

The Impact of Budget Decentralization on Local Government Performance

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The Impact of Budget Decentralization on Local Government Performance (Study at Municipal – City Governments in Jambi Province)

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Abstract

The Independence of local governments in planning, managing revenues and expenditures is a form of fiscal decentralization in government. Therefore, decentralization is an important factor for regions in managing and allocating resources such as infrastructure investment, as well as services to serve the community in order to encourage regional economic growth and community welfare. The purpose of the study was to examine the direct effect of budget decentralization, economic efficiency, and economic growth on the performance of local governments and the indirect effect of budget decentralization on the performance of city/municipal governments in Jambi through economic growth and economic efficiency. This study uses the Partial Least Square (PLS) analysis technique to analyze the data obtained from the research population consisting of all city/district governments in Jambi. The research data is panel data obtained from secondary data from the Central Statistics Agency for the 2017-2019 period. The conclusion from the data analysis is that budget decentralization, economic efficiency and economic growth have a direct effect on the performance of the city/city government in Jambi and economic growth has a direct effect on the performance of the city/city government in Jambi. We find that budget decentralization has an indirect effect through economic efficiency and economic growth on the performance of municipal/municipal governments in Jambi.

Keywords: Budget Decentralization, Local Government Performance

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1. Introduction

Geographical conditions, social development, differences in local social and cultural structures, and the emergence of demands for democratization in running the government have triggered the acceptance of the principle of decentralization as the principle of universal governance (Prasojo, Maksum, and Kurniawan; 2006). In general, decentralization has the aim of increasing the efficiency and effectiveness of government management as well as increasing community involvement in governance and development.

One form of decentralization in financial management is fiscal decentralization, which is the independence of the regional government in planning the management of regional government budget revenues and expenditures. The implementation of fiscal decentralization has been running since early 2001. Sources of revenue for the implementation of fiscal decentralization come from Regional Original Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), profit sharing funds, regional loans, and other legal revenues (Law No. 33/2003). Local government budgets are aimed at realizing people's welfare by increasing productivity, economic growth, and increasing per capita income. This budget becomes an instrument in fulfilling community needs according to community needs.

Fiscal decentralization has received attention in the area of public sector accounting because of public demands regarding accountability and transparency in budget management. One form of local government accountability is the APBD or regional revenue and expenditure budget. This financial budget is related to the income, expenditure, and financing of a local government. In compiling the APBD, budget analysis is needed in

formulating policies on the allocation of all resources in programs and activities in the various groups involved in the decision-making process.

The APBD is prepared based on a performance approach that prioritizes efforts to achieve work results or output from the allocation of costs or inputs. This means that any planned allocation of costs has been linked to the expected service or outcome. This work measurement is intended to answer community demands related to accountability and transparency in resource management. In this case, the local government seeks to achieve local accountability in the distribution of resource allocations (Peterson, 1996). Emphasis on budgeting is oriented towards regional independence which can also be interpreted as the ability of local governments to explore sources of income and allocate expenditure through the APBD to improve community welfare (Blanchard, 2000).

APBD formulation can be reviewed through various theories, such as the theory of fiscal federalism. This theory explains the government's idealism in implementing the value for money-based APBD to encourage regional economic growth (Oates, 1993). Evaluation of performance measurement is a form of accountability that is not only related to budget use but also includes various aspects that provide information on efficiency and effectiveness in achieving organizational goals. Measuring local government performance is very important for all stakeholders, both principals, and agents, in the decision-making process. This encourages researchers to conduct research on budget decentralization on local government performance. The ongoing decentralization aims to mobilize resources, for example, investment in infrastructure and services so that public services improve and trigger the real economy in society. Economic growth indicators can be seen from the continuous increase in gross regional domestic product. The impact of the preparation of regional budgets under needs and It's carried out efficiently and economically and increases regional economic growth.

The efficiency results allow local governments to allocate public service budgets such as low-cost education programs and adequate health insurance for the community. This is in line to achieve community welfare or in other words as a form of good local government performance. There are several indicators to assess regional performance, such as Gross Regional Domestic Product (PDRB) (Saragih, 2003; Kuncoro, 2004), Poverty, Social (Labor), Community Welfare. This study defines performance with a welfare proxy. The indicator of this proxy is the increase in the human development index (IPM). IPM is a representation of the education index, life expectancy index, and income index. In other words, welfare can be seen from the higher level of education, life expectancy, and community income.

