Has Fiscal Decentralization Succeeded in Increasing Quality Economic Growth in East Java?

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Abstract

Research on Local Revenue, General Allocation Fund, and Special Allocation Fund on economic growth, poverty, unemployment, and Gini ratios have often been done. However, there is no research that uses these three funding sources as latent variables that have a simultaneous influence on quality economic growth variables as a latent variable consisting of economic growth, poverty, unemployment and the Gini ratio as constructs. Similarly, capital expenditure as a moderating variable will be seen as influencing the source of funds. East Java is a province with 38 districts/cities where the level of economic growth is quite high and even exceeds the level of national economic growth. But the level of poverty, unemployment, and inequality is also very high. This study aims to look at the effect of decentralized funding sources on Quality Economic Growth in East Java. The data used comes from the Directorate General of Financial Balance of the Ministry of Finance in 2012 - 2015 for realization's fund, and from the Central Bureau of Statistics for economic growth, poverty, unemployment, and Gini ratios. This study uses Partial Least Squares (PLS) in analyzing data, where quality economic growth becomes endogenous latent variables that are influenced by funding sources as exogenous latent variables and capital expenditure as a moderating variable. The results of the analysis show that the source of funds does not significantly affect quality economic growth even though the direction is positive. Likewise, capital expenditure cannot strengthen the influence of funding sources on quality economic growth. From this research, it is expected that the regional government can reanalyze the allocation of funds and the realization of regional expenditures which are prioritized for public service spending so that the triple track strategy can be implemented properly and achieve quality economic growth.

Keywords: Fiscal Decentralization, Quality Economic Growth, Funding Sources, Capital Expenditures, East Java.

I. Introduction

According to Todaro & Smith (2011), economic growth is a process of increasing social structure, but in pursuing accelerated economic growth, it must still pay attention to handling income inequality, as well as alleviating poverty. Quality economic growth is growth that creates equitable income, alleviates poverty and opens broad employment opportunities (Biro Analisa Anggaran dan Pelaksanaan APBN, 2013). So, the development targets are not only concentrated in the high rate of economic growth. But also takes into account income distribution and poverty alleviation and unemployment (Prasetyo, 2008).

According to the theory of fiscal federalism developed by Hayek (1945), Musgrave (1959) and Oates & International Institute of Management (1977), regional autonomy is a way to achieve an increase in fiscal decentralized economic growth. According to Oates & International Institute of Management (1977), fiscal decentralization is able to improve economic growth and public welfare. Lin & Liu (2000) found that fiscal decentralization had a positive influence on capital investment in China. Whereas in Indonesia in 2000-2007 based on a study conducted by Fadjar & Sembiring (2007), fiscal decentralization and endowment factors positively and significantly influence economic growth in Indonesia.
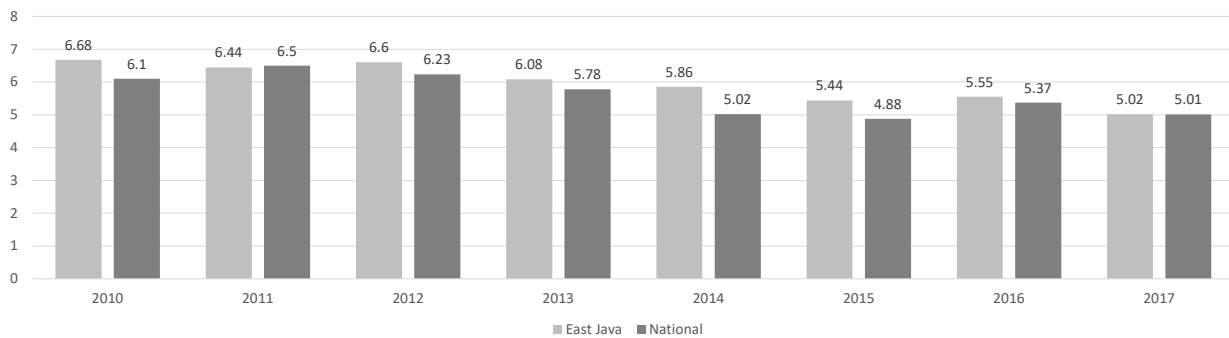
Different results were found by Xie, Zou, & Davoodi (1999) who found that the implementation of fiscal decentralization had a negative impact

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Source: Central Bureau of Statistics, processed

Figure 1. Economic Growth in East Java and National 2010-2017

on economic growth and development. Whereas according to Woller & Phillips (1998) studies in 23 developing countries in the IMF category in 1999-2000 showed that there was a weak relationship between economic growth and fiscal decentralization. Aslim & Neyapti (2017) found that increasing taxes as a form of fiscal federalism resulted in a decline in welfare and increased disparity in the income distribution of local people.

