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The Role of Local Government in Budget Allocation And Management Towards Income Distribution Inequality And Economic Growth Of Regencies/City In Bali Province

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ABSTRACT: Data of Gini ratio in all regencies/city in Bali up to 2016 indicates a number of < 0.4. The ratio is a challenge for local government through budget mechanism to reduce income inequality. The fact indicates that inequality in income distribution occurs although in low range, whereas, economic growth tends to increase.
Data processed is secondary data that analyzed using SEM-PLS with WARPLS application. The research aims to analyze the influence of the role of government budget in budget allocation and management on income distribution inequality and economic growth of regencies/city in Bali using panel data of 2011-2015.
Research result indicates that the role of local government budget and local budget management influence income distribution inequality, whereas the role of government budget has no influence on budget management and growth and income distribution inequality has no influence on local economic growth. Variable of income distribution inequality does not mediate the research model.
Research conclusion is that paradigm of functional principle-based budget orientation should be changed to usefulness principle. The economic growth of regencies/city in Bali is mostly driven by the role of private sector in local economy; therefore, income distribution inequality has no impact on economic growth. Due to the condition, the existing space in local fiscal can be focused more on efforts in society empowerment in order to increase society income in the region. One of efforts can be conducted by local government is by activating and optimizing regional income, especially those obtained from Corporate Social Responsibility (CSR) to increase public service financing and society income.

Keywords: Budget, Inequality, Growth, CSR.

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I. INTRODUCTION

The enforcement of regional autonomy in Bali Province does not merely give direct contribution to the increase in society welfare. Bali Province has no natural wealth in form of mining or forest, which is an abundant natural resources wealth for most of areas in Indonesia. The main income source for the province is contribution from sectors of trading, hotel and restaurant (tourism). The condition requires the province to manage its financial effectively and efficiently.

Local financial management in Bali Province in decentralization frame is not optimal. It can be seen from the ratio of PAD (own-source revenue) to APBD (local government budget). The ratio has relatively no significant increased instead it tends to decrease. The higher the ratio aspect, the more independent the local finance and vice versa, the smaller the ratio the less successful is the local financial independence.

The following Table 1 indicates PAD numbers in all regencies/city in Bali Province in 2015. It shows that PAD of Badung Regency is the most predominate than other areas. It indicates a fairly high potential in income inequality between Badung Regency and other regencies including Denpasar as the capital of Bali Province.

Table 1: PAD of Regencies/City in Bali Province in 2015 (000 Rp)

Region	Own-Source Revenue (PAD) (Rp)	Ratio of PAD reg./city to PAD BadungReg.(%)
Badung Regency	3,001,464,263.00	100
Bangli Regency	87,731,141.00	2.92
Buleleng Regency	293,038,467.00	9.76
Gianyar Regency	45,721,018.00	1.52

Jembrana Regency	98,032,646.00	3.27
Karangasem Regency	243,125,914.00	8.10
Klungkung Regency	120,035,996.00	4.00
Tabanan Regency	300,799,021.00	10.02
Denpasar City	776,214,149.00	25.86

Source:BPS Bali, 2016 (processed)

Based on the ability of a region in financing its expenditures, Badung Regency has the highest fiscal independency compare to other regencies/city in Bali. It is reflected in the high ratio of own-source income (PAD) to total income, which is 85.73%. In addition, other regencies/city has fiscal independence lower than 50% and they still depend on balancing fund to finance their expenditures. Bangli Regency records the lowest fiscal independence ratio of 8.77% (BI Denpasar, 2016).

Larger directive regional autonomy and statutory requirement causes local initiative tends to die thus the fulfillment of regulation as a tool to improve public service is further away from the expectation. There are two reasonsregarding the amount of central government direction: to maintain national stability and a demand for readiness in entering new game era that brings new rules in all life aspects (Mardiasmo, 2002).