Table 1. Expenditure 2014-2018 of Jambi Province

EXPENDITURE ITEMS	2014	2015	2016	2017	2018
A. INDIRECT EXPENDITURE	1.483.116	1.762.391	1.649.325	2.246.421	2.439.437
1. Employee Expenditure	480.217	552.244	570.140	1.074.883	1.204.839
2. Interest Expenditure					
3. Subsidy Expenditure					500
4. Grant Expenditure	380.762	622.071	678.057	495.632	505.227
5. Social Assistance Expenditure	19.519				1.000
6. Profit Sharing Expenditure	462.357	467.709	399.535	674.068	593.304
7. Financial Aid Expenditure	138.551	119.321	1.500	1.780	130.567
8. Unexpected Expenditure	1.710	1.046	93	58	4000
B. INDIRECT EXPENDITURE	1.286.102	1.663.175	1.645.157	1.936.411	2.075.707
1. Employee Expenditure	84.158	110.945	122.473	175.425	188.785
2. Goods and Services Expenditure	523.197	760.928	577.145	815.447	892.933
3. Capital Expenditure	678.747	791.302	945.539	945.539	993.989
C. REGIONAL EXPENDITURE	755.497	178.679	87.399	450.544	0
TOTAL	3.524.715	3.604.245	3.381.881	4.633.376	4.515.144

Source: jambi.bps.go.id

Organizational performance measurement has the goal of increasing accountability, transparency, organizational management, and service to society. In the end, the results of performance measurement become important information for stakeholders. In addition, the results of the performance evaluation are a form of responsibility for the organization. The problem of performance measurement is not limited to budget and its realization, more than that, it also involves many informative aspects related to the value for money of organizational performance. The existence of regional government performance measurement is very important for the legislature, which is the people's representation in the framework of evaluating the performance of regional governments. The importance of performance measurement is the reason for conducting research related to budget decentralization from the perspective of local government performance.

So far, performance research in public sector accounting has been oriented toward budgets and their realization or comparing budget plans with budget outcomes (see Maryanti, 2002; Sardjito dan Mufthaer, 2007;

dan Munawar, 2006). According to the researcher, their approach tends to be an average trend (aggregate) so that the visible performance does not reflect the real condition of people's welfare. This is a research gap for measuring performance based on welfare (community service indicators: IPM; life expectancy index, education index, and income index).

The urgency of this research is to:

1. Testing empirically: budget decentralization, economic efficiency, and economic growth have a direct effect on the performance of district/city governments in Jambi Province.
2. Test empirically: budget decentralization, through economic efficiency, and economic growth has an indirect effect on the performance of district/city governments in Jambi Province.
3. Provide advice to local governments to develop the concept and influence of budget decentralization on local government performance.

2. Literature Review

2.1 Decentralization

Experts classify four types of decentralization, namely: co-administration, devolution, delegation, and deconcentration. (Prasojo., dkk, 2006). The assistance task applied in Indonesia adapts to its socio-political characteristics. This condition makes it very possible for the central government or local governments to actively participate in helping the central government at higher levels. Regions are given the authority to manage resources autonomously, but the authority of the central government or the superior government is to regulate regional mechanisms in managing their resources. Regions receive assistance tasks through their regional apparatus organizations. The obligation of local governments to report the responsibilities of their authority in carrying out assistance tasks to the central government. The source of financing comes from the APBN or APBD of the regional government which assigns it.

The objectives of decentralization can be political and administrative. Political in nature because it is closely related to the realization of local democracy and strengthening participation. The objectives of decentralization are administrative because they are relevant to efficiency and effectiveness in governance and development (Elcock, 1994). It can be said that decentralization has the main objective of providing public services to society. Local government has service functions which as a result can reduce poverty, provide education, build and manage hospitals, provide clean water. These public services are provided by local governments and financed by taxes and retribution paid by local communities as well as from financing originating from the central government.

