ABSTRACT

WIWIEK RINAYATI. The Impact of Fiscal Decentralization on Poverty and Food Security in the Region of West Java. (BUNASOR SANIM as Chairman, M. PARULIAN HUTAGAOL and HERMANTO SIREGAR as Members of the Advisory Committee)

The implementation of fiscal decentralization in accordance with Law No 32/2004 regarding of local government and No 33/2004 regarding of inter-government fiscal relationship was considered as the new era management and local government budget. Fiscal decentralization gives the opportunity for local government in order to increase income and the expenses side within the controlling of budget has more ability to spend the facilities in accordance to the people needs that gives externality for local economic activities that may increase the income of people, food security performance and to reduce poverty.

The objectives of this research were to (1) describe regional fiscal, economic, poverty and food security performance in the fiscal decentralization, (2) analyze factors affecting regional fiscal, economic, poverty and food security performance, and (3) analyze the impact of fiscal decentralization policies and external factor on poverty and food security in West Java.

The descriptive analysis and dynamic simultaneous equation models that were used in this research, using polled time series data of 1995 – 2005 and cross section data of 13 districts. Econometric model is constructed by 4 blocks, consisting of the regional fiscal, regional economic, poverty, and food security performance. Model was estimated using the 2SLS (Two Stage Least Squares) method SYSLIN procedure and simulation used the SIMNLIN procedure.

The result of the research shows that fiscal decentralization gives significant effect on the increasing of regional income and expenses. The DAU was the source of 68 percent of regional income, and the routine expenditures were the largest regional expenditures (77 percent) in the fiscal decentralization. The mix policies of increasing agricultural development expenditures, paddy price, and health and education development expenditures will have the most impact to reduce of poverty and increase food security in West Java.

Key word: fiscal decentralization, economic growth, poverty reduce, food security