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 - └ Finance

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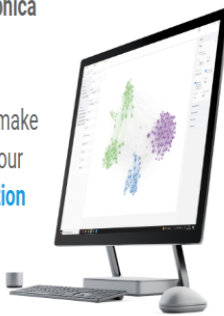
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Field	Economics	
Title	Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia	
Purpose	The issue of income inequality in various regions of Indonesia has emerged as a significant national concern. Despite the government's efforts to tackle this issue through fiscal decentralization policies, the underlying problem of inequality persists. This study explores the impact of fiscal decentralization and regional income inequality on regional financial performance.	
Design/methodology/approach	The research sample comprises 19 districts/cities in West Sumatera province, with data spanning from 2018 to 2020 sourced from the Ministry of Finance and the Central Statistics Agency of West Sumatera Province. The analytical approach utilized in this study is the SmartPLS ver 3.2 model.	

Abstract	Purpose	The issue of income inequality in various regions of Indonesia has emerged as a significant national concern. Despite the government's efforts to tackle this issue through fiscal decentralization policies, the underlying problem of inequality persists. This study explores the impact of fiscal decentralization and regional income inequality on regional financial performance.
	Design/methodology/approach	The research sample comprises 19 districts/cities in West Sumatera province, with data spanning from 2018 to 2020 sourced from the Ministry of Finance and the Central Statistics Agency of West Sumatera Province. The analytical approach utilized in this study is the SmartPLS ver 3.2 model.
	Findings	The first research finding indicates that fiscal decentralization has a positive and substantial impact on regional financial performance. A second finding indicates that regional income inequality also positively and significantly affects regional financial performance.
	Research limitations/implications	These results enrich the perspective of Rostow's stages of economic growth model from a different standpoint.
	Originality/value	This study contributes to further understanding of economics, politics, and social sciences subjects, particularly within the context of West Sumatera province in Indonesia.

Key Words	Fiscal Decentralization, Income Inequality, Rostow Model, West Sumatera
Name	Eva Herianti (Contributor Status: / Corresponding Author: Y)
Affiliation	Universitas Muhammadiyah Jakarta
Country	Indonesia

First Author	<p> Name : Eva Herianti (Contributor Status: / Corresponding Author: Y) Affiliation : Universitas Muhammadiyah Jakarta Country : Indonesia Position : Accounting, Associate Professor Phone : +62 812-8735-5695 Email : eva.herianti@umj.ac.id Mailing Address : eva.herianti@umj.ac.id </p>
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Co-author

Co-author1	<p> Name : Amor Marundha Institution : Universitas Bhayangkara Jakarta Raya Country : Indonesia Position : Accounting, Lecturer Phone : +62 812-8735-5695 Email : amor.marundha@dsn.uharajaya.ac.id Mailing Address : amor.marundha@dsn.uharajaya.ac.id </p>
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Manuscript File

File Information	Manuscript without authors' information : After Review by Dr. Mahalakshmi Suppiah Final without authors rev 08.docx (247.46KB) Manuscript with authors' information : Manuscript with authors' information.docx (248.87KB)
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Author's Check List

General Guideline	<input checked="" type="checkbox"/> A manuscript followed the journal template and was typed in MS word <input checked="" type="checkbox"/> Written in English <input checked="" type="checkbox"/> A text consisted of title, abstract, main text, references, tables and figures. <input checked="" type="checkbox"/> Line space 141%, less than 8000 words and 14 pages including references, tables and figures. <input checked="" type="checkbox"/> The maximum number of authors is four
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Abstract	<input checked="" type="checkbox"/> Structured Abstract - no more than 300 words in total (Purpose; Design/methodology/approach; Findings; Research limitations/implications; Originality/value) <input checked="" type="checkbox"/> Keywords - up to 5 words with capitalized the first letter of each word
Main Text	<input checked="" type="checkbox"/> The order of the subtitle was described according to the journal template. <input checked="" type="checkbox"/> Figures and tables were cited in numerical order as they are first mentioned in the text. <input checked="" type="checkbox"/> Tables, Figures and Images should be editable and are in high resolution.
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Citation	<input checked="" type="checkbox"/> There are 3-4 GBFR published articles cited in this manuscript.
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Editorial Board Member1	Evaluation complete	Review after major revision	Evaluation and Comments