Well-managed finances can support success in Decentralization. Decentralization is the transfer or delegation of authority from the highest government and its agencies to regional organizations, government subordinate units, semi-autonomous governments, regional authorities, functional authorities, autonomous local governments to plan and manage public functions [1]. Decentralization aims to prevent financial centralization, ensure justice, and equal distribution and democratization in the regions. In this case, the performance of responsible government officials is very much needed in the implementation of decentralization. With decentralization, organizations are able to develop their capabilities, can handle events, act without waiting and improve the quality of decisions that encourage better performance (Melianawati and Setiawati, 2021).

In Indonesia, law number 22 of 1999, which has been revised into law 32 of 2004, gives regional governments great powers in the form of autonomy to manage and carry out their mandatory and optional affairs independently. This will provide a good public service. However, in some cases, depending on the characteristics of the region in terms of providing public services, it will differ from one region to another. One of them is the source of local revenue and transfer funds provided by the central government to regional governments.

In realizing the decentralization of the Indonesian state, it is where the government delegate authority to subordinates to carry out expenditures and tax collection. The Council is formed by being elected by the people, while the Head of Regions are selected by the DPRD with a transfer of assistance from the Central Government (Pertiwi, Maslichah, and Mawardi, 2021).

The implementation of fiscal decentralization is supported by academics with the argument that the most ideal (efficient) service should be carried out by local governments. This is because local governments best understand community needs; local government decisions to adjust to community needs will have an impact on the efficiency of spending that comes from the community. This condition will encourage local governments to be more creative in increasing local revenue sources.

2.2 Economic Growth Measurement

Economic growth can be interpreted as increasing economic activity. This increase has triggered an increase in economic production, and the prosperity of society. The concept of economic growth explains the performance and improvement of an economy. In addition, economic growth can also be interpreted as an increase in GDP or

GNP regardless of population growth fluctuations, or changes in economic structure (Arsyad, 1999).

Economic growth is the basis for sustainable development. The process of economic development is essentially an effort to increase the capacity of the economy in order to be able to create jobs which in turn will encourage the realization of prosperity for all people (Bukit, 2022).

Psychologically, budget decentralization will be able to trigger massive economic efficiency. This ultimately creates a region's economic growth. There are reasons why capital and service expenditures are effective so that they can drive regional economic growth by understanding their respective characteristics. This reason can become a reality when local governments understand the needs of their respective regions.

2.3 Economic Efficiency Measurement

Budget decentralization has an impact on the ability of local governments to manage resources and improve public services (Peterson, 1996). This is a classic effect, in other words, that decentralization has a positive economic effect on increasing efficiency. (Musgrave (1959) dan Oates (1993). So this efficiency begins with the concept of budget decentralization which enables local governments to identify the needs of their people by understanding the characteristics of the people in their regions. Budget decentralization has the effect of achieving basic needs positively for the community and increasing community welfare or according to Vazquez dan McNab (2001) it is called the efficiency allocative.

2.4 Local Government Performance

Performance is a description related to the achievement of the implementation of policies, programs, and activities under the vision, mission, goals, and objectives stated in the organization's strategic scheme. Evaluation of the implementation of policies, programs, and policies must be based on performance measurements. This measure becomes a tool for management to improve the quality of accountability and decision-making. In other words, performance is the achievement of what was planned. Good performance if performance is as planned. Conversely, performance is said to be poor if the performance is not by or less than planned. This is also carried out to realize the vision and mission of the government (Marlina, Rahayu and Yudi, 2012). Performance measurement becomes an instrument for evaluating government agencies related to programs or activities that have been implemented based on benchmarks that have been made, for example, the minimum standard of public services.

Performance benchmarks can be in the form of performance indicators derived in quantitative and qualitative terms. In general, the elements of performance indicators consist of input, output, outcome, benefit, and impact. Based on this indicator, the formulation of activity measures both in terms of time and accuracy of implementation can be determined. The purpose of performance measurement is to increase accountability, transparency, organizational management and improve services to the community. There are several indicators to assess regional performance, among others: Gross Regional Domestic Product (GRDP/PDRB), Poverty, Social (Labor), Public welfare. This study defines performance with a welfare proxy. The indicator of this proxy is the increase in the human development index (HDI/IPM). IPM is a representation of the education index, life expectancy index, and income index. In other words, welfare can be seen from the higher level of education, life expectancy, and community income.