The old concept of budget management that has long been used in Indonesia is originally referring to a theory stated by Bahl in Sasana (2009) that a principle (rules) of money should follow function needs to be implemented in the implementation of fiscal decentralization. It means that each authority distribution by the governmentbrings consequence in budget needed to implement the authority. According to Oates in Sasana (2009), fiscal decentralization will be able to increase economic growth and society welfare since the local government will be more efficient in the production and provision of public goods.

The allocation of regional budget is seen from budget categories consist of posts such as, health, education, government administration, and infrastructures, as well as other posts sourced from DAU (general allocation fund) and it is conducted in order to accelerate the achievement of regional development goals. Data from the Ministry of Finance in Basri and Munandar (2009) indicates that the efficiency and effectiveness of budget utilization is still low for activities that able to stimulate local economic activities and increase society welfare. According to Mauro in Abdullah and Halim (2006) the allocation of budget seems to be related to the behavior of corrupt politicians and bureaucracy where budget that gives higher lucrative opportunities for corruption tends to be more preferable.

One of aims of the use of fiscal sourced from own-source revenue and central government transfer is to increase regional economic growth. In the economic theory of Keynes stated that economic growth is related to inflation and unemployment. One of economic saviors in Indonesia from unemployment problem is that a large number of working age population, who previously work in formal sectors, has shifted to informal sector due to economic crisis and work termination. In principle, the smaller the informal sector and the larger the formal sector in an economy, the better the economy (Basri and Munandar, 2009).

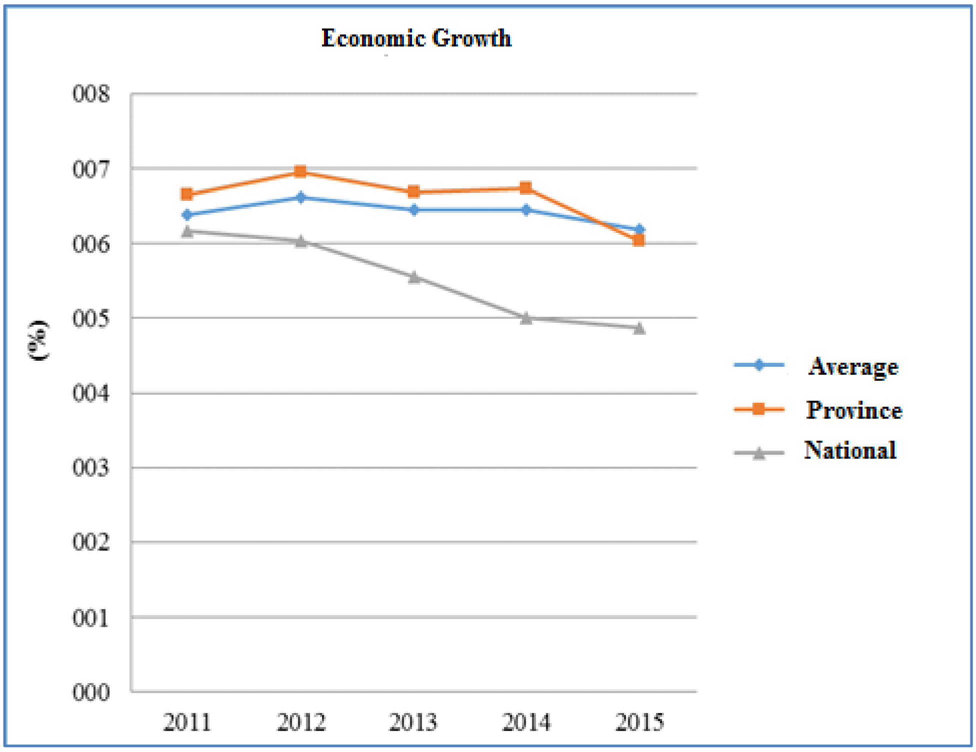
Good governance plays important role in local governance since a weak governance will have the following consequences: (1) poor society finds difficulties to gain access to decent public services due to corrupts apparatus, (2) investors have concern to invest since there are no legal certainty regarding contract and safety matters, (3) many government resources are lost due to the financial management system and goods procurement that is not transparent and manipulative and leakage (Kuncoro, 2004).