The existence of differences in the results of these studies still indicates the possibility of implementing fiscal decentralization experiencing obstacles. This difference also raises concerns that the implementation of fiscal decentralization, which was originally intended as acceleration and an increase in economic growth and public welfare, will lead to income inequality and poverty. This was also experienced by East Java Province.
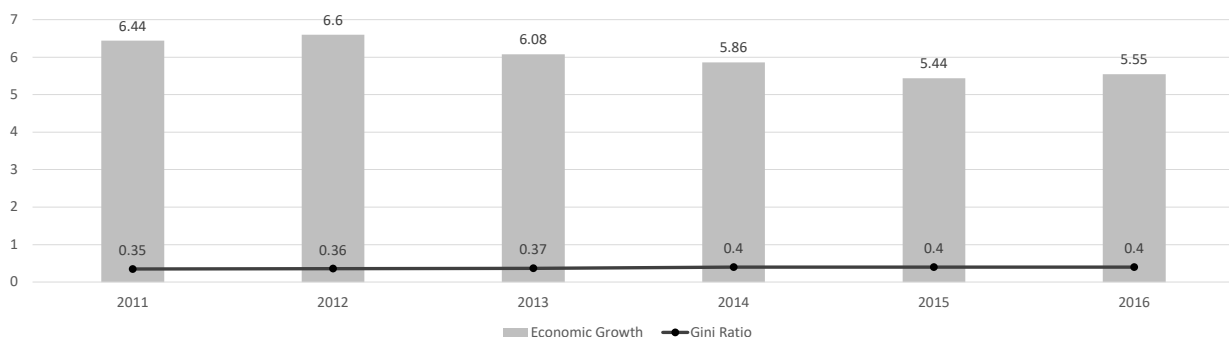
A.   Quality Economic Growth in East Java

Quality economic growth is growth that creates equitable income, reduces poverty and opens broad employment opportunities (BAAP APBN, 2013). Good economic growth can open up broad employment opportunities, and on the contrary

low economic growth will not absorb labor, which in turn will have an impact on increasing poverty and inequality. This explains that quality economic growth is based on indicators of economic growth rates, poverty rates, unemployment rates, and income inequality or Gini ratios.

East Java is a province with 38 districts/cities where the level of economic growth is quite high and even exceeds the level of national economic growth (Figure 1). Even in the first quarter of 2017 East Java became the province with the third highest economic growth in Java and 0.36 points higher than the national economic growth (5.01 percent). In 2017 East Java contributes 14.59 percent to the nation's economic growth, (Central Bureau of Statistics, n.d.).

In accordance with the general strategy above, East Java wants to achieve economic growth that is pro-poor or pro-poor growth-poor growth is defined as economic growth that expands the opportunities and capabilities of the poor to participate more, and obtain greater benefits from economic activity (Kimenyi, 2006). Economic growth is called pro-poor growth if the proportion of the increase in the average income of the poor population is greater

Source: Central Bureau of Statistics, processed

Figure 2. Economic Growth and Gini Ratio in East Java in 2011-2016
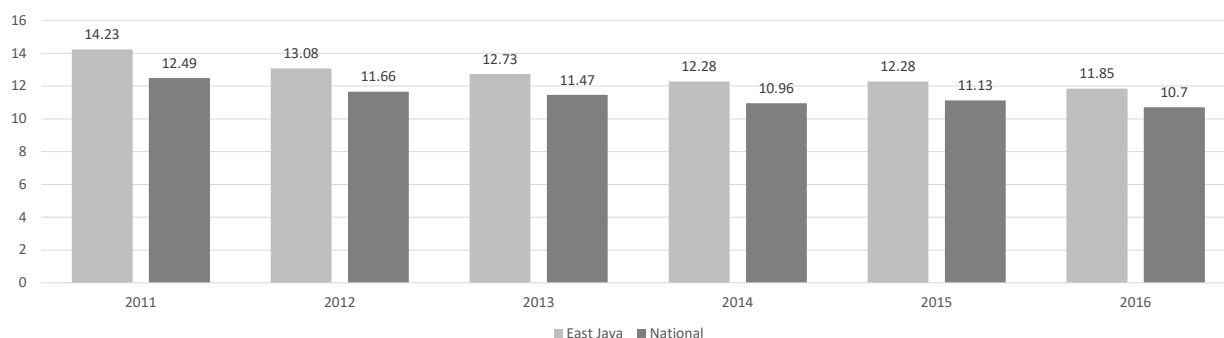
Figure 3. Percentage of Poor Population in East Java in 2011-2016

than the proportion of the increase in income of the non-poor population (Kakwani & Pernia, 2000).

In Figure 2 East Java Economic Growth and Gini Ratio in 2011 - 2016 shows that when economic growth increases, this ratio also increases. This shows that the ups and downs of economic growth in East Java do not affect inequality or the Gini ratio. At 2011 to 2015 economic growth has decreased from 6.44 to 5.44, but Gini ratio increase from 0.35 to 0.4. At 2016 economic growth increase to 5.55 but did not affect the Gini ratio. Gini ratio in 2016 still at the same point at 0.4.

Economic studies generally state that poverty reduction is closely related to economic growth. The requirement for poverty alleviation is economic growth and guarantees that the growth is pro-poor (Kraay, 2006). Siregar & Wahyuniarti (2007) states that economic growth is a necessary condition for poverty reduction. Based on research conducted by Jonaidi (2012) and Purnama (2017) the economic growth influences poverty alleviation.

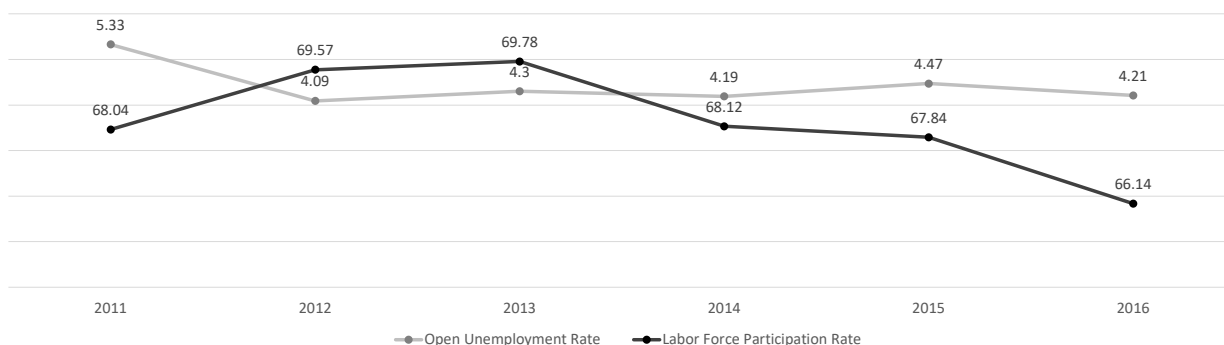In East Java, there is a high economic discrepancy, also indicated by a high level of poverty. In Figure 3, it can be seen that the poverty rate is indeed declining, but still remains above the national poverty level.