So the performance of local governments can be said to be good if public services improve with indicators of increasing life expectancy, education, and real per capita income. The life expectancy index illustrates how the government can increase people's life expectancy, which is reflected in the longer the average life span and the healthier people's lives. The education index describes how well the community's education level is with indicators of literacy rates and the average length of schooling. This index is important because the increase in people's knowledge and skills can be a driving force for the increase in the health index and income index. The income index illustrates the government's ability to provide services that can spur an increase in people's average per capita income. The hope is that this increase in income will be an indication of a decent life for the community.

The government's performance in the scope of organizational studies is at a macro level, the goals, ideals, and expectations of an organization whose achievements and realization are carried out through the organization. The existence of loyal interests by a group of people is also sought to be achieved through the organization, while for individuals, various goals, desires, ideals, hopes, and needs can only be held, fulfilled, and carried out using organizational channels. The existence of a dependency relationship between humans and organizations in the sense that humans are no longer possible to achieve various goals without using organizational paths and so on (Munayang and Fitriana, 2019).

Activities within the organization can be measured in performance appraisals so that they will become material for future improvements. In connection with this, it can be said that organizational performance is a work performance and implementation process to achieve predetermined organizational goals (Ali and Maisyuri, 2017). The research on decentralization related to performance in Indonesia was conducted by Adi (2005),

Khusaini (2005), dan Kuncoro (2007). Their research results found that budget decentralization has an influence on local government performance through indicators of regional income and community welfare.

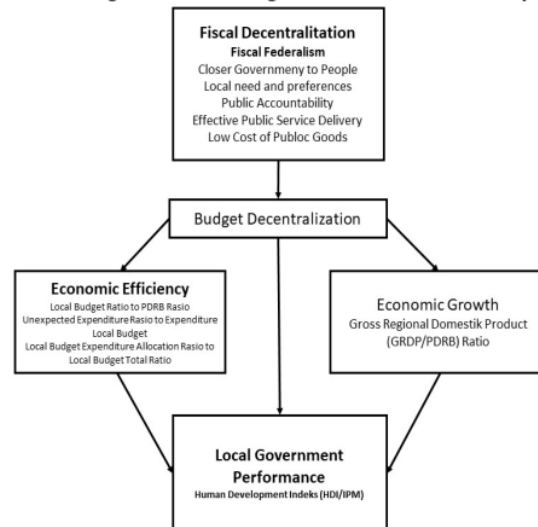


Figure 1. Research Framework

In addition, research on budget decentralization associated with economic growth was carried out by Oates, (1993), Zhang dan Zou (2001), Martinez dan Macnab, (1997), Oates (1995), Lin dan Liu (2000). They found a fairly strong relationship between budget decentralization and economic growth.

Economic growth can be interpreted as an increase in the GDP or real PDRB of municipal / cities (Philips and Woller 1997; Zhang and Zhou, 1998). They found that there was a massive economic performance that was able to boost economic growth in the regions since budget decentralization was implemented.

Areas that have resource potential can accelerate community welfare (Adi, 2005). In addition, Khusaini (2005) found that budget decentralization has a strong relationship between regional government economic efficiency, regional economic growth, and community welfare. Budget decentralization requires adequate regulations, facilities, and infrastructure, the readiness of human resources to improve local government performance.

Based on the theory and previous research, the researcher formulated the research hypothesis as follows:

H1: Budget decentralization has a direct effect on Economic Efficiency;

H2: Budget decentralization has a direct effect on Economic Growth;

H3: Budget decentralization has a direct effect on local government performance;

H4: Budget decentralization through economic efficiency has an indirect effect on local government performance;

H5: Budget decentralization through economic growth has an indirect effect on the performance of municipal / city governments in Jambi.