Improvement in local apparatus ability is pressing in order to fulfill the duty of public service fulfillment. The current phenomenon is that many people did not feel the benefit of regional autonomy. The main result of regional autonomy only reaches the local elites and no improvement in welfare that directly touches the society despite the intrinsic goal of regional autonomy, which is an increase in society welfare (Basri and Munandar, 2009).

Regional autonomy is also estimated to give access to regional disparity. Inequality in regional development in the level of infrastructures and facilities as well as human resources will influence the achievement of the main goal of decentralization in region. In addition to the local financial ability as the cause of the disparity, demographic factor also plays role. The issue of population pressure can be a snow ball phenomenon since it has implication on such issues as unemployment, health and poverty. The basic issues, such as unemployment, health, and education, need special attention from the government in terms of the importance of budget allocation to improve facilities and public services.

Average economic growth in regencies/city in Bali indicates a higher condition than national economic growth in 2011-2015. The relatively good economic growth does not necessarily means the achievement of regional income distribution.

Figure 1: The Average Economic Growth of Regencies/City of Bali Province, Bali Province, and National in 2011-2015



Source: BPS and Bank of Indonesia Bali, 2016 (Processed).

Gini coefficient (Gini Ratio) is a mostly use measuring instrument to measure the level of overall income inequality. Gini coefficient is based on Lorenz curve, which is a curve of cumulative expenditure that comparing the distribution of a certain variable (such as income) to uniform distribution representing the cumulative percentage of population.

The income distribution pattern based on the calculation result of Gini ratio illustrates the level of global income equality. However, it is not clear in terms of to what extent or how much is gained by low income/poor group. The Gini index can also be calculated based on expenditure data. The level of inequality of Gini index is in the range of 0 and 1. The larger the number, the higher is the inequality in expenditure between population groups. Gini index of zero (0) means a perfect equality, whereas Gini index of one (1) means a perfect inequality. The assessment standard of Gini ratio inequality is determined using criteria such as very low inequality ($GR \leq 0.2$), low inequality ($0.20 < GR \leq 0.39$), medium inequality ($0.39 < GR \leq 0.59$), high inequality ($0.59 < GR \leq 0.79$), and very high inequality ($GR > 0.79$) (BPS, 2016).

It is important to monitor the development of income equality since government efforts in distributing the result of development is one of strategies and goals of long term development. Inequality in development result among population groups is a concern since it could create social problems. In addition to those indicators, another indicator can be used to illustrate the level of income distribution inequality is the measurement of the level of income distribution inequality based on World Bank method.

The quality of local expenditure in APBD (regional budget) is considered as low indicated by indirect expenditures that larger than direct expenditures. Based on various literatures, it can be defined that direct expenditures are considered as local government expenditures having important influence on the economic growth of a region and have leverage to drive the economic wheel of a region. Public-oriented local financial management is not only indicated by the amount of budget allocation proportion for public interest but also by the amount of the absorption rate of local spending realization (spending performances) especially expendituresson goods for maintenance and capital expenditures to fund the provision of facilities and infrastructure of basic services in the region.

Regarding the implementation of spending performance that able to encourage the acceleration of local spending realization, local government needs to give prioritize on expenditure allocation for programs/activities of providing facilities and infrastructures of public services in the region by increasing the allocation of good expenditures and capital expenditures in regional budget and reduce the proportion for local government expenditures and other indirect expenditures. Budgeting for direct spending in APBD is used to execute local government affairs consisting of mandatory and optional affairs in the form of programs and activities where the benefit of its performance achievement can directly touch the society in order to improve the quality of public services and the alignment of the local government to public interest.

Based on the empirical data and factual condition as well as the existing phenomenon, the research problem is "Why the role of government budget through budget allocation and management still leaves an inequality in income distribution despite a tendency of increase in the economic growth of Bali?"

