research objectives. In the following, the author determines several criteria when taking samples to be used as research material, such as:

1. Makassar City Budget Financial Report from 2011–2021.
2. Data on Fiscal Decentralization, Financial Performance and Economic Growth from 2011–2021 in the Makassar City Budget Financial Report.

Types and Locations of Research This type of research is quantitative research. This research emphasizes on testing the theory between research variables with numbers and data analysis.

This study uses software applications in analyzing the data. The application used is Statistical Product and Service Solutions (SPSS). The methods used to analyze the data and test the research hypotheses are multiple linear regression analysis test, normality test, classical assumption test and hypothesis testing (T test and F test).

The data source used is secondary data. The data collection technique used in this research is the Documentation Method. This method is done by studying or using the financial reports of the Makassar City government (Fig. 2).

The hypotheses in this study are:

It is Assumed that Fiscal decentralization, financial performance and human development index simultaneously have significant effect on economic growth?

It is Assumed Fiscal decentralization have positive and significant effect on economic growth?

It is Assumed Financial performance have positive and significant effect on economic growth?

It is Assumed Human Development Index Havel positive and significant effect on economic growth?

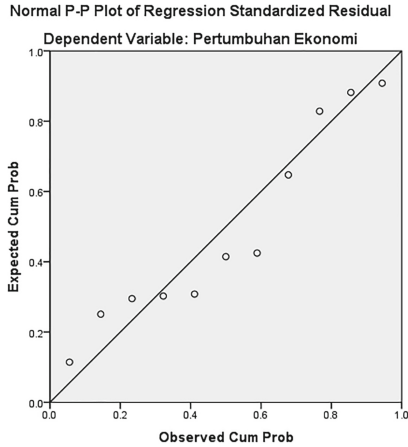


Fig. 3. Normality Test

Table 1. Descriptive Statistics

	Mean	Std. Deviation	N
Economic Growth	661.3636	372.48068	11
HDI	7978.0000	150.52973	11
Finance Performance	69108190.1818	123587152.98224	11
Fiscal Decentralization	3645601739.2727	1725706201.64835	11

Source: Output SPSS 24 (2022).

4 Result

From Fig. 3 the data obtained follows a diagonal line so we can conclude that the data in this study is normal.

4.1 Descriptive Statistics Test

Statistics in this study are used to provide information on research variables such as Fiscal Decentralization, HDI, Financial Performance, and Economic Growth.

Table 1 shows descriptive research variables with 11 years of data processing for each valid variable.

4.2 Multiple Linear Regression Analysis

Based on Table 2, the regression model is obtained as follows:

$$PE = 1656.980 - 2.276 x_1(\text{Sig}.0, 428) + 1, 33 x_2(\text{Sig}.0, 851) + 2, 196 x_3(\text{Sig}.0, 033) + e$$

Table 2. Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficient	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1656.980	5493.658		.302	.772		
	HDI	-.133	.683	-.054	-195	.851	.792	1.263
	Finance Performance	2.196E1-6	.000	.728	2.650	.033	.798	1.254
	Fiscal Decentralization	-2.276E1-8	.000	-.105	-.428	.682	.991	1.009

Source: Processed Data

Table 3. Simultaneous Test Results (F-Test)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	802226.391	3	267408.797	23.199	.003 ^b
	Residual	585192.154	7	83598.879		
	Total	1387418.545	10			

a. Dependent Variable: Economic Growth. b. Predictors: (Constant), Fiscal Decentralization, Finance Performance, HDII

Based on the results of data processing, the constant value of 1656,980, this result proves that if there is no influence of the variable HDI, Financial Performance and fiscal decentralization, the value of economic growth is 0.1656%, while fiscal decentralization has a negative and insignificant effect on economic growth, as well as HDI which has an effect on negative and insignificant to economic growth, in contrast to financial performance which has a positive and significant influence on economic growth.

4.3 Simultaneous Test

Based on Table 3, it can be seen that the calculated F value (23.199) has a significance of $0.003 < 0.05$. So H_0 is rejected and H_1 is accepted. This means that simultaneously, the independent variables, such as X1 (Fiscal Decentralization), X2 (IPM) and X3 (Financial Performance) have a significant effect on the Y variable (Economic Growth).

Table 4. Coefficient of Determination Test Results (R2)

Model Summary ^b						
Model R Square		Adjusted R Square	Std. Error of Estimate	Sig. F Change	Durbin-Watson	
1	.760 ^a	.578	.397	289.13471	.003	1.713

a. Predictors: (Constant), Fiscal Decentralization, Finance Performance, HDI.

b. Dependent Variable: Economic Growth

Table 5. Partial Test (T Test)

Model		Unstandardized Coefficient		Standardized Coefficients	T	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	1656.980	5493.658		.302	.772		
	HDI	-.133	.683	-.054	-195	.851	.792	1.263
	Financial Performance	2.196E1-6	.000	.728	2.650	.033	.798	1.254
	Fiscal Decentralization	-2.276E1-8	.000	-.105	-.428	.682	.991	1.009

Source: SPSS 24 (2022)

4.4 Coefficient of Determination Test (R²)

Based on Table 4 shows R Square is 0.578 or 57.8% variation in Economic Growth can be explained by variations of the three independent variables, such as Fiscal Decentralization, HDI and Financial Performance. While 42.2% can be explained by other factors not included in this study (Table 5).

