

THE EFFECT OF FISCAL DECENTRALIZATION, FISCAL STRESS AND INTERGOVERNMENTAL REVENUE ON THE FINANCIAL PERFORMANCE OF LOCAL GOVERNMENT

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Abstact

Assessment of Financial Performance for Local Government is an important thing to do to help improve the performance of government in the management of the Regional Budget (APBD) in a sustainable manner and to achieve the public accountability that is transparent and accountable. Local Government Financial performance is the ability of an area to explore and manage financial resources native to the area to meet their needs in order to support the passage of the government system, service to the community and regional development. Local government still relies on the transfer of funds than local revenue to finance government activities. Any delays in disbursement of funds transfers by the central government as a barrier to finance programs and activities that have been set in the budget. This study aimed to examine the effect of fiscal decentralization, fiscal stress and intergovernmental revenue on the financial performance of local governments in the province of West Nusa Tenggara (NTB). This study uses panel data from 9 regencies / cities and one province for 10 years (2006-2015). Analysis using panel data regression with Fixed Effect Model estimation method (FEM). The results showed that the decentralization of expenditure and fiscal stress has positive and significant effect on the financial performance of local governments while decentralization of revenue and intergovernmental revenue has significant and negative effect on the financial performance of local governments. This research is expected to provide input and benefit to the Local Government as policy makers in order to increase the potential of revenue derived from taxes, charges and the availability of natural resources are adequate to serve as a source of income and more attention to the allocation of sources of income into spending that oriented to the fulfillment of public service

Keywords : Financial Performance, Fiscal Decentralization, Fiscal stress, Intergovernmental Revenue

1. Introduction

Financial management is a benchmark for assessing the performance of local governments conducted in an integrated system that is embodied in the Regional Budget (APBD) which is annually designated as local regulations and will be accounted for at the end of the year in the form of Local Government Finance Report (LKPD). The local government each year set targets and realization of the revenue and expenditure budget. If the management of regional financial is done properly in accordance with prescribed rules, then it certainly will improve the performance of government itself. Financial Performance of Local Government is the ability of an area to explore and manage financial resources native to the area to meet their needs in order to support the passage of the government system, service to the community and local development by not depend entirely on the central government and have flexibility in using the funds for the interests of local communities within the limits prescribed legislation (Susantih, 2009). Forms of performance assessment in the form of financial ratios that are formed from elements of the Regional Chief Accountability Report in the form of regional budget calculations (Halim, 2004: 24).

Mardiasmo (2002: 121) states that the performance measurement is done to fulfill three purposes. First, to help improve government performance. Second, to allocate resources and decision-making. Third, to achieve public accountability and improve institutional communication. Performance measurement is essential to assess the accountability of the organization to produce better public services. Rate the performance of a local government can be judged from the surplus / deficit between revenue and expenditure or the ratio between revenue and expenditure in the budget. This study uses the efficiency ratio which is the ratio between revenues and expenditures in the budget. The measurement of efficiency in public sector organizations is important, this is due to the lack of realization of local revenue as a picture of the financial performance of local governments today. An activity is said to be efficient if the implementation of such work has achieved results (output) using a maximum cost (input) the lowest or minimal cost (Hamzah, 2008). By knowing the results of the

comparison between actual expenditures and actual revenues, using these efficiency measures, the financial performance of local governments can be determined (Julitawati, 2012).

Efficiency Budget (APBD) in administration is unavoidable, especially if the revenue target is not achieved or the focus to programs that are considered to be a priority and a major impact on society. Quoted from suarantb.co.id at the 2015 NTB Governor has instructed to carry out the efficiency of government recurrent expenditure such as official travel expenditures, grants and social aid expenditures to be transferred at the expense of development education and health sectors. Efficiency is done to improve the financial performance of local governments. To further clarify the above statement, the following 2015 budget data presented in NTB.

Table 1.