II. THEORETICAL REVIEW

To improve local discretion in the implementation of regional autonomy and fiscal decentralization, local government needs to improve their fiscal capacity and close the fiscal gap. It can be done by optimizing PAD and DAU management. Local government has the full authority to use both revenue sources for the fulfillment of the principles of transparency, public accounting and value for money (Mardiasmo, 2002).

Richard Musgrave in Eko (2008) identified three functions of budget. First is allocation function. Budget is a government instrument to provide public goods and services to fulfill the society needs. In Indonesia context, the function often called as "development spending" or "public spending". The spending could in form of public facilities development, public services (health, education, housing, and so on) or aid for society empowerment. Second is distribution function where budget is an instrument to share resources (development cake) and its utilization to public in fair and equitable manners. The distribution function of budget is especially aimed to overcome socio-economic gap, such as, a gap between the rich and the poor, between developed and underdeveloped regions or between rural and urban areas. Third is stabilization function. State revenue and expenditure will influence the aggregate demand and overall economic activities. Budget is an instrument to maintain and seek economic fundamental balance, which is those related to the creation of jobs and macro-economic stability.

A research by Setyawan and Adi (2008) entitled "The influence of fiscal stress on the growth of own-source revenue and capital expenditure" resulted that fiscal stress had positive influence on PAD growth. High fiscal stress indicates high effort of the regions to increase their PAD. In line with that, a hope to increase the revenue will be difficult to achieve if spending allocation for capital and development is not increased. One of steps can be taken is for the government of regencies/city to be more effective in the allocation of capital expenditure/development spending to fulfill public interest that supports the economic growth as well as direct public service.

A research by Rahmiyati (2007), entitled "Analysis of the Influence of Local Financial Performance on Economic Growth, Investment Growth, Manpower Absorption and Society Welfare: a Study on Local Financial Performance in Municipal Government in East Java Before and During the Regional Autonomy Era",concluded that local financial performance had a significant influence on economic growth in the era of regional autonomy. Another conclusion was that local financial performance had no influence on society welfare in the regional autonomy era.

The development of regional economy is a combination strategy of local authority to be able to independent based on its own resources with its ability to create interaction and linked to other surrounding regions or larger economic areas. Regional economic development should be conducted with one comprehensive economic development strategy – CEDS (Murwito, 2008).

Fiscal space is a concept to measure local government flexibility in allocating APBD to finance priority activities of the region. Fiscal space indicates to what extent the real capability of APBD to finance strategic activities in the context of public service. Larger fiscal space allow larger role for the local government for public service. Limited fiscal space will need a foresight and appropriate strategy in allocating local spending on activities that become the priorities of the region and have high leverage for regional economy. A workable effort is by increasing tax effort sourced from local economic potential. The high tax ratio illustrates higher local revenue source of the related region in local revenue from tax.

In the context of development, the definition of governance is a mechanism of socio-economic resources management for development goals; therefore, good governance can be defined as a mechanism of substantial socio-economic resources management and its implementation to support a stable development where the main requirements are efficient and relatively even. Government has the obligation to invest in order to promote long term economic goals such as education, health and infrastructures. However, to compensate the state, a competent society is needed through the implementation of democratic system, rule of law, human resources, and appreciation to pluralism (Krina, 2003).

In the theory of fiscal decentralization, there are two theoretical perspectives explaining the economic impact of decentralization, namely, traditional theories and new perspective theories (Khusaini, 2006). Traditional theories emphasize the allocative benefit of decentralization where the source of information and knowledge of the local needs and condition is controlled more by the region thus decision making on society needs and aspiration is better done by the local government. New perspective theories emphasize the influence of fiscal decentralization on local government behavior. The implication of the theory is that decentralization will influence the economic growth and society welfare in the region.

According to Ulfa (2004) one of keys in achieving fiscal sustainability is balance budget condition for medium-term and long term with one condition that stability of interest level, inflation and economic growth rate has been achieved. On the other hand, a choice for fiscal deficit condition still has large tendency due to its ability to give stimulus to economy where source of budget revenue cannot keep up the amount of spending or budget expenditure.