Solow and Swan (Mankiw, 2003, p. 55) state that economic growth depends on the growth of the supply of production factors in the form of population, labor, and capital accumulation (investment).

Based on Figure 4 the Labor Force Participation Rate has decreased. The highest Labor Force Participation Rate in 2013 reached 69.78 percent. But often the year has decreased until 2016 reached 66.14 percent. This is also followed by the Open Unemployment Rate. Open Unemployment Rate experiences fluctuations every year.

B. Fiscal Decentralization in East Java

According to Khusaini (2006), regional revenue is one indicator of the success of fiscal decentralization. Law number 32 of 2004 explains that one of the sources of regional income comes from Local Revenue. In addition to Local revenue, balancing fund consisting of general allocation fund and special allocation fund, are sources of local government funding that

Figure 4. Open Unemployment Rate and Labor Force Participation Rate in East Java in 2011-2016

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Table 1.
Budget Realization of Local Revenue (LR), General Allocation Fund (GAF), Special Allocation Fund (SAF) and Capital Expenditures (CE) in East Java Province in 2011-2016

| Year | REALIZATION | | | | |
| | LR | GAF | SAF | CAPITAL EXPENDITURE | |
				TOTAL	%
2011	4,984	16,553	1,607	4,800	21
2012	6,535	24,161	1,853	7,834	24
2013	7,424	23,045	1,651	7,685	24
2014	11,897	29,490	2,212	11,706	27
2015	14,573	34,318	3,537	16,420	31
2016	13,246	31,004	8,738	15,574	29

Source: Directorate General of Financial Balance of the Ministry of Finance, processed (in billions of rupiah)

support the implementation of decentralization. General allocation fund is funded originating from the APBN which are channeled to regional governments to fund regional needs in the context of decentralization. While special allocation fund according to law number 33 of 2004, is a fund originating from the state budget that is channeled to regional governments to fund special activities related with regional affairs but in accordance to national priorities.

In line with the objectives of fiscal decentralization to improve economic growth and the welfare of society, government spending is also an indicator of the success of fiscal decentralization (Khusaini, 2006). Damayanti (2015) explained that capital expenditure is government expenditure that is used to finance facilities, public facilities, and infrastructure that will increase the productivity of the community and the regional investment climate. Jones (1995) explained that regional infrastructure such as road access, the availability of bridges and other public infrastructure is a form of allocation of regional government capital expenditure. Table 1 it can be seen the realization of Local revenue, General Allocation Fund, Special Allocation Fund, and Capital Expenditures in East Java Province in 2011 – 2016. All the fund's realization has increased every year. Its means that East Java budget realization increases every year.

Several studies were conducted to see how the influence of local revenue, general and special allocation fund on economic growth as measured through Gross Regional Domestic Product. Gunantara & Dwirandra (2014) stated that local revenue and general allocation fund had a positive and significant effect on Economic Growth. Setiyawati & Hamzah (2007) concluded that local revenue directly had a positive effect on economic growth, while the general allocation fund had a negative effect on economic growth.

Maryati & Endrawati (2010) and Permanasari (2013) found that local revenue and general allocation fund had a significant positive effect on economic growth, while special allocation fund did not have a significant positive effect on economic growth. Similar to the research conducted by Paseki, Naukoko, & Wauran (2014), simultaneous General Allocation Funds and Direct Spending did not affect economic growth in Manado City. Setyowati & Suparwati (2012) conducted a study on the effect of Economic Growth, local revenue, general and special allocation fund on the Human Development Index with the Allocation of Capital Expenditures as an intervening variable. In their research, they found that local revenue, general and special allocation fund proved to have a positive effect on HDI through the capital expenditure budget allocator (PABM).

Economic growth, which has always been the main focus in research, has also been linked to the level of community welfare. Several studies have been conducted to see the effect of economic growth on poverty, labor, and income inequality. Research conducted by Nizar, Hamzah, & Syahnur (2013) shows that the effect of economic growth (GDP) on the poverty level directly is very small but the relationship is negative and significant. Setiyawati & Hamzah (2007) stated that the results of direct testing for the effect of economic growth on poverty and unemployment showed a significant influence, but economic growth negatively affected poverty

and had a positive effect on unemployment.

Jonaidi (2012) who conducted research on poverty and economic growth analysis in Indonesia found that economic growth had a significant effect on reducing poverty, especially in rural areas where there were many pockets of poverty. Conversely, poverty also has a significant effect on economic growth. The unemployment rate has a significant and negative effect on Indonesia's economic growth. Investments in the form of domestic and foreign investment have a significant and positive effect on economic growth. This is in line with the research conducted by Sari (2017), Soejoto & Karisma (2013), and Sunusi, Kumenaung, & Rotinsulu (2014).

Inequality is also the subject of research in relation to economic growth. Wulandari (2016) explains that the relationship between economic growth and income inequality is not significant. Whereas Simanjuntak (2015) examines the effect of decentralization in distributing national income to reduce income inequality in Indonesia, the results of the analysis show that from an economic aspect, decentralization has not been able to distribute economic growth to minimize income inequality.