Data of Provincial, Regencies and Cities Budgets in West Nusa Tenggara Fiscal Year 2015

Provincial, Regency and City	Revenue	Expenditure	Budget Efficiency (%)
Kota Mataram	1,173,511,455,023.34	1,164,985,537,852.09	99.27
Kabupaten Lombok Barat	1,276,236,437,014.01	1,338,148,261,864.33	104.85
Kabupaten Lombok Tengah	1,629,704,015,575.04	1,546,669,435,755.56	94.90
Kabupaten Lombok Timur	2,007,931,092,141.60	1,610,950,570,235.70	80.23
Kabupaten Lombok Utara	629,276,283,271.24	643,780,196,446.00	102.30
Kabupaten Sumbawa Barat	714,608,593,736.96	674,331,818,513.00	94.36
Kabupaten Sumbawa	1,297,719,890,135.40	1,312,293,011,345.51	101.12
Kabupaten Dompu	893,872,018,362.04	866,977,232,218.41	96.99
Kabupaten Bima	1,361,610,468,873.80	1,332,245,298,662.00	97.84
Kota Bima	705,089,414,584.47	699,970,698,263.37	99.27
Provinsi NTB	3.448.585.631.903.26	3.364.903.671.428.20	97.57

Based on budget data table 1. above shows that the Regencies and Cities in NTB has been unable to manage its finances efficiently. Lombok Barat, Lombok Utara, and Sumbawa into areas that its budget is inefficient seen from above 100% efficiency percentage. While Kota Mataram, Lombok Tengah, Sumbawa Barat, Dompu, Bima and NTB Province less efficient in the management of the budget with a percentage of 90% -100%. Lombok Timur be the only area that is quite efficient in the management of the budget with a percentage of 80% -90%. It is caused not optimal local revenue to support local expenditure needs.

Moreover, on the other hand the Central Government has issued the Finance Minister Regulation (PMK) Number 125 / PMK.07 / 2016 on Postponement of Distribution Part General

Allocation Fund (DAU) for Fiscal Year 2016. Based on the PMK, the government will cut Rp 19.418 trillion to 169 area, consisting of 143 cities / regencies and 26 provinces. West Nusa Tenggara become one of the province affected by these policies where a total of approximately USD 161.8 billion budget that delayed disbursement for NTB Province period of September to December. Delay in the extension portion DAU policy needs to be responded to by the local government. The most realistic thing to be done is to perform efficiency of spending, especially considering the majority of the region relied on the transfer of funds from the center as a source of income. The efficiency of spending that can be done such as by delaying a number of development programs judged to be a priority and cut official travel sectors in the scope of the Local Government considering spending not directly related to the provision of services to the community.

Viewed from the perspective of agency theory of Jensen and Meckling (1976), the local government as an agent authorized by the public as principal to manage local finances in the public interest. Different interests will emerge and the delegation of tasks to an agent where the agent is not in the interests of maximizing the interests of the principal, but has a tendency to be selfish at the expense of the public interest. The public will judge how far the government's efforts to meet their needs. Through the implementation of the budget public can monitor and assess the financial performance of local governments for the fulfillment of public service requirements.

Based on this, motivated researchers conducted this study to obtain empirical evidence about the factors that affect the financial performance of local governments in West Nusa Tenggara. Such factors include fiscal decentralization, fiscal stress and intergovernmental revenue. This study is an extension of a previous study conducted by Nasution (2012) which analyzed the effect of fiscal decentralization and local revenues to the government's financial performance District and the City in the province of North Sumatra and Haryadi (2002) analyze the effect of fiscal stress on the financial performance Regencies / Cities in the face of regional autonomy (an empirical study in East Java Province) by adding a variable intergovernmental revenue. The addition of variable intergovernmental revenue because there are differences in the results of the earlier study or inconsistencies occur earlier research results as described above. This study also differs from previous studies in the use of the measurement of fiscal decentralization, which in this study of fiscal decentralization are translated into

two independent variables, namely decentralized of revenue and decentralization of expenditure. Another difference with previous research that is at the location or object of study that covers all regencies / cities and NTB Province and years of research, where this research using time series data for 10 years from 2006-2015.

The proposition in this research is whether the fiscal decentralization (translated into 2 independent variables, namely the decentralization of expenditure and decentralization of revenue), fiscal stress and intergovernmental revenue affect the financial performance of local governments? While the purpose of this research was to obtain empirical evidence about the influence of fiscal decentralization, fiscal stress and intergovernmental revenue on the financial performance of local governments.

2. Theoretical Framework and Hypothesis Development

This research uses the theory of fiscal federalism and the agency theory as a basic premise. Fiscal federalism theory is a theory that explains how the relationship with the decentralization of the economy, public services and social welfare. In various studies on fiscal federalism, there are two perspective theories that explain the economic impact of decentralization, that is the traditional theory or the first generation theories and a new perspective theory or the second generation theories.