Budget structure in regional autonomy is arranged with performance approach. Budget with performance approach is a budget system that gives priority on the efforts to achieve predetermined cost allocation or input (Mardiasmo, 2002). Budget allocation based on the main category in local expenditure financing can be grouped into several spending posts: health, education, government administration, and infrastructure. This grouping is conducted to find out the ratio of government spending for administration and for public services that equal to expenditure for society welfare.

According to Budiardjo in Krina (2003), accountability is the accountability of a party who receives mandate to govern those who give the mandate. Transparency principle is a principle that guarantees access or freedom for everyone to obtain information on governance, namely, information on policy, its making process and implementation and the results achieved. Information in this case is defined as information on every aspect of government policy reachable by the public. Information openness is expected to produce a healthy and tolerant politics and policies are made based on public preferences. Whereas, participation is a principle that everyone has the right to be involved in decision making on every governance activities. The involvement in decision making can be conducted directly or indirectly.

A research by Oates (1993) stated that if local government has real and effective fiscal policy it should increase the significant parts of it funds sourced from own-source. It is important due to two reasons. First, in political setting, central funds always occur with attached requirements. If local government is highly depended on transfer from the top, central intervention into expenditure decisions is unavoidable that will characterize the decision in local level. Second, high dependency on donation destroys incentive for responsible local decisions. Decentralized financial basically plays important role in economic development. However, translation from this potential to the real contribution of economic growth depends on a number of important conditions related to the responsiveness of local institution to local welfare that in turn depends on the appropriate fiscal institution structure.

Sakamto (2006) conducted a research entitled "Regional disparity in Indonesia:An analysis using the distribution approach". The research aimed to find out regional disparity between provinces in Indonesia using distribution approach. The research result indicated income distribution inequality. Regional disparity in Indonesia is mostly occurred due to non-oil and gas income. A new issue will occur if the occurrence regional disparity neglecting the condition of population proportion. The increase in regional income, ideally, is conducted gradually, especially for regions with oil and gas sources.

Qiao et al (2008) conducted a research entitled "*The Tradeoff between Growth and Equity in Decentralization Policy: China's Experience*". The research used panel data of 1985-1998 period of fiscal decentralization in China. Fiscal decentralization was significantly influenced the economic growth of China but the relationship was non-linear. At the same time, decentralization policy caused a significant increase in inequality of geographical distribution of fiscal resources allocation or transfer. Therefore, the increased economic growth was due to the fiscal decentralization that had implication on the occurrence of regional disparity.

Harrod-Domarsuggested requirements needed for economic growth to grow and develop steadily or a steady growth in a long term. In a steady growth, all variables, such as output, saving, investment, and technology advancement, growth constantly or in an exponentially linear rate (Jhingan, 2000).

Lessman (2006) conducted a research entitled "*Fiscal decentralization and regional disparity: A panel data approach for OECD countries*." The research tried to find out the relationship between fiscal decentralization and regional disparity. It used various economic statistics data of 17 OECD countries and processed through a descriptive statistical analysis. The research found that a country with high fiscal decentralization had low regional disparity. Authority and local autonomy on high regional fiscal capacity would reduce disparity. However, the finding only prevailed for developed countries. Regarding developing and underdeveloped countries, decentralization was likely to cause sharper regional disparity. It was due to the high corruption level and the weak capacity of local government in managing its resources and public service.

The role of capital formation, according to Harrod-Domar, needs to be emphasized to create economic growth since it is considered as an expenditure that will add the ability of an economy to produce goods or as an expenditure that will add an effective demand of society. In order for economy to grow, investments are needed as an addition of capital stock. The relationship between capital stock (K) and total output (Y) is a direct economic relationship that often called as COR (Capital Output Ratio).

High economic capacity would have no benefit if it maintains a wider prosperity gap. Economic growth can be driven by stimulating aggregate economic variables such as consumption, investment, government expenditures and net export. Economic growth in a region cannot be separated from the improvement of human resources quality.