Research conducted by Arif & Wicaksani (2017) in East Java shows that the value of economic growth, the number of workers and population do not have a significant effect on the level of income inequality in East Java in 2011-2015. Just like the research conducted by Wijayanto (2016), the results of the study showed that economic growth and income inequality in North Sulawesi Province negatively affected the level of poverty. Whereas seen from the value of net elasticity of poverty towards economic growth the result is economic growth able to reduce poverty, but income inequality becomes a barrier or reduces the effectiveness of economic growth in poverty alleviation.

Based on the background and some of the above studies, it can be concluded that research is still concentrated on the influence of economic growth and people's welfare separately. Not simultaneously as quality economic growth. There is a different result of research. Research on the influence of the three funding sources supporting fiscal decentralization, namely local revenue, general and special allocation fund simultaneously on quality economic growth (which consists of economic growth, unemployment, poverty, and the Gini ratio) also does not yet exist. Though the main focus of the current government is to achieve quality economic growth where there is an equal distribution of people's welfare (Pemerintah Provinsi Jawa Timur, 2014).

This study will look at whether fiscal decentralization in East Java, as reflected by the realization of local revenue, general and special allocation fund, is in line with the strategy desired by the government, namely achieving quality economic growth. In addition, this study will also look at the extent to which capital expenditure as an indicator of the success of fiscal decentralization strengthens the influence of sources of funds on quality economic growth.

II. Method

A. Data Collection Method

The data used is secondary data. These data were obtained from the database published in 2012-2015. The data is published by the Central Bureau of Statistics and the Directorate General of Financial Balance of the Ministry of Finance. The data from Central Bureau of Statistic are social and population publication for Poverty, Open Unemployment Rate, Labor Force Participation Rate and Gini Ratio, and economy and trade publication for Economic Growth, Per capita Gross Regional Domestic Product. The data from Directorate General of Financial Balance of the Ministry of Finance from regional financial data publication for the realization of Local Revenue, Balancing Fund and Capital Expenditures.

B. Variable Identification

The variables used in this study consist of two latent variables and their manifests and one moderating variable.

1) Latent Variables

Latent variables are variables that cannot be measured directly and must be measured by indicators or manifest (Sholihin & Ratmono, 2013, p. 5). In this study latent variables are divided into two, namely:

a) *Endogenous/bound latent variables and manifest variables:*
An endogenous latent variable is a latent variable whose value is determined by other variables in the model (Sholihin & Ratmono, 2013, p. 5). The endogenous latent variable in this study is Quality Economic Growth, with its manifest variables namely Economic Growth, Per capita Gross Regional Domestic Product, Poverty, Open Unemployment Rate, Labor Force Participation Rate, and Gini Ratio. Economic growth is measured by the percentage of this year's Gross Regional Domestic Product with the previous year's Gross Regional Domestic Product. Poverty

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measured by the percentage of the poor. Open employment rate measured by the percentage of unemployment to the total workforce. Workforce Participation Rate is measured by the percentage of the workforce of the working age population. Gini ratio is measured by the income inequality index obtained from the comparison of income with the population.

b) *Exogenous/free latent variables and the manifest/observed (check the right word for this manifest word) variables:*
An exogenous latent variable is a latent variable whose value is determined by other variables outside the model (Sholihin & Ratmono, 2013, p. 5). The exogenous latent variable in this study is the Source of Funds, with the manifest/ observed variable which is the realization of local Revenue and Balancing Fund.

2) *Moderating variable*
Moderation variables are independent variables that aim to strengthen or weaken the relationship between exogenous and endogenous variables (Liana, 2009). The moderating variable in this study is the realization of Regional Capital Expenditures.

C. Data Analysis

This study uses Partial Least Squares (PLS) in analyzing research data. PLS is a multivariate statistical technique that makes compares between multiple dependent variables and multiple independent variables (Jogiyanto & Abdillah, 2016, p. 11). PLS is a statistical method based on variant SEM that is designed to complete multiple regression when specific problems occur in the data, such as the size of a small research sample, missing data, and multicollinearity. Data analysis in study use SmartPLS 3.2 software.

Before testing the hypothesis, the model must be evaluated. The stages of analysis using PLS must at least go through five stages of the process, which each stage will affect the next stage (Ghozali & Latan, 2015, p. 47). The five stages are:

1) *Model conceptualization*

a) *Designing the inner model*
In PLS the design of the model can be in the form of theory, results of research, adoption, relationships between variables

in other fields of science, normative, and can also explore the relationship between variables.

b) *Designing the outer model*
In this study, the reflective measurement model or outer model is a measurement model that is manifested towards the construct (Ghozali & Latan, 2015, p. 9). The basis used is theory, previous empirical research or rational.

2) *Determining the Algorithm Analysis Method*
After passing the first stage, the next step is what method of algorithm analysis will be used for estimating the model. The scheme suggested by Wold in Ghozali & Latan (2015, p. 52) is a path or struck weighting.

3) *Determine the Resampling Method*
This study uses the bootstrapping method in conducting resampling methods that are using all original samples to use resampling.

4) *Draw a Path Diagram*
After conceptualizing the model, the next is drawing a path diagram of the model to be estimated.