In view of the first generation theories there are two opinions that emphasize the advantages allocative decentralization is about the use of knowledge in society, which according to Hayek (1945) in which local governments have better information than the central government about the conditions of each area, so that local governments will be better in decision-making provision of public goods and services than provision of it by the central government. Second, Tiebout (1956) introduce the dimension of competition in government and competition between regions on the allocation of public expenditure allows people choose a variety of public goods and services that suit their tastes and desires. This does not happen if the central government as a provider of public goods and services.

Furthermore, in view of the second generation theory built by Musgrave (1959) and Oates (1972) emphasizes the importance of revenue and expenditure assignment among levels of government. This theory explains how fiscal decentralization affects the behavior of local governments. If the local

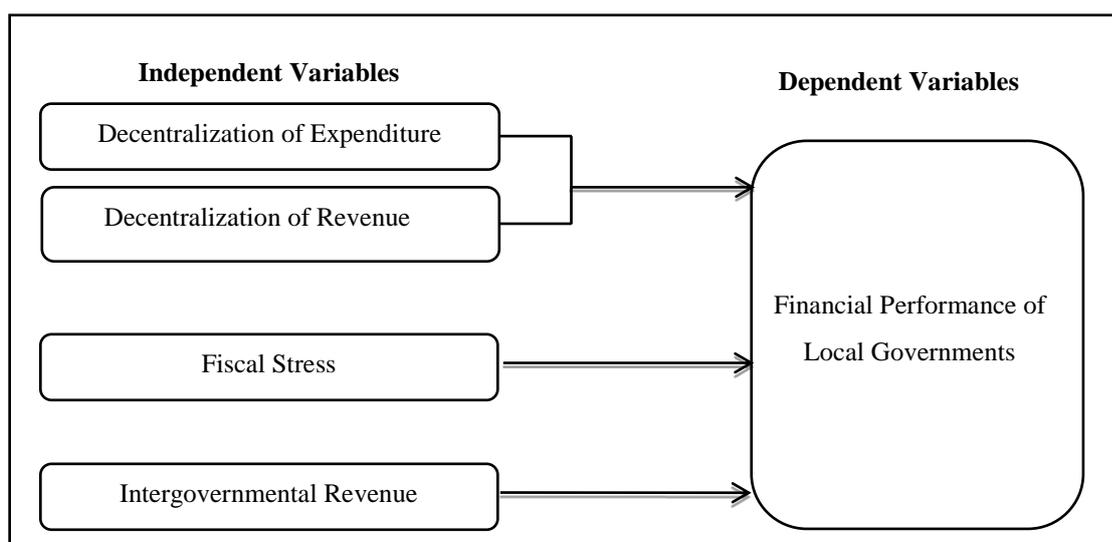
government has the authority to make regulations on the local economy, the central government's intervention in the regional economy is limited. Thus both theories principal difference lies in the transfer of revenue outlook. The linkage between revenues and expenditures of local government as well as restrictions on the central government to regional redistribution will create incentives for local governments to reform the market orientation.

The second theory in this study using agency theory. This theory describes a relationship that is established by contractual agreement between two parties or more where the first party is called the principal and the other is called the agent. Principal is the party that it acts as a command and duty to supervise and provide ratings or feedback on a task that has been run by the agency. While the agents are parties to accept and perform tasks in accordance with the will of the principal.

Jensen and Meckling (1976) define an agency relationship as a contract in which one or more (the principal) hire another person (the agent) to perform some service on their behalf by delegating some decision-making authority to the agent. Different interests will emerge and the delegation of tasks to an agent where the agent is not in the interests of maximizing the interests of the principal, but has a tendency to be selfish at the expense of the public interest.

Conceptual framework of this research can be seen in the picture below.

Figure 1.
Research Conceptual Framework



2.1. Effect of Decentralization of Expenditure Toward Financial Performance of Local Government

Perspective theory of fiscal federalism emphasizes the importance of expenditure assignment among levels of government. This theory explains how fiscal decentralization affects the behavior of local governments. If the local government has the authority to make regulations on the local economy, the central government's intervention in the regional economy is limited.

