ABSTRACT

UMI PUDJI ASTUTI. Impact of Fiscal Decentralization Policy on Regional Economic and Fiscal Performances in Bengkulu Province: An Econometric Approach (BONAR M. SINAGA as Chairman, KUNTJJORO and HERMANTO SIDEBAR as Members of Advisory Committee)

The centralized development process during the last period of 25 years, in fact did not lead to equally distributed development results among regions. It has become great consideration to implement regional autonomy in Indonesia based on Law No. 22 and 25 of 1999 after that complemented by Law No.32 of 2004 concerning Regional Government, and Law No.33 of 2004 concerning balanced budget between the central and regional government.

The objectives of this research are: (1) to assess sources of regional incomes, expenditure allocation, fiscal capacity, and income distribution among Districts and Cities in the region, (2) to analyze factors influencing regional economic and fiscal performances, and (3) to evaluate and to forecast impacts of fiscal decentralization policy on regional economic and fiscal performances.

This study is using pool data (time series data of 1993-2003 and cross section data of three Districts and one City). The descriptive analysis, Williamson Index, econometric model, and historical simulation using various policy scenarios and forecast were used to analyze the data. The Bengkulu Province Regional Economic model was developed into a simultaneous equations consisting of 26 structural equations, 17 identity equations, and estimated by using two Stage Least Squares (2SLS) method.

The result shows that: (1) after implementation of the fiscal decentralization policy, the main sources of regional revenue is derived from the General Allocation Fund (DAU) whereas the Regional Own Income (PAD) were very less, the fiscal capacity were low, dependency on the central government were high, and improper income distribution among Districts and Cities; (2) the economic activities (PDRBS) will increase investment, however, if the interest rate, tax, and retribution increase on the contrary, investment will decrease; (3) after fiscal decentralization, the regional economic and fiscal performances in all Districts is most affected by reallocation of routine expenditure to agricultural sector expenditure, whereas in City an expansion of the DAU and infrastructure expenditure; and (4) the reallocation of routine expenditure into development expenditure on agriculture and infrastructure until 2010 will have much greater impact on regional economic and fiscal performances.

To increase the fiscal capacity, regional tax and retribution, and development expenditure expansion should be implementing. Whereas to increase the regional economic performances are efficiency of routine expenditure in order to increase the development expenditure especially aimed for infrastructure and agriculture sectors.

Key words: Decentralization, Fiscal Policy, Regional Economy, Econometric Approach