5) *Model Evaluation*
After drawing the path diagram, the model is ready to be estimated and the results are evaluated. PLS evaluation model is done by assessing the outer and inner model. This study uses a reflective outer model, so the evaluation is carried out, namely:

a) *Outer Model*
Convergent validity, the value of loading factor > 0.70 and the value of Average Variance Extracted (AVE) > 0.50
Discriminant validity, construct correlation with item measurement must be greater than the other construct size and Cross loading value must be > 0.70
Composite reliability, the limit value received for the composite reliability level (pc) is > 0.7

b) *Inner Model*
The inner model aims to predict the relationship between latent variables. This study uses the rule of thumb proposed by Hair (2011). According to Hair (2011) in Ghozali & Latan (2015, p. 85), the value of R-Square 0.75 shows a strong model, 0.50 indicates a moderate model and 0.25 indicates a weak model.

Table 2.
Descriptive Analysis Test

Indicator	R/C	Min	Max	Mean	Standard Deviation
Local Revenue (LR) (billion rupiahs)	38	106,208	5.143	491,835	788,194
Balancing Fund (BF) (billion rupiahs)	38	46,005	2.309	1.175	633,718
Capital Expenditure (CE) (billion rupiahs)	38	121,144	2.517	495,203	390,413
Poverty (Pov)	38	4,17	23,56	11,6	4,66
Gini ratio (GR)	38	0,24	0,42	0,3	0,04
Economic Growth (EG)	38	2,86	10,26	5,4	1,03
Open Unemployment Rate (OUR)	38	0,85	7,22	3,8	1,29
Labor Force Participation Rate (LFPR)	38	61,98	79,48	69,3	3,67
Percapita GDRP	38	9.049	285.021	37.820	46.251

The hypothesis in this study uses hypotheses that have been given direction (one tail). Jogiyanto & Abdillah (2016, p. 63) state that the path coefficient score or inner model shown by the t-statistics for the one-tailed hypothesis must be above 1.64. So, the hypothesis will be accepted if the t-statistic value is more than 1.64 and will be rejected if the t-statistic value is below 1.64.

D. Hypothesis

There are two hypotheses to be tested in this study.

H1: Source of Funds has a positive effect on quality economic growth.

H2: Capital Expenditures strengthen the positive influence of Fund Sources on quality economic growth.

III. Results and Discussion

A. Overview and Description of Sample Statistics

This research is located in East Java Province which consists of 38 Regencies / Cities. This study took data from districts/cities in the province of East Java in 2012-2015. The results of the descriptive analysis test are shown in Table 2.

In Table 2, it can be seen that the local revenue indicator has an average that is smaller than the standard deviation. This explains that data from local revenue indicator is increasingly varied/ spread. While the Balancing Fund (BF), Capital Expenditure (CE), Poverty (Pov), Gini Ratio (GR), Economic growth (EG), Open Unemployment Rate (OUR), Labor Force Participation Rate (LFPR) and Perkapita GRDP indicators have an average that is greater than the standard deviation. This shows that the data from the BF, CE, Pov, GR, EG, OUR, LFPR and Perkapita GRDP indicators are relatively homogeneous.

B. Model Evaluation

1) Draw a Path Diagram

The model in this study is a reflective form model that is a measurement model which is a manifestation of the construct (Ghozali & Latan, 2015). The description of the model is shown in Figure 5.

2) Evaluation of Reflective Outer Models

After drawing the model, an evaluation of the measurement model (outer model) can be done.

Figure 6 shows the results of the PLS algorithm which describes the loading factor for each concentrate indicator. The analysis produces
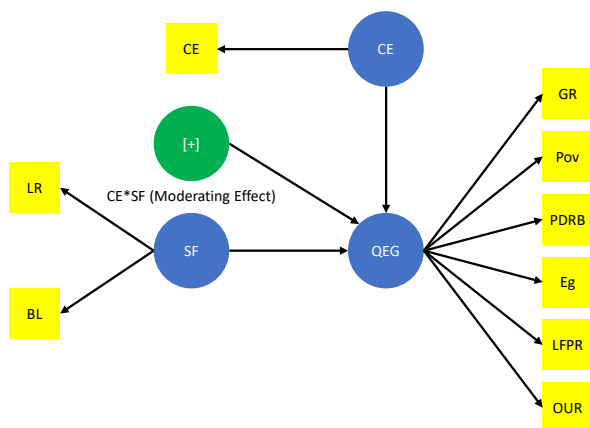
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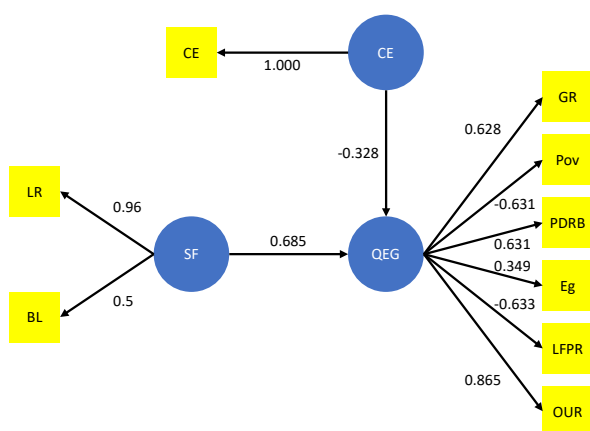
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Figure 5. Path Diagram

Figure 6. PLS Algorithm Run1

several construct indicators that do not meet the loading factor requirements. Indicators Pov, EG and LFPR produce values below 0.5, namely -0.631 for the Poor indicator, 0.349 for the EG indicator and -0.633 for the LFPR indicator. This explains that the three indicators are not significant. Not fulfilling the loading factor value will affect the next criteria, namely AVE and composite reliability. For this reason, the three indicators must be released from
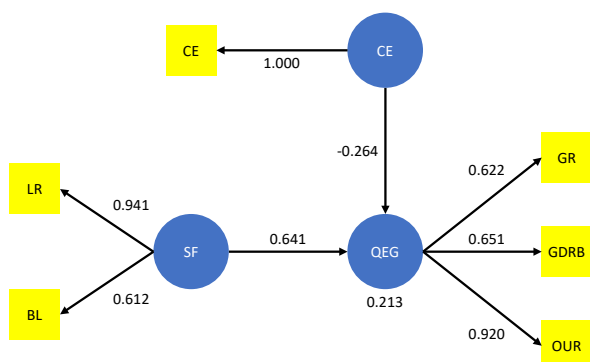

Figure 7. PLS Algorithm Run2

the model and re-estimation.