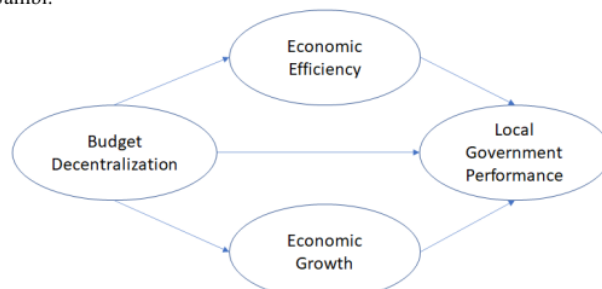


Figure 2. Research Model

3. Research Methods

The population of this research is the Municipal Government in Jambi Province. The sample in this study was the entire study population (census), namely ten districts and two. The ten districts in Jambi include; Muaro Jambi, Batanghari, Tanjung Jabung Barat, Tanjung Jabung Timur, Sarolangun, Tebo, Bungo, Kerinci. The two cities that were the samples of this study were Jambi City and Sungai Penuh City. The variables in this study are independent namely budget decentralization, economic efficiency, and economic growth. The dependent variable is the performance of local governments. The method of analysis in this study reveals a description of descriptive analysis, as well as the method of testing the hypothesis.

Based on the problems and hypotheses that have been stated, this study aims to determine whether there is a direct and indirect effect of Budget Decentralization, Economic Efficiency, and Economic Growth on Local Government Performance. This study uses statistics as a method that can be used to conclude. The analysis method used is the descriptive analysis method, inferential analysis method, empirical research model, and hypothesis testing methods.

Descriptive analysis is used to describe the characteristics of each variable as measured by some research indicators. The analysis technique used is descriptive statistics to produce a value of frequency, the average value (mean), median (middle value), maximum value, and minimum value of each research indicator. The PLS-SEM technique is currently developing very rapidly because PLS-SEM is a non-parametric statistical method which does not require assumptions in the data, then it can also be used on data that is not normally distributed with a small sample size (Marliana, 2021). In this regard, the PLS-SEM analysis technique has the advantage of being able to describe the complex relationship of each variable (Budiarsi, 2020).

To get a good model in SMART PLS, the Instrument Validity Test is carried out again, so that the instrument can measure what it should measure (Cooper and Schindler, 2014). Test the validity of this study using the method of Convergent validity and discriminant validity with the help of Smart PLS 3.0 and using the help of SPSS calculations. To manage the research results, the researchers conducted a retest using the help of Smart PLS 3.0.1, the stages of data analysis can be carried out as follows.

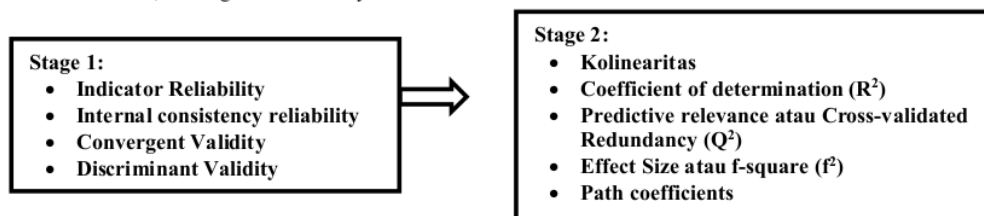


Figure 3. Stages of Model Evaluation in SEM - PLS (Hair et al, 2017)

SEM PLS works in stages to get a predictive model in the form of a final statistical report equipped with a number of statistical tests. SEM PLS works through two stages, namely the Measurement Model Evaluation Stage and the Structural Model Evaluation Stage or Inner Model. At the level of constructing the relationship framework between constructs and indicators, SmartPLS uses a Measurement Model Evaluation by looking at indicator reliability, internal consistency reliability, convergent validity, and discriminant validity from each instrument, because the data used are generally categorical data with a certain scale, such as a Likert scale. scale 4, scale 5, scale 7 or scale 9.

Before conducting the Instrument Validity Test, it can be said to be valid, if the instrument can measure what it should measure (Cheah et al, 2018). In this study, the validity test will use the Convergent validity and discriminant validity methods with the help of SmartPLS 3.2.7 and use the calculation assistance using SPSS. Based on the research method described in chapter 3, but in the management after the results of the research the author conducted a re-test using the help of smart PLS 3.2.7, before conducting further data analysis, the first step was to enter raw data with excel CSV format commadelimited, after the raw data is entered, the data analysis stage can be carried out.

