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Private Investment as Moderation of Regional Original Income on Government Performance

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Abstract: ***This research was conducted to see the effect of decentralized fund management in the form of Regional Original Income and Government Performance. In addition, it is also seen the influence of Regional Original Income on Government Performance with Private Investment as moderating. This study uses the documentation method. This research data uses secondary data. The type of data used is panel data which is a combination of Time Series and Cross Section. The data used are data from 29 districts and cities in the Papua Province with a time span of data examined between 2010-2017. Research data were analyzed using multiple linear regression. This study provides results that (1) Regional Original Revenues affect the performance of local governments. (2) the presence of private investment as a moderating variable can be seen to influence the relationship of Regional Original Revenue to the performance of local governments.***

Keywords: Regional Original Income, Private Investment, Government Performance

1. Introduction

Government involvement is very important in improving the economy and public welfare. The form of government intervention in economic development can be through budget management policies, one of which is through fiscal decentralization policies.

Local governments are expected to be able to manage their resources and implement good governance that will have an impact on the services provided to the community. Autonomy or decentralization is intended to provide better public services and create a more democratic public decision-making process. This form of decentralization takes the form of authorization from the central government to the level of regional government to spend, collect taxes, form a council elected by the people, elect regional heads of the people and provide assistance (transfers) from the central government. Generally decentralization includes political, administrative and fiscal aspects (Nurhemi and Suryani, 2015).

Fiscal decentralization is followed by the consequences of financial relations between the central government and local governments that refer to the principle of money following functions, meaning that any form of authority delegation must be followed by the submission of funding to carry out the authority that functions as the responsibility and the responsibility of each level. government. The form of financial balance includes the distribution of finance between the central government and regional governments proportionally, democratically, fairly and transparently by taking into account the potential, conditions and needs of the region.

Rosemarry et al. (2016) revealed that the reason for the implementation of an autonomy policy in the regions was because the central government was unable to oversee the regional development as a whole, therefore the central government delegated authority to the regional government to independently regulate and manage regional interests. The implementation of regional autonomy policies has led regions to be able to explore and develop the potential of the regions. Halaskova et al. (2016) suggested that the potentials of the regions have an influence on the quality and scope of services to the community.

The economic goal to be achieved through fiscal decentralization is to realize public welfare through more equitable and adequate public service activities by shortening the distance between public service providers and local communities (Kusnandar and Siswantoro, 2012). This argument is inseparable from the belief that development cannot be achieved only through a market mechanism, but requires the role of the government through its budget policy.

Rondonuwu et al. (2015) stated that the ability to manage finances carried out by regional governments is reflected in the Regional Revenue and Expenditure Budget, such as the ability of local governments to increase their regional revenue and to be able to finance regional development and social services provided to the community. The Regional Revenue and Expenditure Budget is the scope of regional finance at the regional government level which consists of three components, namely income, expenditure, and financing. Government financial performance can be measured by how much the ability of local governments to explore the potential of their regions so that they can contribute to the growth of regional income each year.

Good regional financial management influences the independence and progress of a region. Regional financial management policies are inseparable from fiscal decentralization policies provided by the central government to regional governments. Fiscal decentralization provides broad authority to local governments to regulate and manage their finances in order to develop and develop their regions in accordance with their needs and priorities in their respective regions including in the preparation and allocation of funds owned effectively and efficiently.

Management and accountability of regional financial management must be carried out in an orderly manner, adhering to applicable, efficient, effective, transparent and responsible regulations with regard to justice and compliance. If regional financial management is carried out properly in accordance with established regulations, it will certainly improve the performance of the local government itself.

But in reality, the lowest performance of regional governments in Papua as released according to the decision of the Minister of Home Affairs, reflects the weakness of government officials in the mechanism of regional financial management. Reflections on the weakness of regional finance are also indicators of the potential for fraud to occur in the management process.

In general, regional expenditure is still dominated by central government transfer funds. Although the allocation of funds used is quite large, there are still problems in the regions / cities in Papua that are related to welfare. Disbursement of funds continues to increase, but there is still an Extraordinary Event of hunger, malnutrition and epidemics that never stop.