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Reviewers	Status of Review	Review Results	View
Reviewer1	Re-evaluation complete	Accepted	Re-evaluation and Comments

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1	Exploring the Impact of Fiscal Decentralization and Income I...	2024-05-24	Payment completed [re-evaluation] Accepted	Manuscript Information Review Status Payment for Additional fee Print Receipt Acceptance Letter Request Published manuscript's PDF version



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Authors : **Eva Herianti, Amor Marundha**

Submission date : **2024-05-24**

Emails : eva.herianti@umj.ac.id, amor.marundha@dsn.ubharajaya.ac.id

Submitted section : **Economics**

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Dear Dr. Eva Herianti,

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This is a reminding mail regarding the manuscript revision for your following manuscript.

- Manuscript ID: GBFR-24-05-23
- Title: Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia
- Author(s): Eva Herianti, Amor Marundha
- Submission date: 2024-05-24
- Submitted section: Economics

As your revised manuscript has not been submitted for several weeks, the reviewing process for your manuscript is being delayed.

We kindly request you to submit your revised manuscript as soon as possible.

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Wishing you continued success and safety.

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19 Juli 2024 pukul 21.13

Dear GBFR Editorial Office,

Please find attached our revised manuscript as per your request.

Thanks and best regards

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Title : **Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia**

Authors : **Eva Herianti, Amor Marundha**

Submission date : **2024-05-24**

Emails : eva.herianti@umj.ac.id, amor.marundha@dsn.ubharajaya.ac.id

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20 Juli 2024 pukul 21.39

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Reviewer 1

Reviewer's Comments	Author's Responses
Major Point	
<p>1) What are the primary distinctions observed in the findings of previous literature reviews? in Literature Review and Hypothesis Development.</p>	
<p>2) The meanings of H2 and H3 are somewhat ambiguous. Please provide a more detailed explanation of these terms. in Literature Review and Hypothesis Development.</p> <p><i>H2: Regional Income Inequality has a positive effect on regional financial performance.</i></p> <p><i>H3: Fiscal Decentralization and Regional Income Inequality have a positive effect on regional financial performance.</i></p>	
<p>3) Please add and explain about research methodology in a bit more detail in Methodology.</p>	
<p>4) Please provide a more detailed explanation of the data source. This paper seems to only mention things too briefly in Methodology.</p> <p><i>Employing a quantitative research approach, the study utilizes panel data measurement, comprising observations across 19 districts/cities in West Sumatra, and incorporates five years of time series data spanning from 2016 to 2020.</i></p>	

<p>5) What is the novelty of the presented research results? Please explain and add in a bit more detail compared to previous studies in Conclusions.</p>	
<p>6) Please describe the key points of the results of this study in more detail in Conclusions.</p>	
<p>6) I think it would be good to write the implications separately from an academic perspective and a practical perspective in Conclusions.</p>	
<p>Minor Point</p>	
<p>1) Please format the references again. The last reference is also written in Korean.</p>	
<p>2) Please double check for typos and capital letters and small letters, etc. Ex) In table 2, Dependence (Y)</p>	

Reviewer 2

No	Reviewer's Comments	Author's Responses
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1	<p>Title: Examining the Effects of Fiscal Decentralization and Income Inequality on the Economic Performance of West Sumatra Province, Indonesia</p>	
2	<p>Purpose statement: The issue of income inequality in various regions of Indonesia is a significant national concern that requires immediate attention. Despite the government's efforts through fiscal decentralization policies, inequality persists. This study decisively explores the impact of fiscal decentralization and regional income inequality on regional financial performance.</p>	
3	<p>The research sample comprises 19 districts/cities in West Sumatra province, with data spanning from 2018 to 2020 sourced from the Ministry of Finance and the Central Statistics Agency of West Sumatra Province. The analytical approach utilized in this study is the SmartPLS ver 3.2 model.</p> <p>Delete: spanning</p>	
4	<p>The first research finding indicates that fiscal decentralization has a positive and substantial impact on regional financial performance. A second finding indicates that regional income inequality also positively and significantly affects regional financial performance.</p> <p>Accurate word: Indicates = Suggests Financial = Economic</p>	
5	<p>This study contributes to further understanding of economics, politics, and social sciences subjects, particularly within the context of West Sumatra province in Indonesia.</p>	