In Figure 7, it can be seen that the PLS Algorithm Run 2 analysis produces a value of loading factor above 0.5 on each indicator. This explains that all indicators of the construct are significant and fulfill the convergent validity criteria.

Furthermore, discriminant validity criteria were assessed from AVE and reliability were assessed from composite reliability (Table 3).

In Table 3 it can be seen that the AVE value in each construct is above 0.50. This proves that the model fulfills discriminant validity criteria.

Table 3.
Discriminant Validity

Variable	Average Variance Extracted (AVE)
CE	1.000
QEG	0.552
SD	0.630

In Table 4 it can be seen that the Composite Reliability value in each construct is above 0.7. This proves that the model meets the reliability criteria.

Table 4.
Reliability

Variable	Composite Reliability
CE	1.000
QEG	0.782
SD	0.765

From the results of the evaluation analysis of the measurement model (outer model), it was found that the PLS Algorithm Run 1 did not fulfill the convergent validity criteria, discriminant validity, and reliability. This is because POV, EG and LFPR indicators produce a loading factor value below 0.5, so the indicator must be removed from the model. In PLS Algorithm Run 2, the indicator and its construct fulfill the convergent validity criteria, discriminant validity, and reliability. Therefore, the next model will be used by PLS Algorithm Run 2 to evaluate the structural model (inner model).

3)   Evaluation of the Reflective Inner Model
From Table 5 it can be seen that the R square of the QEG latent variable is 0.213. This can be

Table 5.
Reliability

Variable	R Square
QEG	0.213

interpreted that the QEG variable that can be explained by the SF variable is 21.3% while 73.9% is explained by other variables outside the model.

4) Hypothesis Testing

To test hypotheses, a bootstrapping method is carried out with moderation effects.
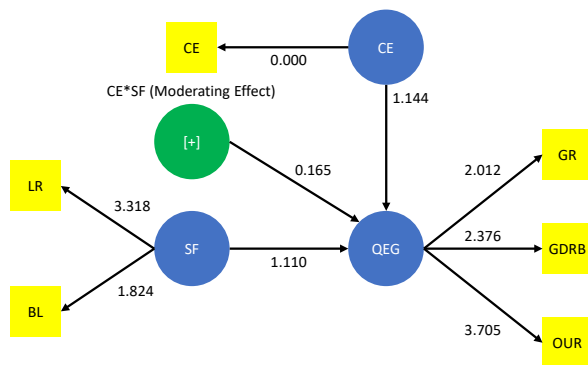
Figure 8. Bootstrapping

Table 6 is the result of the path coefficients with moderating effects.

Table 6.
Path Coefficients

Hypothesis	Variable	Original Sample (O)	T statistics
H1	SF -> QEG	0.566	0.999
H2	CE*SF -> QEG (moderation)	0,028	1,152

a) Testing Hypothesis 1: Sources of Funds have a positive effect on Quality Economic Growth

The results of testing the first hypothesis, namely Sources of Fund (SF) have a positive effect on Quality Economic Growth (QEG) shows that the results of the path coefficient are 0.566 with a statistical t value of 0.999. Characteristic values below 1.64 indicate that Sources of Fund (SF)have no effect on Quality
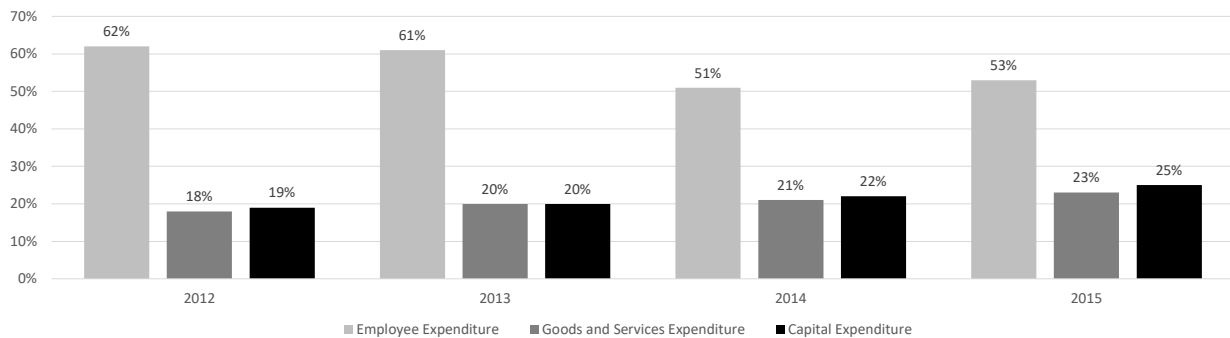
Economic Growth (QEG). Although the path coefficient shows a positive number because the statistical t-value is below 1.64, which means that the hypothesis one is rejected.