Several previous studies also examined the effect of local revenue on the performance of local governments. Research by Nugroho and Rohman (2012) provides results that the high acceptance of Regional Original Income can increase the independence of local governments so that this has implications for the performance of local governments. Darwanis and Saputra (2014) suggest that the government can increase Regional Original Revenue through levies originating from regional taxes and regional levies so that local governments can increase the growth of government performance. Julitawati et al. (2012), also found that Regional Original Income and balance funds affect the performance of local governments.On the other hand, research carried out by Mulyani and Wibowo (2017) found that local revenues had a significant negative effect on the financial performance of local governments which indicated that an increase in local revenue could reduce the financial performance of local governments.

The main funding sources for the administration of government and regional development, both provinces, districts and cities, should originate from Regional Original Revenues. But in its realization, Kuncoro (2014) found that Regional Original Revenues finance district/city expenditures less than 22 percent.

In addition to decentralization in terms of regional revenue, the condition of private investment also needs attention in order to encourage economic growth. Through private investment, the addition of capital flows, which is nothing but the accumulation of capital, is used to build new businesses and/or make improvements to existing businesses. The existence of this business is beneficial for creating employment, increasing individual income (as an impact of increasing living standards), reducing poverty, increasing per capita income, encouraging economic growth, attracting new investors, and encouraging economic development (Haroon and Nasr, 2011).

Economic development in the regions generally focuses on economic development through economic growth efforts, where local governments and communities manage existing resources and form a partnership pattern between local government and the private sector to stimulate the development of economic activities in the region. According to the theory of Harrod-Domar to be able to increase the pace of the economy new investments are needed which are used for additional capital stock (Arsyad, 2015), With the investment expected the economy will grow.

According to Samuelson and Nordhaus in Utami (2014) investment has an important role in the economy, namely as a component of large and easily changing expenditures, large changes in investment will result in drastic changes in aggregate demand. In addition, investment also results in capital accumulation. The addition of capital accumulation resulted in an increase in national output which ultimately led to long-term economic growth. To increase economic growth, support from private investment is needed, which cannot be fulfilled only from within the country, but also from abroad.

Based on the description above, it shows that there is something that is necessary and is in dire need of special attention regarding the government's performance in creating economic growth and the welfare of the District and City communities in the Papua Province. In addition, it is also seen the influence of Regional Original Income on the Performance of District / City Governments in the Papua Province with Private Investment as moderating. The difference between research that will be conducted with previous studies is located in the addition of moderating variables. In this study the variables used are Regional Original Income, while the dependent variable is the performance of the local government and the moderating variable is Private Investment.

2. Literature Riview

2.1Theory Fiscal Federaslism

The Fiscal Federaslism theory emphasizes that economic growth can be achieved by implementing regional autonomy and fiscal decentralization (Oates (1972). Fiscal decentralization is defined as the delegation of authority related to decision making to low-level governments (Akai & Sakata, 2002). Theoretically fiscal decentralization is devolution of fiscal responsibility and power from the central government to local governments that can increase or reduce the growth economy (Bodman et al. 2009) .The main function of fiscal decentralization is to increase the efficiency of the public sector and lead to long-term economic growth (Faridi, 2011).

According to Penthury (2011) in fiscal decentralization local governments must be able to provide public service facilities well for all local communities. Infrastructure is the key to economic growth, by preparing good infrastructure it will increase productivity (Modebe et al, 2012). The government can provide economic infrastructure to facilitate economic growth, increase resource allocation, and increase economic productivity.

Fiscal decentralization is said to offer a number of benefits to public sector governance, including growth, accountability, and responsiveness of government officials to local demands and needs (Amagoh & Amin, 2012). Fiscal decentralization can be divided into two categories, namely: regional government fiscal autonomy, and the importance of regional government fiscal. Regional government fiscal autonomy is related to intergovernmental fiscal transfers. Regional loans and responsibilities for the provision of public goods and services, while fiscal interests are connected directly with the level of responsibility for regional government expenditure on the level of all government expenditure (Aristovnik, 2012).