	<p>This study contributes to a deeper comprehension of the fields of economics, politics, and social sciences, particularly within the specific context of the province of West Sumatra in Indonesia.</p> <p>Overall (highlight in yellow): change Font: Times New Roman without Italic</p>	
6	<p>What specific factors have contributed to the increased income inequality in West Sumatra during the COVID-19 pandemic?</p>	
7	<p>Providing Comparative Data: Comparing Indonesia's income inequality with that of other countries or regions can help provide a broader context and strengthen the argument regarding the impact of the COVID-19 pandemic.</p>	
8	<p>Suggesting Policy Recommendations: Concluding the text with potential policy recommendations or solutions to address income inequality in West Sumatra would add a proactive and actionable element to the research, making it more impactful.</p>	
9	<p>Adding Concrete Examples: Incorporating specific examples or case studies related to income inequality in West Sumatra could enhance the understanding of the issue and make the text more compelling.</p> <p>The Indonesian government has implemented a performance-based budget system to improve regional financial management's effectiveness, efficiency, transparency, and accountability, Khan et al., (2024) Effective government policies that support businesses and investors have the potential to significantly boost economic growth. (Paragraph gap)</p>	
10	<p>This shift in government authority has significant implications for budget administration and fiscal decentralization, particularly</p>	

	regarding the responsibilities of district/city and provincial government bureaucracies in Indonesia. (Redraft the sentence with meaningfully)	
11	This autonomy is recommended anticipated to enhance the efficiency, effectiveness, and accountability of financial management for in local governments government in Indonesia , as highlighted by Hasthoro and Sunardi in 2016 (2016) to enhance Indonesia government policy.	
12	As local governments government undertake fiscal decentralization, they are expected to have the independence to finance regional expenditures and pursue development separate from the central government, as noted by Nurhidayati (Nurhidayati, 2017). Plagiarism detected from academic web	
13	According to Per Taylor (2012), income inequality refers to the difference in income levels among individuals, specifically between high and low incomes. Furthermore, income disparity between regions is a common indicator of inequality in regions and developing countries (Daryanto & Hafizrianda, 2010).	
14	Overall: too much grammatical error. Rewrite without grammatical error.	
15	Clarify the meaning of "regional financial performance" and its significance in the first few sentences to ensure comprehends its importance from the outset.	
16	What specific financial responsibilities are typically transferred from the central government to local administrations in the process of fiscal decentralization?	

17	H2: Regional income inequality exerts a positive impact on regional financial performance.	
18	((According to Galbraith and Kum (2012), unequal distribution of development results in income inequality within each region, which, in turn, hinders economic growth and exacerbates income inequality (Kuncoro, 2004 – reference 20 years gap now year 2024 so find latest 5 years reference). Please write two different sentence to explain on author’s ideology.)	
19	districts/cities (do not use symbol /) in East Java Province and found that the Williamson index indicates significant income inequality, particularly in Kediri and Surabaya. The Theil Entropy Index also confirms a very high-income high-income inequality in East Java province.	
20	Methodology Overall Conceptual Framework missing?	
21	In assessing convergent validity, this study employs the loading factor. Hair et al. (2006) Find reference latest 5 years (2020 - 2024)	
22	The Rule of thumb dictates that the values for Cronbach's alpha and composite reliability must exceed 0.7 for the construct or variable to pass the reliability test (Hair et al., 2008). Find reference latest 5 years (2020 -2024)	
23	This is because the mediation effect tests the independent variable's direct effect impact on the dependent variable and examines the indirect relationship between the independent and dependent variables through the mediating variable (indirect effect).	