Fiscal decentralization in Indonesia is encouraging an increase in public sector expenditure as an embodiment of the delegation of tasks and authority of the central government to local governments. Brodjonegoro (2008) says that the decentralization process in Indonesia is decentralized in expenditure, which financed by the regional fiscal balance funding. Decentralization of expenditure shows the relative size of government expenditure between local government and central government. The higher the ability of shopping areas in order to finance governmental affairs, the higher the financial performance of local government. Research conducted by Ananta (2008) showed no significant effect of regional autonomy in terms of aspects of Fiscal Decentralization of the Financial Performance of Regencies / Cities in the Province of Yogyakarta Special Region. Therefore the first hypothesis proposed in this research are:

H1. Decentralization of Expenditure have Positive Effect Toward Financial Performance of Local Government

2.2. Effect of Decentralization of Revenue Toward Financial Performance of Local Government

Policies that run in the context of fiscal decentralization is the reception area on the side of the region will have greater authority in tax policy through Law No. 28 of 2009 Concerning Regional Taxes, Charges and Fees. The local government has the ability and authority to explore the sources of finance, manage and use its own funds to finance the government administration. The higher the ability of local governments to explore the sources of revenue in the region in order to finance governmental affairs, the higher the financial performance area. Research conducted by Ananta (2008) showed a significant effect of regional autonomy in terms of aspects of Fiscal Decentralization of the Financial Performance of Regencies / Cities in the Province of Yogyakarta Special Region. While Zang and Zou (1998) argues that decentralization of revenues and expenditures is a way to improve efficiency in the public sector. Therefore the second hypothesis proposed in this research are:

H2. Decentralization of Revenue have Positive Effect Toward Financial Performance of Local Government

2.3. Effect of Fiscal Stress Toward Financial Performance of Local Government

Fiscal stress is a tension facing local governments caused by bureaucratic inefficiencies in the financial management (Shamsub and Akoto, 2004). Bureaucratic inefficiency in financial management is reflected in budget management areas where revenues are not optimal while regional spending has continued to increase from year to year. At the time of high fiscal stress, the government tends to explore the potential tax revenue to improve the local revenue, it will affect the financial performance of local governments.

Viewed from the perspective of agency theory, the local government as an agent authorized by the public as the principal for the financial management. The public will judge how far the government's efforts to meet their needs. Research conducted by Halim (2001) shows that fiscal stress may affect the budget of a region. This is evidenced from the shift (increase / decrease) of revenue and expenditure components of the budget. Research by Haryadi (2002) Sihite (2011) indicates that the fiscal stress significantly influence the financial performance area. Therefore, the third hypothesis proposed in this research are:

H3. Fiscal Stress have Positive Effect Toward Financial Performance of Local Government

2.4. Effect of Intergovernmental Revenue Toward Financial Performance of Local Government

Intergovernmental revenue is a type of local government revenue comes from central government transfers to regional governments to finance the operations of the Local Government in the form of equalization fund which is a fund of the state budget revenues. Implementation of an agency relationship between the community (principal) and local government (agent) in the form of improved public services in some areas could not only rely on local revenue alone. Due to the minimal amount, then the area needs additional funds in the form of equalization funds from the Central Government. Although the use of matching funds established by local governments, but their use should remain in the framework of the purpose of the achievement of autonomy to the region is increasing and welfare services are getting better. Based on these descriptions, it can be concluded that the contribution of the

local revenue equalization funds will be instrumental in improving the financial performance of local governments

This is supported by the results of research by Fitriasari and Mustikarini (2012), Marfiana and Kurniasih (2013), Aziz (2016) and Simanullang (2013) which show that the intergovernmental revenue affect the financial performance of local government. Therefore the hypothesis proposed in this research are:

H4. Intergovernmental Revenue have Positive Effect Toward Financial Performance of Local Government

3. Research Method

3.1. Types of Research

This Research aimed to test the hypothesis that builds on the underlying theories. Based on the characteristics of the problem, this research uses associative design is to analyze the causal influence of one variable to another variable or how a variable affects the other variable. In this case, the variable is intended that the dependent variable and independent variables.

3.2. Research Time and Location

The study was conducted in 2017 at the Regencies / Cities in the Province of West Nusa Tenggara (NTB) consisting of 1 (one) Province and ten (10) local government, namely Kabupaten Lombok Barat, Kabupaten Lombok Tengah, Kabupaten Lombok Timur, Kabupaten Lombok Utara, Kabupaten Sumbawa, Kabupaten Sumbawa Barat, Kabupaten Dompu, Kabupaten Bima, Kota Bima dan Kota Mataram for Fiscal Year 2006-2015.