In connection with the formulation of the problem, objectives, and research hypotheses, the data analysis used in this study is Partial Least Square (PLS). Model evaluation in PLS uses structural measure and evaluation models in the WarpPLS program application which has several models fit measures, including average path coefficient (APC), average R-squared (ARS), average adjusted R-squared (AARS), average block variance inflation factor (AVIF), average full collinearity VIF (AFVIF), Tanenhaus GoF (GoF), Simpson's paradox ratio (SPR), R-squared contribution ratio (RSCR), statistical suppression ratio (SSR). Evaluation of the measurement model or outer model aims to assess the reliability and validity of the latent construct forming indicators. The use of structural model evaluation or inner model aims to predict the relationship between latent variables by looking at the variance value through the significance value of the P-value.

4. Results and Discussion

The government of Jambi Province is led by a governor and a deputy governor. Their term of office is five years and can be re-elected for one term. The governor and deputy governor delegate part of their powers to the Regional Secretariat (Sekda) to carry out the duties of regional heads in formulating policies and coordinating city governments, district governments, regional apparatus organizations, and regional technical institutions.

Research observation variables include all items in the Budget Decentralization research (X1) with indicators: including the ratio of total district/city expenditure (APBD) to total government expenditure (APBN), the ratio of total municipal/city development expenditure (APBD) to total national development expenditure (APBN), Economic Efficiency (Y1) with indicators: ratio of total municipal/city revenue (PAD), excluding subsidies to total government revenue, APBD/GRDP allocation ratio (Y1), unexpected expenditure / total expenditure ratio, PDRB growth (Y2), and Local Government Performance with the IPM index indicator (Y3).

Table 2. Average economic growth in 2016-2017 City Regencies in Jambi Province

Province and City Regencies Name	2018	2017	2016	Rata-rata
Jambi Province	4,71	4,64	4,37	4,57
Kerinci	5,1	6,03	6,7	5,94
Merangin	5,17	5,55	6,21	5,64
Sarolangun	4,72	4,69	4,26	4,56
Batanghari	4,92	4,82	4,55	4,78
Muaro Jambi	5,27	5,06	5,43	5,25
Tanjung Jabung Timur	3,13	3,13	2,7	2,99
Tanjung Jabung Barat	6,89	4,25	3,14	4,76
Tebo	5,02	5,6	5,38	5,33
Bungo	4,72	5,67	5,2	5,20
Jambi City	5,48	4,68	6,81	5,66
Sungai Penuh City	5,54	6,24	6,51	6,10
Average Cities and Regencies				5,11

Source: BPS Provinsi Jambi

The average economic growth in 2016-2017 districts/cities in Jambi is 5.11. This growth is higher than the national economic growth of 5.09. This condition is an important asset needed in implementing regional autonomy.

Table 3. The average growth of IPM 2016-2017 in City Districts in Jambi Province

Province and City Regencies Name	2018	2017	2016	Rata-rata
Kerinci	69,68	70,03	70,59	70,10
Merangin	67,86	68,3	68,81	68,32
Sarolangun	68,73	69,03	69,41	69,06
Batanghari	68,7	68,92	69,33	68,98
Muaro Jambi	67,55	67,86	68,34	67,92
Tanjung Jabung Timur	61,88	62,61	63,32	62,60
Tanjung Jabung Barat	65,91	66,15	67,13	66,40
Tebo	68,05	68,16	68,67	68,29
Bungo	68,77	69,04	69,42	69,08
Jambi City	76,14	76,74	77,41	76,76
Sungai Penuh City	73,35	73,75	74,67	73,92
Jambi Province	69,62	69,99	70,65	70,09
Average Cities and Regencies				69,22

Source: BPS Provinsi Jambi

The average growth rate of the human development index (IPM) in 2016-2017 municipals / cities in Jambi was 69.22. This indicator illustrates how the IPM condition in Jambi seeks to catch up with the national average IPM index which has reached 70.80.