	(How are the R ² value and path coefficient value calculated and interpreted in the context of the inner model evaluation?).	
24	The exogenous variables are categorized as fiscal decentralization and regional income inequality, while the employed endogenous variable is regional financial performance. These research variables are presented in Table 2 Table 1 below.	
24	Source: Data Processed, 2022 (no clarity on data collection information)	
26	Table 2 - (Centralize the alignment of symbol =) Source: Data Processed, 2022 (no clarity on data collection information)	
27		
	(PLS algorithm Heracy Literacy). The loading factor values for the indicators of each valid and invalid research variable are presented. Any invalid loading factor values will be removed, with a minimum loading factor of 0.50 being the benchmark. Following this, the diagram will be revised and retested multiple times to ensure improvements in the research model. (What is the purpose of indicator 0.05 explanation? Any supporting reference for 0.05 indicator?)	
28	. According to Hair et al. (2008), Find reference latest 5 years (2020 -2024)	
29	The remaining 64.8% can be attributed to other variables not addressed in this study. (Explain in further why 64.8% not addressed in this study)	
30	(What statistical significance level was used in the SmartPLS test with Bootstrapping?)	

31	What are some specific examples of policies tailored to address income inequality at the regional level?	
32	How exactly do regional revenue sources influence income inequality and financial performance within each region?	
33	The passage can benefit from simplifying some of the language to make it more accessible to a broader audience. This could involve breaking down complex phrases and using more straightforward sentence structures.	
34	What measures can be taken to ensure effective financial management and the exploration of more efficient revenue sources by local governments?	
35	Suggesting Policy Recommendations: Concluding the text with potential policy recommendations or solutions to address income inequality in West Sumatra would add a proactive and actionable element to the research, making it more impactful.	
36	Revise paragraph without grammatical error	
37	Font: Times New Roman without italic, Follow APA Format, follow alphabetical order, Authors are required to follow author guidelines efficiently Find reference latest 5 years (2020 -2024)	

38	<p>References (follow APA format) Author name, Year, journal title, Publisher name, Volume, Pages Example: Hartono, B., Dzulfikar, L., & Damayanti, R. (2020). Impact of team diversity and conflict on project performance in Indonesian start-ups. <i>Journal of Industrial Engineering and Management (JIEM)</i>, 13(1), 155–178.</p> <p>Hartono, B.Dzulfikar, L.&Damayanti R, 2020, “Impact of team diversity and conflict on project performance in Indonesian start-ups”, <i>Journal of Industrial Engineering and Management (JIEM)</i>, Vol:13(1), PP: 155–178.</p> <p>Reference Overall:</p>	
39	<p>Mudrajat Kuncoro; . (2003). Otonomi & pembangunan daerah: reformasi, perencanaan, strategi dan peluang / . Jakarta: Erlangga</p> <p>Kuncoro, H., & Sebayang, K. (2013). The dynamic interaction between monetary and fiscal policies in Indonesia. <i>Romanian Journal of Fiscal Policy (RJFP)</i>, 4(1), 47-66.</p> <p>Note: follow alphabetical order after H is K, L, M</p>	



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Dear Eva Herianti

Warm greetings from GBFR!

Congratulations!

GBFR Editorial Team is glad to inform you that the following manuscript has passed all blind review processes for the possible publication in the upcoming issues of Global Business and Finance Review (GBFR).

Manuscript ID : **GBFR-24-05-23**

Title : **Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia**

Authors : **Eva Herianti, Amor Marundha**

Submission date : **2024-05-24**

Emails : eva.herianti@umj.ac.id, amor.marundha@dsn.ubharajaya.ac.id

Submitted section : **Economics**

It is your great achievement and must be a precious asset for readers in this field. The main publisher's editorial review process is to begin. Your paper is scheduled to be published in the GBFR upcoming issues only if you could take timely feedback along with publisher's editorial review processes. Please keep up your great works. Upon passing the blind review processes, an article processing charge (APC) of 970 USD is implemented. Note that an additional acknowledgement fee of 290 USD may be implemented if there is any kind of funding from University, Institution, or government. GBFR does not charge the APC or acknowledgement fee for invited papers for special subjects. The final amount you are to pay is presented on the system. Therefore, the total amount posted on your account should be transferred within 5 days from today.