3.3. Types and Sources of Data

This research uses secondary data sources that do not directly provide to data collectors, for example through the document (Sugiyono, 2013: 137). The data source of the document in the form of Local Budget (APBD) of the Province of West Nusa Tenggara, GDP and Central Budget (APBN).

3.4. Research Population and Sample

The populations in this research are all Regencies / Cities and the Province of West Nusa Tenggara year observation period 2006 - 2015 amounted to 10 Regencies / Cities and one Province.

The sampling technique was conducted by purposive sampling in order to obtain a representative sample in accordance with the criteria specified. The criteria are determined to select a sample of this study are as follows:

1. Regencies / Cities and Province located in West Nusa Tenggara Province from 2006 to 2015.
2. Publishes report on realization of local budget (APBD) since the enactment of the CTA-based SAP's entire Regencies / Cities governments in NTB Fiscal Year 2006 to 2015 as many as 10 (ten) Regency / City Government plus 1 (one) Province as shown in the table the following:

Table 2.

Research Sample Selection

Num.	Provincial, Regency and City	Criteria		Sample
		Criteria 1	Criteria 2	
1.	Kabupaten Lombok Barat	✓	✓	Sample 1
2.	Kabupaten Lombok Tengah	✓	✓	Sample 2
3.	Kabupaten Lombok Timur	✓	✓	Sample 3
4.	Kabupaten Lombok Utara	X	X	X
5.	Kabupaten Sumbawa	✓	✓	Sample 4
6.	Kabupaten Sumbawa Barat	✓	✓	Sample 5
7.	Kabupaten Dompu	✓	✓	Sample 6
8.	Kabupaten Bima	✓	✓	Sample 7
9.	Kota Bima	✓	✓	Sample 8
10.	Kota Mataram	✓	✓	Sample 9
11.	Provinsi Nusa Tenggara Barat	✓	✓	Sample 10

Based on predetermined criteria, then there are 9 regencies / cities and one province located in the province of West Nusa Tenggara from year 2006 to 2015 which qualify as samples in this research.

3.5. Operational Variable Definition

The following are definitions of conceptual and operational definitions for each variable.

Table 3.

Operational Variable Definition

Variables	Operational Definition	Measurement Variable	Scale
Dependent Variables: Financial performance of Local Government	The ability of local government to manage its finances through the ratio between revenue and expenditure	Realized of local budget (APBD)	ratios
Independent Variables:			

1. Decentralization expenditure	of	The ratio of the total expense of each regency / city against the central government expenditure	Realized of local budget (APBD) and central budget (APBN)	ratios
2. Decentralization revenue	of	The ratio of the total revenue of each regency / city against the central government revenue	Realized of local budget (APBD) and central budget (APBN)	ratios
3. Fiscal Stress		Efforts to increase local taxes as measured by the ratio between the local tax revenue to the GDP	Realized of local budget (APBD) and the GDP	ratios
4. Intergovernmental revenue		Local government revenue derived from the transfer of Central Government	Realized of local budget (APBD)	ratios

3.6. Method of Collecting Data

Data collection procedure used is a documentary study conducted by collecting secondary data, recording, and processing the necessary data. The document data source in the form of local budget (APBD) report obtained from the Finance Bureau of the Province of West Nusa Tenggara, central budget (APBN) Reports obtained from the Director General of Fiscal Balance via website www.kemenkeu.go.id, while the GDP data obtained from the Central Statistics Agency through the website www.ntb.bps.go.id.

3.7. Data analysis method

This study used panel data regression. Panel data is a combination of time series data and cross section data. Data were collected in a time span of many individuals. Data used to build the model is time series data since 2006 - 2015, and a cross section which consists of 9 regencies / municipalities and the Province of West Nusa Tenggara. Data were analyzed using Microsoft Excel and E-views.

4. Results

4.1. Panel Data Estimation Model Selection

Based on the output from panel data regression using a Common Effect Method (PLS), Fixed Effect Method (FEM), and Random Effect Method (REM), the best method for panel data estimation based Hausman test is Fixed Effect Method (FEM).