III. METHODOLOGY

The research was conducted in Bali Province with sample of 8 (eight) regencies and 1 (one) city. Locations were purposively chosen by considering Bali Province as one of province having regencies with a relatively high PAD and economic growth in Indonesia. The research object was the role of regional budget to boost the economic growth through good budget management that also able to minimize inequality in income distribution in the region in 2011 – 2015. Data used in the research was secondary data.

The research was designed to answer the formulated problems, goals to be achieved as well as to test hypothesis. Descriptions related to analysis method in the research are:

a) The research was an explanatory research, which is a research that tries to explain relationship between variables through hypothesis testing (Singarimbun in Singarumbun and Effendi, Ed., 1995).
b) Based on the data analysis, the research was an analytical research since it analyzed sample data using generalized descriptive statistics and inferential statistics for population conclusion (Arikunto, 2002). Data collected was panel data obtained from secondary data in responding items related to variables of fiscal decentralization, budget governance, budget allocation, economic capacity, and society welfare in Bali Province.

In an analysis using Partial Least Square (PLS), there are two things conducted. First is assessing outer model or measurement model, which is assessing the reliability and validity of the research variables. There are three categories in assessing the outer model, namely, convergent validity, discriminant validity, and composite reliability. Second isassessing the inner modelor structural model. Inner modelor structural model testing is conducted to see the relationship between constructs, significant value and R-square of the research model.

PLS approach does not assume certain distributed data. There are three categories of parameter estimation obtained using PLS: (1) weight estimate used is to create latent variable score (2) reflecting path estimate that connects latent variables and between latent variables and their indicator block (loading); (3) related to means and parameter locations (constant value of regression) for latent variables and indicators (Ghozali, 2008).

PLS is a powerful analysis method since it is not based on many assumptions. Data does not have to be normal multivariate distributed (indicator with category, ordinal, interval and ratio scales can be used in the same model). PLS can be used to confirm a theory and to explain whether or not there is a relationship between latent variables. In addition, it can be used to build a relationship that has no theoretical base or to test a preposition. PLS is developed as an alternative for situation where the theory is weak and the available indicators do not meet the reflective measurement model (Solimun and Rinaldo, 2008).

IV. RESULT DISCUSSION

Structural model presents a relationship between research variables. Coefficient of structural model states the magnitude of a relationship between one variable to another. A significant influence between one variable to another exists if p-value<0.05. In an analysis using SEM method, there are two influences, direct and indirect influences.

Table 2 : SEM Structural Model: Direct Influence

No	Relationship	Coefficient	P-value
1	The role of government budget (X1) on budget management (X2)	-0.158	0.132
2	The role of government budget (X1) on income distribution inequality(X3)	-0.196	0.080
3	Budget management (X2) on income distribution inequality(X3)	0.216	0.061
4	The role of government budget (X1) on economic growth (Y)	0.163	0.125
5	Budget management (X2) on economic growth (Y)	0.647	<0.001
6	Income distribution inequality(X3) on economic growth (Y)	0.157	0.133

Source: Processed data, 2017

The influence of the role of government budget on budget management obtained a structural coefficient of -0.158 and P-value of 0.132. Since P-value >0.10 and the coefficient sign was negative, it indicates that there was no significant and negative influence of the role of government budget on budget management.

The influence of the role of government budget on income distribution inequality obtained a structural coefficient of -0.196 and P-value of 0.080. Since P-value <0.10 and the coefficient sign was negative, it indicates that there was a significant and negative influence of the role of government budget on income distribution inequality.

The influence of budget management on income distribution inequalityobtained a structural coefficient of 0.216 and P-value of 0.061. Since P-value <0.10 and the coefficient sign was positive, it indicates that there was a significant and positive influence of budget management on income distribution inequality.

The influence of the role of government budget on economic growth obtained a structural coefficient of 0.163 and P-value of 0.125. Since P-value >0.10 it indicates that there was no significant influence of the role of government budget on economic growth.

The influence of budget management on economic growth obtained a structural coefficient of 0.647 and P-value <0.001. Since P-value <0.05 and the coefficient sign was positive, it indicates that there was a significant and positive influence of budget management on economic growth.