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Manuscript submission - Status of manuscript - View - Payment for publication

Please acknowledge that only Blind Review Process has been completed. GBFR kindly requests for your active cooperation during the Editing and Publication Processes. The main and real publication process begin upon your payment. Your official letter of publication will be issued once your manuscript is published.

Finally, it is hardly understandable for you to add new co-authors at this point. You should explain it clearly if you want to add new co-authors. GBFR will not allow any research cheating. GBFR pursues professional research and publication works for you.

Again, congratulations on your great research works! All the best for your future!

Thank you

Best regards,
GBFR Editorial Board

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22 Juli 2024 pukul 08.55

[Kutipan teks disembunyikan]

Eva Herianti <eva.herianti@umj.ac.id>
Kepada: gbfr <gbfr@pngba.org>

22 Juli 2024 pukul 11.02

Dear Editor Team,

We are writing to express our sincere gratitude for accepting our manuscript submission. After reviewing the APC settlement information in your system, we are ready to proceed with the payment of USD 970 using a credit card.

Before making the payment, we kindly request your official Letter of Acceptance, specifying the publication date and volume edition. Your prompt confirmation of this request would be greatly appreciated.

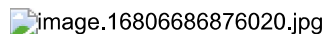
Furthermore, we would like to confirm that this manuscript will not include additional co-authors; the two original authors will be retained.

We are eagerly anticipating receiving your Letter of Acceptance, along with the definite publication schedule.

Best regards,
Dr. Eva Herianti
Corresponding Author
[Kutipan teks disembunyikan]

GBFR <gbfr@pngba.org>
Kepada: Eva Herianti <eva.herianti@umj.ac.id>

22 Juli 2024 pukul 12.58



Dear Eva Herianti

Warm greetings from GBFR!

We will send you LOA after you complete your payment.(publication date and volume)

Please complete your payment in the system ASAP.

Should you encounter any challenges or inquiries, we encourage you to reach out to us without hesitation at gbfr@pngba.org.

Wishing you continued well-being and a productive day ahead.

Best regards,
GBFR Editorial Office

Web: www.pngba.org

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----- Original Message -----

From : Eva Herianti <eva.herianti@umj.ac.id>

To : "gbfr" <gbfr@pngba.org>

Cc :

Sent : 2024-07-22 13:02:41

Subject : Re: [GBFR] Notification of the manuscript acceptance

[Kutipan teks disembunyikan]

Eva Herianti <eva.herianti@umj.ac.id>

23 Juli 2024 pukul 20.05

Kepada: GBFR <gbfr@pngba.org>

Dear GBFR Editorial Office,

We write to notify you that the article processing charge (APC) has been successfully settled via credit card and the transaction has been verified by our bank and duly reflected in your system.

We kindly request the issuance of the Letter of Acceptance (LoA) for our manuscript. Additionally, we would greatly appreciate your best assistance in expediting the final processing to potentially secure the publication of our manuscript in the August 2024 edition. This is of utmost importance to meet our academic obligations to our respective institutions.

We eagerly await your guidance and support in this matter.

Best regards,
Dr. Eva Herianti
Corresponding Author

[Kutipan teks disembunyikan]

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GBFR <gbfr@pngba.org>

24 Juli 2024 pukul 14.46

Kepada: Eva Herianti <eva.herianti@umj.ac.id>

 image.16806686876020.jpg

Dear Dr. Eva Herianti,

Please check the attached file.

Your manuscript will be published in **September**.

Should you have any other inquiries or special requests, please do not hesitate to contact us at: gbfr@pngba.org

Please stay safe and have a good day.