4.2. Panel Data Estimation Using Fixed Effect Method (FEM)

Based on the results of Hausman test has been done before, then the best method for the estimation of panel data in this study is the Fixed Effects Method (FEM). Fixed Effect Method technique

is a technique of estimating panel data using dummy variables to capture the diversity intercept (Widarjono, 2013: 356). Fixed effect model with dummy variables technique can be written as follows:

$$\begin{aligned} \ln Y_{it} = & 5.333912 + 0.184762D_{1i} + 0.153560D_{2i} + 0.150679D_{3i} + 0.127016D_{4i} + 0.301329D_{5i} \\ & + 0.183618D_{6i} + 0.253326D_{7i} + 0.195054D_{8i} + 0.258905D_{9i} + 0.773230 \ln X_{1it} \\ & - 0.613842 \ln X_{2it} + 0.018031 \ln X_{3it} - 0.091261 \ln X_{4it} + e_{it} \end{aligned}$$

Where:

Y = Financial Performance		D1i = 1 for Kota Mataram and 0 for other areas
X1 = Decentralization of Expenditure		D2i = 1 to Lombok Barat and 0 for other areas
X2 = Decentralization of Revenue		D3i = 1 for Lombok Tengah and 0 for other areas
X3 = Fiscal Stress		D4i = 1 for Lombok Timur and 0 for other areas
X4 = Intergovernmental revenue		D5i = 1 for the Sumbawa Barat and 0 for other areas
e = error		D6i = 1 to Sumbawa and 0 for other areas
		D7i = 1 for Dompu and 0 for other areas
		D8i = 1 to Bima and 0 for other areas

In this study, there were 10 different Regencies / Cities and NTB Province that would require 9 dummy variables to determine differences in the intercept between the tenth Regencies / Cities and NTB Province. In model above, the NTB Province is used as a benchmark that does not require a dummy variable. α_0 showing the intercept for NTB Province and $\alpha_1, \alpha_2, \alpha_3, \alpha_4, \alpha_5, \alpha_6, \alpha_7, \alpha_8$ and α_9 is an intercept differentiator that explains how different intercepts of Regency / City by the intercept of NTB Province. Here is the output of the regression using the Fixed Effects Method (FEM) with LSDV techniques.

Table 4.

Regression Results Using Fixed Effect Model (FEM) with Least Squares Dummy Variables (ISDV)

Independent variables	Dependent variables	
	Local Government Financial Performance	
	<i>Fixed Effect</i>	
	Coef.	p-value
constants	5.333912	0.0000
Decentralization of Expenditure (LOG (X1))	0.773230	0.0000
Decentralization of Revenue(LOG (X2))	-0.613842	0.0000
Fiscal Stress (LOG (X3))	0.018031	0.0033
Intergovernmental Revenue (LOG (X4))	-0.091261	0.0190
D1_MTR	0.184762	0.0000
D2_LOBAR	0.153560	0.0000
D3_LOTENG	0.150679	0.0000
D4_LOTIM	0.127016	0.0000
D5_KSB	0.301329	0.0000
D6_SBW	0.183618	0.0000
D7_DPU	0.253326	0.0000
D8_BIMA	0.195054	0.0000
D9_KOBI	0.258905	0.0000
R-squared (R2)	0.768249	
Adjusted R-squared	0.733217	
Prob (F-statistic)	0.000000	
Durbin-Watson stat	1.673700	

Fixed effect coefficient values in the table above shows the differences in the financial performance of each Regencies / Cities to take into account the effect of variable decentralization of expenditure, decentralization of revenue, fiscal stress and intergovernmental revenue. The most fixed effect coefficient values held by Sumbawa Barat (0.301329). This condition indicates that the effect of variable decentralization of expenditure, decentralization of revenue, fiscal stress and intergovernmental revenue to the local government's financial performance was greatest in Sumbawa Barat. Meanwhile, the lowest value of the coefficient fixed effect owned by Lombok Timur (0.127016). This indicates that the effect of decentralization of expenditure, decentralization of revenue, fiscal stress and intergovernmental revenue to the local government's financial performance was lowest in Lombok Timur.