2.2 Regional Original Income

Regional Original Income is a financial source of regional government that can be used to settle responsibilities and accountability as mandated by law. The main objectives of regional revenue are for (Harryanto, 2017):

1) Increase income from local communities under regional regulations, to finance local services, thus freeing the national from the full burden of financing these services through transfers.
2) strengthen local autonomy and democracy, by facilitating local levels of choice and exchange between service levels and local taxes and cost burdens.
3) Positioning local government accountability, and
4) provide incentives to improve efficiency and effectiveness in providing local services.

Regional Original Income is Regional Revenue sourced from the results of Regional Taxes, Regional Retribution, Separate Regional Wealth Management results, and Other Legitimate Local Revenues, which aim to provide Regional Area flexibility in exploring funding for the implementation of Regional Autonomy as an embodiment principle of decentralization.

Identification of sources of Regional Original Revenue is to examine, determine, and determine the source of Regional Original Revenue by researching and cultivating and managing the source of income properly so as to provide maximum results. Regional financial policies are directed at increasing Regional Original Revenue as the main source of Regional Revenues that can be used by regions in implementing Government and regional development in accordance with their needs in order to minimize dependence on obtaining funds from the top level Government (subsidies). Efforts to increase Regional Original Income should be viewed from a broader perspective not only in terms of their respective regions but also in relation to the unity of the Indonesian economy. Regional Original Income itself is considered as an alternative to obtaining additional funds that can be used for various expenditure needs determined by the region itself, especially routine needs. The increase in income is something that is desired by each region.

Regional Original Income is a financial source of regional government that can be used to resolve responsibilities and responsibilities. Regional Original Income is an important source of income for a region in fulfilling its expenditure. Regional Original Income has a positive effect on expenditure allocation. Ricard Musgrave (1980) in the fiscal federalism theory revealed that fiscal decentralization is expected to improve public welfare through management of revenue and expediture between governments. The essence of fiscal decentralization is the provision of authority and freedom to allocate budgets according to regional needs and priorities. Two important instruments in implementing fiscal decentralization are the authority to collect taxes and transfer to the regions. Regional expenditure management that promotes quality spending will have a large multiplier effect on economic growth.

2.3 Private investment

The importance of capital formation or investment as a determinant of economic growth. The formation of capital emphasizes allocation as a productive activity of the community in making capital goods such as machinery, transportation facilities, factories and equipment that can increase their productive benefits, so that the resources available to the community can be diverted to increase the inventory of goods that can be consumed in the future. Therefore the process of capital formation is very important to do such as increasing the volume of real savings, allocating savings through financial institutions and investing savings.

According to Sukirno in Marahendra (2016) investment is spending to buy capital goods and production equipment to replace or increase capital goods so that the ability to produce goods and services available in the economy is increasing in the future. The business group functions as a producer that produces goods and services for sale in the market so that it gets income that will be used to buy factors of production and so on.

In Scumpeter analysis, entrepreneurs are key figures in generating economic development. Entrepreneurs are a group that continues to make innovations in economic activity (Jhingan 2014). According to schumpeter state income is not stable from time to time, its development is determined by the size of capital formation carried out by entrepreneurs. The main element of development lies in efforts to innovate such as the introduction of new products and continuous improvements to the products carried out by innovators, namely entrepreneurs who have the ability to introduce something truly new. they do not provide funds but regulate their use.

2.4 Government Performance

Dhimas et al (2017) reveal that Performance Measurement is a tool for assessing organizational success. In the context of public sector organizations, the success of the organization will be used to gain legitimacy and public support. The community will assess the success of public sector organizations through the organization's ability to provide relatively inexpensive and quality public services. The government has an active role in the regulation and policy making of public sector organizations. So the purpose of the regulation is the provision that must be carried out and adhered to in the process of managing public organizations, both at central government organizations, local governments, political parties, foundations and so forth. But the concept actually has an estuary that is not much different, namely trying to create a society that is prosperous, prosperous, a better and more humane life.

Mulyani et al (2007) revealed that performance can be seen as a process or work outcome. Performance is a process of how work takes place to achieve work results. In an organization there are three types of performance, namely operational performance, administrative performance, and strategic performance (Moeheriono: 2009). Operational performance is related to the use of every resource used by the organization (institution), namely how much the use is maximally to achieve the vision and mission. Administrative performance relates to the administrative performance of organizations (institutions) including the administrative structure that regulates the relationship of authority and responsibility according to position, and is related to the mechanism of information flow between work units (parts) in organizations (institutions). While strategic performance relates to the ability of the organization (institution) in carrying out its vision and mission.