The results of the model evaluation were carried out through data processing using WarpPLS 4.0. The results of the significant test for the relationship between paths and the moderation relationship can be seen in Figure 3.

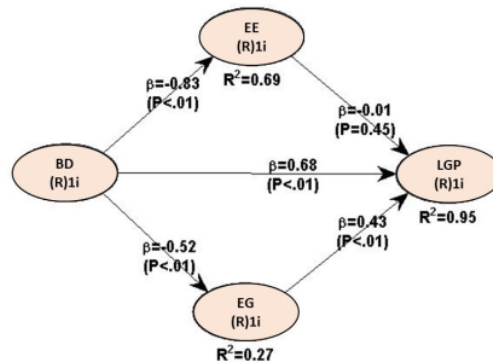


Figure 4. Full Research Model

Source: WrapPLS 4.0. Output Results

The model figure explains the direction of the relationship between variables. The value of R-squared (R²) generated by the dependent variable of Performance is 0.95 indicating that the Budget Decentralization variable on Local Government Performance influences 95%, while 5% is influenced by other variables. Furthermore, the fit model obtained from the results of data processing is described in table 4.

Table 4. Descriptive Statistics

Kriteria	Cut of Value	Hasil	Evaluasi
Average path coefficient (APC)	P- value $\leq 0,05$	0,494	Weak
Average R squared (ARS)	P- value $\leq 0,05$	0,637	Weak
Average adjusted R-squared (AARS)	P- value $\leq 0,05$	0,591	Weak
Average block VIF (AVIF)	$\leq 3,3$, but value ≤ 5 can be accepted	2,103	Fit Model
Tenenhaus GoF (GoF)	$\geq 0,10$, $\geq 0,25$, and $\geq 0,36$ (small, middle, dan large)	0,798	Large
Sympson sparadox ratio (SPR)	Idealnya = 1 but value $\geq 0,7$ can be accepted	1,000	Fit Model
R-squared contribution ratio (RSCR)	Idealnya = 0,9 - 1 but value $\geq 0,7$ can be accepted	1,000	Fit Model
Statistical suppression ratio (SSR)	Must $\geq 0,7$	0,900	Fit Model

Source: WrapPLS 4.0. Output Results

Table 4 explains that all criteria are met, although several criteria have a weak relationship. The output values of Average Adjusted R-Squared (AARS), Average R Squared (ARS), and Average Path Coefficient (APC) are weak, meaning that the path analysis model built is weak between the relationships between variables. Average Block VIF (AVIF) calculation as a whole has a value below the threshold (cut of value) with a value of 2.103, meaning that the model built is a fit model. It can be said that the model built does not have multicollinearity symptoms.

The Tenenhaus GoF (Golf) output value of 0.798 explains the predictive power of the model built in predicting the relationship between variables (the built path) is large or strong. The Simpsons Paradox Ratio (SPR) output value of 1,000 means that the model built does not have a causality problem, while the R-squared contribution ratio of 1,000 explains the positive R-squared contribution, and the Statistical Suppression Ratio value of 0.900 means that the model in this study is free from statistical suppression.

Ghozali and Latan (2009) described the hypothesis evaluation of the WrapPLS application output results in the view path coefficients and P-value sections. Significant values were used with a P-value of 0.10 (significance level = 10%), 0.05 (significance level = 5%) and 0.01 (significance level = 1%). This study used a P-value of 0.05 (significance level = 5%). The path evaluation results are presented in Table 5.

Path	Direct effect		Kesimpulan
	Koefisien	P- Value	
Budget Decentralization $\rightarrow$ Economic Efficiency	0.83	0.01	Accepted
Budget Decentralization $\rightarrow$ Economic growth	0.52	0.01	Accepted
Budget Decentralization $\rightarrow$ Local Government Performance	0.68	0.01	Accepted
Economic Efficiency $\rightarrow$ Local Government Performance	0.01	0.45	Rejected
Economic growth $\rightarrow$ Local Government Performance	0.43	0.01	Accepted

Source: WrapPLS 4.0. Output Results

Table 5 explains the results of the path evaluation which are proven to have an interplay between variables,

namely the relationship between Budget Decentralization (BD) and Economic Efficiency (EE), Budget Decentralization on Economic Growth (EG), Decentralization on Regional Government Performance, and Economic Growth on Regional Government Performance. There is one path that is not rejected, namely Economic Efficiency a Local Government Performance (LGP). This condition answers hypothesis 1 that budget decentralization has a direct effect on local government performance.