Best regards,

GBFR Editorial Office

Web: www.pngba.org

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From : Eva Herianti <eva.herianti@umj.ac.id>

To : "GBFR" <gbfr@pngba.org>

Cc :

Sent : 2024-07-23 22:05:36

Subject : Re: [RE]Re: [GBFR] Notification of the manuscript acceptance

[Kutipan teks disembunyikan]

 [GBFR] Acceptance Letter_GBFR-24-05-23.pdf
356K

Eva Herianti <eva.herianti@umj.ac.id>
Kepada: GBFR <gbfr@pngba.org>

25 Juli 2024 pukul 11.22

Dear GBFR Editorial Team

I am writing to express my sincere gratitude for sharing the official LoA and confirming the publication date of September 2024.

However, considering our current academic commitments, we find ourselves in urgent need of an earlier publication date for this manuscript. Would you kindly consider expediting the publication to August 2024?

Your attention to this matter is greatly appreciated.

Best regards,
Dr. Eva Herianti
Corresponding Author
[Kutipan teks disembunyikan]

GBFR <gbfr@pngba.org>
Kepada: Eva Herianti <eva.herianti@umj.ac.id>

26 Juli 2024 pukul 12.11

 image.16806686876020.jpg

Dear Dr. Eva Herianti,

Manuscripts to be issued in August are already listed, so we can't make any changes in order to publish on time.

However, in our effort to assist you, we are pleased to inform you that our journal has an option of fast-track publication. If you take this option, we will find a slot for your paper on the list of manuscripts to be issued in **August**. The fast-track fee is **436 USD**.

If you have any other inquiries, or special requests, please do not hesitate to contact us at: gbfr@pngba.org

Wishing you continued success and safety.

Best regards,
GBFR Editorial Office

Web: www.pngba.org

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----- Original Message -----

From : Eva Herianti <eva.herianti@umj.ac.id>

To : "GBFR" <gbfr@pngba.org>

Cc :

Sent : 2024-07-25 13:22:46

Subject : Re: [RE]Re: [RE]Re: [GBFR] Notification of the manuscript acceptance

[Kutipan teks disembunyikan]

Eva Herianti <eva.herianti@umj.ac.id>

26 Juli 2024 pukul 19.35

Kepada: GBFR <gbfr@pngba.org>

Dear GBFR Editorial Team,

Thank you for your quick response. I would like to confirm our decision to proceed with the fast-track publication option and cover the additional USD436 fee to ensure the inclusion of our manuscript in your August 2024 edition.

Please inform us if the fast-track fee option has been integrated into your system so that we can proceed with the payment using our credit card.

I look forward to receiving your further guidance and assistance.

Best regards,

Dr. Eva Herianti

Corresponding Author

[Kutipan teks disembunyikan]

Reviewer 1

Reviewer's Comments	Author's Responses
<p>Major Point</p>	
<p>1) What are the primary distinctions observed in the findings of previous literature reviews? in Literature Review and Hypothesis Development.</p>	<p>This research focuses on fiscal decentralization and regional income inequality to regional financial performance at the province of West Sumatra. The authority granted by the central government to local governments is considered to enhance the implementation of regional budgets for managing finances independently, thus impacting the regional financial performance. Consequently, the potential for regional income disparity can be minimized. According to the study conducted by Hans, S., & Jinhwan, O. (2019), demonstrate that capital assistance program and conventional projects has no effect on economic growth. Meanwhile, based on the study by Mohd Noved (2024), stated that ease of doing business, business ease rankings, and business policies to investors in decision-making promote economic growth, thereby reducing income inequality.</p>
<p>2) The meanings of H2 and H3 are somewhat ambiguous. Please provide a more detailed explanation of these terms. in Literature Review and Hypothesis Development.</p> <p><i>H2: Regional Income Inequality has a positive effect on regional financial performance.</i></p> <p><i>H3: Fiscal Decentralization and Regional Income Inequality have a positive effect on regional financial performance.</i></p>	<p>H2: Regional income inequality exerts a positive impact on regional financial performance</p> <p>H3: Fiscal Decentralization and Regional Income Inequality have a positive effect on regional financial performance.</p>