In accordance with Law Number 33 of 2004 concerning Financial Balance and Government Regulation Number 55 of 2005 concerning Balancing Funds, the Regional Government can arrange and manage its own government affairs including budgeting, use and reporting on the use of funds received and successfully collected by the Regional Government itself. The general allocation fund provided by the central government is a block grant, meaning that the general allocation fund is the full authority of the regional government which is concentrated on providing public services. Whereas the Special Allocation Fund is one of the mechanisms of central government financial transfers to the regions which aims, among other things, to improve the provision of regional physical infrastructure and facilities according to national priorities and reduce the gap between regional growth rates and services between fields. According to Yasser (2015), the flexibility of using a general allocation fund can be an alternative source of funding for capital expenditure. The increasing general allocation fund will provide greater opportunities to increase the allocation of capital expenditure. This means that the use of financial resources should be concentrated on public services.

From Table 7 and Figure 9, it can be seen that the highest realization is achieved by employee expenditure. This shows that the majority of funding sources are

Table 7.
Realization Expenditure of East Java in 2012-2015

Year	Total Expend.	Employee Expend.	Goods and Services Expend.	Capital Expend.
2015	66,010	34,667	14,922	16,420
2014	58,771	33,415	12,611	12,744
2013	50,466	30,652	9,843	9,970
2012	44,954	28,091	8,226	8,636

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Source: Directorate General of Financial Balance of the Ministry of Finance, processed.

Figure 9. Realization of Expenditures

still concentrated on financing personnel expenditure. According to Law Number 25 of 2009 concerning Public Services, public service is an activity or series of activities in order to fulfill service needs in accordance with the laws and regulations for every citizen and resident for administrative goods, services and/or services provided by the organizer public service. This means that the realization of expenditure should not only be prioritized for personnel expenditure, but also for goods and services.

According to the Fiscal Policy Office of the Ministry of Finance (2016) regarding the remaining budget (SiLPA) study, the remaining budget which is relatively high indicates the lack of optimal utilization of regional expenditure budget (APBD) funds by local governments in the provision of public services and economic development in the regions.

From Figure 10, it can be seen that the remaining budget of 38 regencies/cities in East Java in 2012 - 2015 has increased every year. This could indicate that the local government funds have not been optimally utilized in the provision of public services and economic development in the regions. According to Ali & Zhuang (2007) in his journal entitled Inequality and the Imperative for Inclusive Growth in Asia, it was explained that maximizing public interests would reduce high inequality. In line with this, Kang & Imai (2012) state that government policies aimed at public facilities will be able to reduce poverty more evenly.

With the high realization of employee and SiLPA expenditures that were high in the period of 2012 - 2015, indicating the causes of why the source of funds did not affect quality economic growth.

The results of this test are in line with several previous studies, namely Woller & Phillips (1998), Zhang & Zou (1998), Xie et al. (1999) and Baskaran & Feld (2013). Research by Woller & Phillips (1998) found that fiscal decentralization does not affect economic growth. While
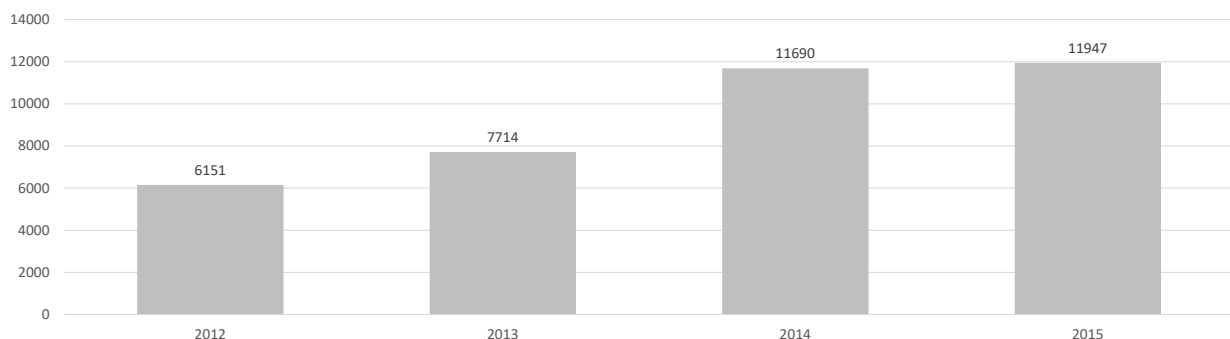
Source: Directorate General of Financial Balance of the Ministry of Finance, processed (in billion Rupiah)

Figure 10. SiLPA 38 Regencies/Cities in East Java in 2012-2015

Zhang & Zou (1998), Xie et al. (1999) and Baskaran & Feld (2013) found that fiscal decentralization has a negative effect on economic growth. Simanjuntak (2015) where the results of the analysis show that from an economic aspect, decentralization has not been able to distribute economic growth to minimize income inequality.

The theory of fiscal Federalism states that economic growth and according to Oates & International Institute of Management (1977) theoretically, the realization of funding sources for decentralization can provide a positive influence on quality economic growth. But the above tests give different results. Although the direction is positive but cannot affect significantly. Sources of funds supporting decentralization consisting of local revenue and Balancing Funds (general and special allocation fund) cannot influence quality economic growth which might be caused by allocations that are not yet on target (please support this argument with numbers). This is in line with several previous studies, namely Setiyawati & Hamzah (2007), Arifintar (2013) where the results of the study indicate that there is an inaccurate allocation of funds.

b) *Testing Hypothesis 2: Capital Expenditures strengthen the positive influence of Fund Sources on Quality Economic Growth*
The results of testing the second hypothesis, namely Capital Expenditures (CE) strengthens the positive influence of Fund Sources (SF) on Quality Economic Growth (QEG) shows that the path coefficient results are 0.028 with a statistical t-value of 1.152. The path coefficient value shows a positive number, but the statistical value is below 1.64 which means that the t-value of the statistics is not significant so it can be concluded that the second hypothesis is rejected.