The influence of income distribution inequalityon economic growth obtained a structural coefficient of 0.157 and P-value of 0.133. Since P-value <0.10 and the coefficient sign was positive, it indicates that there was no significant and positive influence of income distribution inequalityon economic growth.

Table 3 :Structural Model Resulted from SEM: Indirect Influence

Indirect Influence	**Coefficient of Direct Influence**		**Coefficient of Indirect Influence**	**Description**
X1 → X2 → Y	X1 →X2 = -0.158^{ns}	X2 → Y = 0.647*	-0.102	Not significant
X1 → X3 → Y	X1 →X3 = -0.196*	X3 → Y = 0.157^{ns}	-0.031	Not significant
X2 → X3 → Y	X2 →X3 = 0.216*	X3 → Y = 0.157^{ns}	0.034	Not significant

Source: Processed data, 2017
Note : * significant, ^{ns}not significant

Indirect influence of the role of government budget on economic growth through budget management obtained a coefficient of indirect influence of -0.102. The direct influence of the role of government budget on budget management was not significant;however, the direct influence of budget management on economic growth was significant.

Indirect influence of the role of government budget on economic growth through income distribution inequalityobtained a coefficient of indirect influence of -0.031. The direct influence of the role of government budget on income distribution inequalitywas significant;however, the direct influence of income distribution inequalityon economic growth was not significant.

Indirect influence of budget management on economic growth through income distribution inequalityobtained a coefficient of indirect influence of 0.034. The direct influence of budget management on income distribution inequalitywas significant;however, the direct influence of income distribution inequalityon economic growth was not significant.

The role of government budget had no influence on budget management. The high role of government budget indicated from the high ratio of APBD to PDRB and ratio of fiscal independence level had no impact on the high budget management. It was reflected from the aspect of SILPA ratio and BPK opinion.

A good budget management is not determined by fiscal ability and high regional independence but it is acted as necessary condition with no consideration on the amount of fiscal ability. Good budget governance is an important requirement in the implementation and management of local finance. High SILPA based on budget management and outcome oriented indicates a weak planning in budget utilization that beneficial for the society. The concept of money follows program should pay attention on the aspect of expediency obtained from any budget utilization. On the other hand, low SILPA is not necessarily the achievement of goals of optimum budget absorption if the aspect of expediency is low. Obtaining highest BPK opinion based on fairness aspect (unqualified opinion) is a condition for the implementation of budget management that meets the procedures of government (public sector) accounting standard. The condition cannot be interpreted as a success in budget management viewed from its achievement, which is outcome-based or usefulness-based. The opinion rating is important for good budget management; however, it must be accompanied by appropriate and useful allocation.

The role of government budget had influence on income distribution inequality. High role of government budget, indicated by high ratio of APBD to PDRB and fiscal independence level ratio, will have impact on the high income distribution inequality that reflected on the aspect of gini ratio and unemployment rate. The role of government budget in encouraging development equity can be sought by increasing spending posts related to capital expenditure. If budget allocation gives wider fiscal space, the ability of local government in providing development benefit could reduce income inequality in the society. If economy is built with an increasingly dominant capitalist concept, a concern could emerge regarding the widening of income inequality in society. Government ability to reduce income distribution inequality by enlarging the fiscal space could reduce unemployment rate. An increase in the ratio of government budget role without an increase in capital spending and fiscal space could enlarge income distribution inequality and unemployment number.

Budget management had influence on income distribution inequality. High budget management, indicated by high ratio of SILPA and BPK opinion, could have impact on the high income distribution inequality reflected on Gini ratio aspect and unemployment rate.

Budget governance with a narrowing fiscal space along with irregularities in the procedure of budget utilization brings consequence of enlarging income distribution inequality and unemployment rate. Local government should take real steps by streamlining the use of budget by reducing overwhelming routine spending of administration. Budget efficiency, in this case, is defined as an action of budget management by determining clear and measurable achievement indicators; therefore, any budget utilization has real usefulness value to most of the people. Actions in budget utilization from planning, monitoring up to evaluation are conducted with clear and having significant impact and optimal criteria.