Mediation analysis in PLS-SEM using the VAF (Variance Accounted For) method to determine the indirect effect between variables. VAF is a measure of how much the mediating variable can absorb the direct effect that was previously significant from the model without mediation. To determine this size Hair et al. (2013) determined that the criteria $VAF > 80\%$ = Full Mediation, $20 \leq VAF \leq 80\%$ = Partial Mediation, $VAF < 20\%$ = No Mediation Effect. Testing the indirect effect can be seen in tables 6 and 7.

Table 6. Indirect Effect Budget Decentralization, Economic Efficiency, Local Government Performance

Indirect Effects= 0.83×0.01	0,00083
Budget Decentralization → Economic Efficiency (0.83); Economic Efficiency → Local Government Performance (0.01)	
Direct Effect	0,68
Budget Decentralization → Local Government Performance (0.68)	
Total Effect = $0,00083 + 0,68$	0,68083
VAF = Indirect Effect/ Total Effect	0,0012191

Source: Processed Data

Table 6 explains that the Economic Efficiency variable has almost no mediating effect in the relationship between Budget Decentralization and Local Government Performance because the VAF value is less than 20%, namely 0.001. Meanwhile, the economic growth variable is a mediating variable in the relationship between Budget Decentralization and Local Government Performance because the VAF value is more than 20%, namely 0.25.

Table 7. Indirect Effect Budget Decentralization, Economic Growth, Local Government Performance

Indirect Effects= 0.52×0.43	0.2236
Budget Decentralization → Economic Growth (0.83) Economic Growth → Local Government Performance (0.43)	
Direct Effect	0.68
Budget Decentralization → Local Government Performance (0.68)	
Total Effect = $0.2236 + 0.68$	0.9036
VAF = Indirect Effect/ Total Effect	0.2474546

Source: Processed Data

Table 7 explains the economic growth variable is a mediating variable in the relationship between Budget Decentralization and Local Government Performance because the VAF value is more than 20%, namely 0.25.

Hypothesis 1 test results (Table 5) show the magnitude of the influence of Budget Decentralization on Local Government Performance of 0.68 with a P-value of $0.01 \leq 0.05$. Thus the first hypothesis (H1) is accepted. It can be concluded that Budget Decentralization has a significant positive effect on Local Government Performance. It can be said that the implementation of Budget Decentralization as a form of decentralization such as assistance, devolution, delegation, and deconcentration tasks has been implemented well in Jambi Province.

The results of testing the hypothesis (Tables 6 and 7) can be explained as follows:

- Economic Efficiency has almost no mediating effect in the relationship between Budget Decentralization and Regional Government Performance because it has a value of 0.0001, with this value ≤ 0.20 (VAF value of Budget Decentralization, Economic Efficiency on Regional Government Performance) it can be said that the Economic Efficiency variable has an indirect effect on local government performance that is not significant.
- Economic Growth has a partial mediating effect in the relationship between Budget Decentralization and Regional Government Performance because it has a value of 0.25, with this value > 0.20 (VAF value of Budget Decentralization, Economic Growth to Local Government Performance).

This means that there is a significant direct effect as well as a significant indirect effect in this research.

5. Conclusion

This paper examines budget decentralization, economic efficiency, and economic growth on local government performance through data on regional revenue and expenditure budgets, state revenue and expenditure budgets, budget realization reports, economic growth, regional gross regional income at constant prices, and the human development index. in municipalities, cities, and nationally for three years (2016-2018) Partial Least Square (PLS) analysis proves empirically that there is a significant direct effect as well as a significant indirect effect in

this research variable. This means that decentralization, economic efficiency, and economic growth have a direct influence on local government performance. In addition, economic growth has an indirect effect on budget decentralization on the performance of local governments. However, economic efficiency has almost an indirect effect on the performance of local governments in districts and cities in Jambi Province.

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