This shows that Capital Expenditures (CE) strengthens the positive influence of Fund Sources (SF) on Quality Economic Growth (QEG)). Adisasmita (2006) explains that the regional government expenditure policy that can directly encourage regional economic growth is capital expenditure. Damayanti (2015) explained that capital expenditure is government expenditure that is used to finance public facilities,

Table 8.
Realization of Capital Expenditures in East Java in 2012-2015

Capital Expenditure	2012	2013	2014	2015
Land	346,510	419,576	514,304	630,420
Equipment and Machines	1,655,286	1,831,112	2,117,150	2,447,869
Buildings	2,759,633	2,814,750	3,182,416	3,598,106
Roads, irrigation and networks	2,890,626	3,658,492	5,683,867	8,830,510
Other fixed assets	132,928	96,937	165,216	281,590
Construction in progress	-	948	2,973	9,325
Other assets	49,086	39,404	40,331	41,280

Source: Directorate General of Financial Balance of the Ministry of Finance, processed. (in billion Rupiah)

facilities, and infrastructure. With the programs for the public interest held by the government, it is expected to be able to improve the quality of public services which ultimately has an impact on improving the welfare of the community (Setyowati & Suparwati, 2012).

From the data on capital expenditure realization (Table 8), it can be seen that the realization increases every year. The highest realization of capital expenditure for roads, irrigation, and networks. However, the realization of capital expenditure has not been able to become a moderator that strengthens the influence of sources of funds on quality economic growth. (please give numbers to support your arguments).

Based on the 2015 East Java provincial accountability report and the 2015 East Java Provincial Government Agency Performance Report, there were obstacles in achieving performance realization targets for 3.5 targets, namely Increasing Infrastructure Development, Maintenance, and Repair. From the planned target of 13.36% in 2014, the realization was 3.85%. While the realization from 2011 and 2012 is still 0%. This is because the planning for the construction of several roads in East Java from 2012 to 2015 is

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still in the pre-construction stage, namely the preparation of the Fs and AMDAL, the stages of making Environmental Management Efforts and Environmental Monitoring Efforts and review stages. Road stability is also not optimal, this is also caused by other external factors, such as the high rate of increase in the number of vehicles, especially heavy vehicles that exceed the permitted tonnage, resulting in early damage, weather factors that affect the carrying capacity of the land and accelerate degradation and most the road has exceeded the age of the plan so that it has road conditions.

Constraints in achieving the realization of these activities can be one indicator of why capital expenditure cannot moderate the influence of sources of funds. In addition, realization data taken is from 2012 to 2015. Whereas the Presidential Regulation concerning Acceleration of infrastructure development came into effect in July 2014, namely Presidential Regulation Number 75 of 2014. Furthermore, there are some changes and additions to infrastructure priorities, namely, Regulation of the Coordinating Minister for Economic Affairs Number 12 of 2015, Presidential Regulation Number 122 of 2016 and Regulation of the Coordinating Minister for Economic Affairs Number 5 of 2017. This indicates the concentration of infrastructure development which is capital expenditure has not been maximized in the year of data collection of this research.

This research is in line with the research conducted by Gunantara & Dwirandra (2014) and Malau (2014) where capital expenditure as a moderating variable is not able to moderate or strengthen the influence of Local revenue and Balancing Funds (general and special allocation fund) influencing economic growth. This is due to the allocation of Capital Expenditures not being used properly.

IV. Conclusion

The conclusions of this study are as follows. First, Fund Sources (SF) have no effect on Quality Economic Growth (QEG). This is because the realization of the budget is still concentrated on employee expenditure, whereas to achieve quality economic growth public services must be easily accessible by the community, which means that public spending must be increased.

Second, Capital Expenditures (CE) cannot strengthen the influence of Fund Sources (SF) on Quality Economic Growth (QEG). This is possible because capital expenditure is not allocated and utilized properly. This is because the realization of capital expenditure is still very small compared to employee expenditure. The realization of the activities is still not maximized so that it cannot be utilized by the community.

However, this study has several limitations that allow it to influence the results of data analysis. The study takes concise realization data globally, namely Regional Original Revenue, Balancing Funds and Capital Expenditures. Therefore, the results obtained cannot be explained specifically. If the realization used is realization based on function (education, health, and others), it may be obtained that the actual realization used in which function is influential and has no effect. This study took data from 2012-2015, in which the new Republic of Indonesia Presidential Regulation Number 75 of 2014 had been implemented concerning the Acceleration of Priority Infrastructure Provision. Even the acceleration of the implementation of national strategic projects has only been issued in 2016, namely Presidential Regulation No. 3 of 2016 concerning the Acceleration of the Implementation of National Strategic Projects. In the following year, there were still many improvements and changes to the Presidential Regulation regarding the provision of infrastructure. Therefore, in the year of data collection, this research allows the concentration of regional spending not yet absorbed to be maximized into infrastructure which means capital expenditure.

From the results of the analysis of the influence of funding sources on quality economic growth with capital expenditure as moderating, can be given the following suggestions:

1. For local governments, it is expected to re-evaluate the allocation of funds sourced from PAD, DAU, and DAK in order to achieve quality economic growth. So, it is not only oriented to the high number of realizations, but the outcome achieved is already in line with the development objective of achieving a triple-track strategy.
2. For further research, it is expected to be able to retrieve realization data based on functions. So more specific results will be obtained, which function will affect quality economic growth so that it can be maximized, and which functions are weaker so that they can be increased. In addition, it is recommended to retrieve the

latest data, at least in 2017. Because in that year, the program to prioritize infrastructure has begun to run well.

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