The role of government budget had no influence on economic growth. The high role of government budget had no impact on the high economic growth reflected on the aspect of ratio of APBD to PDRB and fiscal independence level ratio would have impact on the high economic growth reflected on the aspect of real PDRB rate and income per capita. It was also found that there was no significant indirect influence of the role of government on economic growth either through budget management or income distribution inequality.

A relatively high economic growth is not completely the impact of the role of government budget in financing regional economic development. There are two things that can be explained by the phenomenon: first, high economic growth could occur due to the role of private sector in driving the economic in form of an increase in investment; and second, private investment developed in the region that is more efficient. In this case, local government could select two things in order to maintain high economic growth: opening the opportunity of investment continually and selectively and making regulations that give certainty on the direction and policy of capital investment in the region. This regulation certainty is very important for investors since it is related to risk factor and regional investment needs. Along with the entry of investment it is expected that it could encourage economic growth and that government, with its policy direction development, is able to arrange its territory developed in accordance with the existing local potential. Another important matter is that the entry of investment gives positive multiplier effect on local society economy. A clear zonation and layout in local economic development along with the multiplier effect will give impact on better equity and employment. The achievement of the condition allows local government to be more focused in budget allocation to improve public services, such as in the field of health, education and public facilities provision where the benefits can be directly felt by the society.

Budget management had influence on economic growth. High budget management, indicated by the high ratio of SILPA and BPK opinion, will have impact on the high economic growth reflected on the aspect of gini ratio and unemployment rate. However, insignificant result was found in indirect influence of budget management on economic growth through income distribution inequality.

Efforts to drive economic growth can be done through good budget governance. High financing surplus cannot be interpreted as weak budget absorption. High budget absorption without benefit on economic growth is not a good thing. If local government is able to increase investment then it could drive local economic growth. On the contrary, budget utilization with high absorption where most of them are for routine budget financing then it is clearly has no optimal benefit for economic growth. High SILPA ratio can be used to finance development for the next budget with larger proportion for public services. The condition indicates that budget governance of the government is more qualified since it is able to drive economic growth by efficient budget utilization due to the increase in private sector role.

Income distribution inequality had no influence on economic growth. High income distribution inequality would have no impact on the high economic growth reflected from the aspect of gini ratio and unemployment rate would have impact on the high economic growth reflected on the aspect of real PDRB rate and income per capita.

A relatively low income distribution inequality in all regencies/city in Bali for the last few years indicated a condition of stronger regional economy. High economic growth along with development and economic development equity is unable to completely remove the existing inequality. Relatively low income distribution inequalityis not an obstacle for the occurrence of high economic growth. Even though there was a decrease in economic growth rate in Bali, based on the national average of economic growth, regencies/city in Bali had a relatively higher economic growth rate.

V. CONCLUSION

Income distribution inequality in regencies/city in Bali was influenced by the role of local government budget and local budget management. The research result indicated that budget management had impact on economic growth. Paradigm of budget orientation based on institutional function principle should also include usefulness principle. The economic growth of regencies/city was driven more by the role of private sector. Therefore, income distribution inequalityhad no impact on economic growth. Due to the condition, the existing regional fiscal space can be focused more on the efforts of society empowerment in order to create an increase in society revenue in the region.

It is advisable that in local budget management enacting a new working unit, which is regional device organization (ODP), and money follows programs principle, the local government pays attention on the impact and outcome of budget utilization to finance development. Issue related to the high SILPA with outcome-oriented budget principle cannot be interpreted as a decrease in development performance. Budget expenditures should give real benefit to the society; therefore, development financing in every fiscal year could reduce income inequalityas well as drive the economic growth in the region. Local government should optimize development financial sources out of budget by utilizing contribution from private sector through Corporate Social Responsibility (CSR) fund to finance public services or capital assistance for entrepreneurship for the society.

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