4.3. Discussion

Here are the results of the analysis of the effects of decentralization of expenditure, decentralization of revenue, fiscal stress and intergovernmental revenue on the financial performance of local governments, including:

4.3.1. Effect of Decentralization of Expenditure Toward Financial Performance of Local Government

The results of this research indicate that the decentralization of expenditure have a significant effect on the financial performance of local governments with a positive correlation. Fiscal decentralization is currently pushing the increase in public sector expenditure as an embodiment of the delegation of tasks and authority of the central government to local governments. Allocation of expenditures in NTB Province local government today more widely used for operating expenditures compared to capital expenditures. This will lead to limitations of programs and activities in support of the fulfillment of the public service. However, with the increase in local expenditures annually which in 2006 amounted to 3.9 trillion rupiah to 14.5 trillion rupiah in 2015, increase of more than 72% indicates that the higher the ability of local government expenditures in order to finance governmental affairs, the higher it financial performance. These results are consistent with the results of research conducted by Ananta (2008), which showed a significant effect of regional autonomy in terms of aspects of Fiscal Decentralization of the Financial Performance of District / City in the province of Yogyakarta Special Region.

4.3.2. Effect of Decentralization of Revenue Toward Financial Performance of Local Government

Decentralization of Revenue have a significant effect on the financial performance of local governments with a negative correlation. The results showed that regional governments in West Nusa Tenggara in order to improve financial performance with optimal area is not supported by the source of local revenue (PAD). This is evidenced by local revenue until 2015 was still dominated by the transfers revenue. Local Government that have smallest PAD contribution to total revenue is Kota Bima of 3.50%. While the largest revenue contribution to total local revenue to the Regencies / Cities is Kota Mataram amounted to 17.87% and for the NTB provincial government amounted to 39.80%. It is the impact of the fiscal decentralization policy whereby the implementation of fiscal decentralization in Indonesia is more emphasis on decentralization of the expenditure side rather than the revenue side so that the funding policy of the Central Government through the mechanism of regional transfers contribute significantly to the local revenue sources in order to finance decentralized government functions. These results are consistent with the results of research conducted by Ananta (2008), which showed a

significant effect of regional autonomy in terms of aspects of Fiscal Decentralization of the Financial Performance of District / City in the province of Yogyakarta Special Region.

4.3.3. Effect of Fiscal Stress Toward Financial Performance of Local Government

Fiscal stress have a significant effect on the financial performance of local governments with a positive correlation. High fiscal stress indicates the higher regional effort to increase local revenue is mainly derived from the tax sector. In order to increase tax revenue is designated Law No. 28 Year 2009 on Taxes and Levies of the transfer of management duties on Acquisition of Land and Building (BPHTB) and Land and Building Tax Rural and Urban (PBB-P2) from the Central Government to Local Government. Diversion of management BPHTB and PBB-P2 to the whole government Regency / City Required begin no later than January 1, 2014, as well as for the NTB area where the Kota Mataram and Lombok Barat has received a transfer in 2013, while eight (8) other regencies / cities will receive the transfer in 2014. This means that local governments need to perform data updates and the local taxpayer or the taxpayer levies to be able to identify the potentials of the magnitude of the local tax and levies that can be generated. This in turn will have an impact on the increase in local revenues and also on improving the financial performance of local governments. The results are consistent with research conducted by Haryadi (2002) and Sihite (2011) which indicates that the fiscal stress have a significantly effect on the local government financial performance.

4.3.4. Effect of Intergovernmental Revenue Toward Financial Performance of Local Government

Intergovernmental Revenue have a significant effect on the financial performance of local governments with a negative correlation. Intergovernmental revenue is local government revenue in the form of equalization funds which accounted for over 60% of total local income. The largest contribution fund balance contained in the General Allocation Fund (DAU). DAU are block grants, which means that its use be left entirely to the region in accordance with the program and a regional work plan. In 2015, Regency / City who received the largest DAU is Lombok Timur of 1.08 trillion rupiah, or 53.78% of the total local income and the smallest is Sumbawa Barat of 380 billion rupiah, or 53.22% of the total regional income , This shows the dominance of the DAU compared Fund (DBH) and Special Allocation Fund (DAK) with a ratio above 50% so that local governments respond to spend more using transfer revenue instead of using local revenue. DAU in the proportion of local revenues is the greatest source

of income more allocated for personnel expenditure so that expenditure which is oriented to the fulfillment of the public service is not a priority in the area. This led to the financial performance of local governments to be low. The results are consistent with research conducted by Mustikarini and Fitriyani (2012), Marfiana and Kurniasih (2013), Aziz (2016) and Simanullang (2013) which show that the intergovernmental revenue affect the financial performance of local government.