3. Methodology

This study aims to test hypotheses that explain the influence of regional income variables and government performance as well as moderating variables of private investment. So this research is a hypothesis test. This study uses secondary data and the analysis unit is the district / city local government in the Papua Province.

The data of this study uses secondary data derived from data on the results of examination reports of the financial examiners of the Republic of Indonesia, reports on foreign investment and domestic investment of regencies / cities in the relevant Papua Province from 2010-2017. The type of data used is panel data which is a combination of Time Series and Cross Section. Data used from 29 regencies / cities in Papua Province with a time span of data examined between 2010-2017.

4. Results and Discussion

The results of regression analysis on the relationship of variables of Regional Original Revenue, Private investment as moderation, and interaction of local revenue and private investment with government performance variables, the following results are obtained:

Table 1: Hypothesis Testing Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	38.16368	2.636699	14.47404	0
X	1.947674	0.623232	3.125121	0.002
Z	0.507326	0.147867	3.430971	0.0007
INTERAKSI X.Z	0.04619	0.021658	2.132717	0.0341

Testing the hypothesis between Regional Original Revenue and government performance states that Regional Original Revenue directly influences government performance. Based on the test results where the value of t counts the Regional Original Income variable is 3.125121> 1.651448 and the probability of 0.0020 <0.05. which means that Regional Original Income has an effect on government performance.

Based on the regression coefficient value 1.947674 marked positive, indicating a positive effect. This means that the higher the Regional Original Income, the higher the performance of district and city governments in the Papua Province. Conversely, the lower the Regional Original Income will be the lower the performance of district and city governments in the Papua province.

In accordance with what was said by Ricard Musgrave (1980) in the fiscal federalism theory, it revealed that fiscal decentralization is expected to improve the government's performance in improving people's welfare through revenue and expediture management. The essence of fiscal decentralization is the provision of authority and freedom to allocate budgets according to regional needs and priorities. Two important instruments in implementing fiscal decentralization are the authority to collect taxes and transfer to the regions. The results of this study are also in line with the research of Nugroho et al. (2012), Darwanis et al. (2014) that the high receipts of Regional Original Income can increase the independence of local governments so that this has implications for the performance of local governments.

Hypothesis testing between Regional Original Income on government performance and investment as moderation states that the presence of private investment as a moderating variable can be seen to influence the relationship of Regional Original Income to the performance of local governments. Significant results of 0.0341 <0.05. so which means that private investment can moderate Regional Original Income on the performance of district and city governments in Papua province.

Based on the coefficient value for the private investment variable of 0.507326, it is positive and significant. This means that the higher the value of private investment, the higher the performance value of the regency and city governments in the Papua Province. The coefficient value for the interaction between Regional Original Income and private investment amounting to 0.04619 is positively marked, meaning that the high value of private investment moderating Regional Original Income means increasing the performance of district and city governments in the Papua province.

As a result of the increase in investment it will also affect Regional Original Income and will affect spending so that the quality of public services can be improved so that it is expected to improve public infrastructure and also to increase economic growth and prosperity of the community. The higher the level of investment will be able to improve the quality of the public and can increase public participation in development. The community can continue to improve economic activities and employment opportunities and increase national income and increase the level of prosperity of the community where this allows for investment activities (Saraswati et al, 2018).

5. Conclusion

Based on the results of the research and discussion of the research conclusions there is a relationship between Regional Original Revenue and government performance. Regional Original Income has a positive effect on the performance of district and city governments in the Papua Province. The existence of a positive influence between Regional Original Revenue on government performance shows that the higher the value of Regional Original Income will further improve the performance of district and city governments in the Papua Province. While the private investment variable moderates Regional Original Income to the performance of local governments. the private investment variable is positive and significant and the regression coefficient value for the interaction between Regional Original Income and private investment is positive and significant. suggestions for subsequent research need to be carried out further research in order to provide more comprehensive results and add other variables that influence government performance so that the results of research capabilities are better.

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