5 Discussion

5.1 The Effects of Fiscal Decentralization

On Economic Growth Variable X1 (Fiscal Decentralization) has a t value of -428 with a significance of 0.682, which is greater than (0.05). This test shows that H0 is accepted and H1 is rejected, so it can be concluded that the variable X1 (Fiscal Decentralization) has a negative and insignificant effect on the variable Economic Growth. These results indicate that if fiscal decentralization increases, it will reduce economic growth in the city of Makassar. This result is obtained because based on the existing data at the Makassar City Government, the calculating variable in fiscal decentralization is very volatile. The different results were found by Junaidi et al. (2021) who found that fiscal decentralization had a positive and significant effect on economic growth in East Java Province [13].

Previous studies on fiscal decentralization generally used two indicators, namely revenue indicators and expenditure indicators. But in this study, the estimation will focus on the indicator fiscal decentralization variable expenditure due to the expenditure side, namely the real expenditure that has been made by government, is believed to be able to explain its influence better than the receiving side. In a system of government in which the central government has the authority to collect strategic taxes and then distribute them to local government while the responsibility for spending is given to local government, then the expenditure side is an indicator of decentralization fiscally better than the revenue side [14]. In context fiscal decentralization in Indonesia, most of the authority to collect taxes and other sources of revenue are owned by the government Center, while the regions will only get their receipts by transfer balancing fund consisting of Revenue Sharing Fund, General Allocation Fund and Special Allocation Fund. Thus, the focus of fiscal decentralization on expenditure indicators will be better.

5.2 The Effect of Financial Performance on Economic Growth

Variable X3 (Financial Performance) has a t value of 2.650 with a significance of 0.033 which is smaller than (0.05). This test shows that H0 is rejected and H1 is accepted so that it can be concluded that the X3 variable (Financial Performance) has a positive effect on the Economic Growth variables. This illustrates that financial performance has an important role in terms of increasing economic growth. Regional governments after autonomy have the authority to manage large enough funds and if they are not accompanied by financial performance or budget efficiency, the funds issued by local governments are not in accordance with development priorities in their regions and tend to experience budget wastage.

Similar results were found by Sari, Kindangen & Rotinsulu (2016). Based on the research, it was found that the independence ratio had a positive and significant effect on economic growth, the effectiveness ratio also had a positive and significant effect on economic growth while the financial dependency ratio had a negative and significant effect on this. is in accordance with the theory [15].

5.3 The Effect of HDI on Economic Growth

Variable X2 (IPM) has a t-count value of -195 with a significance of 0.851 which is greater than (0.05). This test shows that H0 is accepted and H1 is rejected so it can be concluded that the variable X2 (IPM) has a negative effect on the variable Economic Growth. This result shows that the increasing welfare of the people as measured by the Human Development Index will actually reduce economic growth. This result is a reflection of the level of the human development index which is a reflection of the welfare of the community. The same results were found in a study conducted by Muqorrobin (2017) [16]. Based on the results of data estimation using simple linear regression, it shows that the human development index variable has a negative and significant effect on economic growth in East Java province. Where every economic growth increases by 1%, the human development index will decrease by 0.19%. On the other hand, if the human development index increases by 1%, economic growth will decrease by 19.29%.

Increasing human development itself requires a fairly large investment and is followed by an even distribution of income [17]. The existence of investment and income distribution will achieve increased development in the fields of education and health. Furthermore, economic growth in an area depends on the conditions that are happening in the area, “The economic growth of the province of Bali is easy to fluctuate if there is a decrease in the number of tourists which affects the condition of the community which is indeed difficult to escape [18]. from dependence on the tourism sector”. This indicates that the human development index component consists of three components, namely, the health index, the education index and the people’s purchasing power index. These three components have a significant effect on the economic growth of Bali Province. Thus, the increasing achievement of the quality of human capital in an area is related to the quality of the human development index as the main capital in economic development, and economic growth can be realized and increased. Therefore, the Makassar city government strives to continuously promote the economy in various indicators that we know that recently there are incessant promotion programs in the tourism sector of the city of Makassar.

6 Conclusion

The purpose of this study was to determine the effect of Fiscal Decentralization, HDI and Financial Performance on Economic Growth in Makassar City. Analysis using multiple linear regression. So the results of the study show:

- 1) Based on the calculation of the F test or simultaneous testing, it shows that Fiscal Decentralization, Community Welfare and Financial Performance have an effect on Economic Growth.
- 2) Based on the partial test results show that Fiscal Decentralization have a negative and insignificant effect on economic growth.
- 3) Based on the partial test results show financial performance variable has a positive and significant effect on economic growth.
- 4) Based on the partial test results show HDI have a negative and insignificant effect on economic growth.

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