5. Conclusion, Implication and Limitation

5.1. Conclusion

This research aims to examine and obtain empirical evidence of the effect of fiscal decentralization, fiscal stress and intergovernmental revenue on the financial performance of local governments in West Nusa Tenggara Province in 2006 through 2015. According to the research conducted, it can be concluded as follows:

1. Decentralization of expenditure has positive effect on the financial performance of local governments. This is due to increased spending on local government that will improve its financial performance. Fiscal decentralization is currently pushing the increase in public sector expenditure as an embodiment of the delegation of tasks and authority of the central government to local governments.
2. Decentralization of revenue has negatively effect on the financial performance of local governments. This is due to the implementation of fiscal decentralization in Indonesia is more emphasis on decentralization of expenditure side rather than the revenue side so that the funding policy of the Central Government through the mechanism of regional transfers contribute significantly to the local revenue sources in order to finance decentralized government functions. Local Government in West Nusa Tenggara in order to improve financial performance is not supported by the local revenue (PAD). This is evidenced by local revenue until 2015 was still dominated by income central government transfers. This shows the low performance of local government finances.
3. Fiscal stress has a positive effect on the financial performance of local governments. High fiscal stress indicates the higher regional effort to increase local revenue is mainly derived from the tax sector. This is likely to impact the financial performance of local governments.

4. Intergovernmental revenue has a negatively effect on the financial performance of local governments. Intergovernmental revenue is local government revenue derived from central government transfers to finance the operations of the Local Government in the form of matching funds. The largest contribution transfer fund contained in the General Allocation Fund (DAU) more allocated for personnel expenditure so that expenditure which is oriented to the fulfillment of the public service is not a priority in the region. This led to the financial performance of local governments to be low.

5.2. Implication

Results of the study's findings have three implications, the implications of theoretical, practical and policy.

1. Theoretical implications. The research's findings support the theory of fiscal federalism in which the fiscal decentralization in terms of revenue and expenditure affect the financial performance of local governments. These findings emphasize the importance of revenue and expenditure assignment among levels of government. Fiscal decentralization will bring government closer to the people, so that in a decentralized system of government that will create efficiencies in the economy, public services and social welfare. In the context of public finance, local governments have better information than the central government about the condition of the area, so that local governments will be better in the decision making the provision of public goods and services than provision of it by the central government. The results also show that the fiscal stress and intergovernmental revenue affect the financial performance of local governments that contributed to the understanding of agency theory. The local government as an agent authorized by the public as the principal for the financial management area. The public will judge how far the government's efforts to meet their needs. The area required to optimize each fiscal potential and capacity in order to reduce dependence on the central government level.
2. The practical implications. This research can be used as a reference by the local government to help improve the performance of government in the management of the Regional Budget (APBD) in a sustainable manner and to achieve the public accountability that is transparent and accountable. The financial performance of local governments assessed by comparing the results achieved from

one period compared to the previous period so that it can be seen a tendency that occurs. Improved financial performance of local government through the budget will impact on improving public services.

3. Policy implications. In policy research can be used by local authorities to assess the achievement of financial performance through the financial statements of local government. In accordance with the provisions of Law No. 17 Year 2003 on State Finance, Head of the Region submitted a draft regulation on accountability of the budget (APBD) to the House of Representatives (DPRD) in the form of financial statements which have been audited by the Supreme Audit Agency (BPK) not later than six months after the fiscal year ends. The Financial Statements include the budget Realization Report, Balance Sheet, Statement of Cash Flows and Notes to Financial Statements. Furthermore, Act No. 1 of 2004 on State Treasury mandated that the financial statements submitted by the heads of regions to the BPK no later than three months after the fiscal year ends. This report as a form of local government in terms of finances and performance of the government to the public through Parliament.

5.3. Limitation

This study has limitations that can be improved in future studies. Limitations of this study include:

1. The study only examined four variables that affect the financial performance of local governments, making it less explore other factors that may be influential.
2. The scope of this study is limited to the scope of Local Government in West Nusa Tenggara Province that generalize the findings in this study may not apply in other local governments.
3. This study is confined to determine the effect of the variables that are used on the financial performance of local governments without providing further implications on economic growth and the welfare of society.

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