<p>3) Please add and explain about research methodology in a bit more detail in Methodology.</p>	<p>This study utilizes the analytical tool Smart PLS 3.2.2</p>
<p>4) Please provide a more detailed explanation of the data source. This paper seems to only mention things too briefly in Methodology.</p> <p><i>Employing a quantitative research approach, the study utilizes panel data measurement, comprising observations across 19 districts/cities in West Sumatra, and incorporates five years of time series data spanning from 2016 to 2020.</i></p>	<p>This study is a quantitative analysis that examines and evaluate the effect of fiscal decentralization and regional income inequality on the regional financial performance. This study utilizes secondary data from various central government agencies, primarily the Central Agency of Statistics and relevant Central Agency of Statistics. The collected data includes Gross regional domestic product, Regional Revenue and Expenditure Budget (APBD), and population size. Additionally, reports on Own-Source Revenue (PAD), centrally allocated taxes for the regions, and General Allocation Funds (DAU) are also crucial components of the analyzed data. Supplementary secondary data were collected through literature studies to support the findings of this study. The focus of this study is on 12 regencies and 7 cities in West Sumatra.</p>
<p>5) What is the novelty of the presented research results? Please explain and add in a bit more detail compared to previous studies in Conclusions.</p>	<p>This study concludes that fiscal decentralization affects on regional financial performance, both positively and negatively, resulting in income inequality among regions. This is influenced by various factors, including sources of regional income. This situation can stimulate innovation and creativity in regions with lower incomes, ultimately leading to more effective financial management.</p>
<p>6) Please describe the key points of the results of this study in more detail in Conclusions.</p>	<p>This study demonstrates that fiscal decentralization has a significant and positive effect on the regional financial performance in West Sumatra Province. One of the main contributions is the regional income derived from intergovernmental transfers, which now surpasses own-source revenues. This encourages local</p>

	<p>governments to manage their finances independently, prompting the need to explore alternative financial sources to support various local government initiatives. This study prove that regional disparities have a positive effect on regional financial performance in West Sumatra Province. This situation is expected to foster the emergence of innovation and creativity within each region, ultimately enhancing the effectiveness of financial management and the development of more efficient revenue sources.</p>
<p>6) I think it would be good to write the implications separately from an academic perspective and a practical perspective in Conclusions.</p>	<p>Local governments should prioritize the Own-source Revenue by enhancing the potential of West Sumatra through entrepreneurship training and developing the tourism sector. Decentralization policies must involve some support from both central and local governments to create more effective and efficient policies, which will positively affect on regional financial performance.</p> <p>The fiscal capacity of local governments in West Sumatra remains very limited, necessitating additional funding sources such as debt, capital assistance, and business facilitation through local government policies (Hans,S.,& Jinhwan, O., 2019; Khan& Mohd. Naved., 2024; Beha, F & Filipos, R., 2024).</p>
<p>Minor Point</p>	
<p>1) Please format the references again. The last reference is also written in Korean.</p>	<p>Thank you for your suggestion and we have revised it</p>
<p>2) Please double check for typos and capital letters and small letters, etc.</p>	<p>Thank you for your suggestion and we have revised the typos, capital and lower case letters, etc.</p>

Reviewer 2. No. 1	
Reviewer's Comments	Author's Responses
Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia Title: Examining the Effects of Fiscal Decentralization and Income Inequality on the Economic Performance of West Sumatera Province, Indonesia	Examining the Effects of Fiscal Decentralization and Income Inequality on the Economic Performance of West Sumatera Province, Indonesia
Reviewer 2. No. 2	
Reviewer's Comments	Author's Responses
Purpose: <i>The issue of income inequality in various regions of Indonesia has emerged as a significant national concern. Despite the government's efforts to tackle this issue through fiscal decentralization policies, the underlying problem of inequality persists. This study explores the impact of fiscal decentralization and regional income inequality on regional financial performance.</i> Purpose statement: The issue of income inequality in various regions of Indonesia is a significant national concern that requires immediate attention. Despite the government's efforts through fiscal decentralization policies, inequality persists. This study decisively explores the impact of fiscal decentralization and regional income inequality on regional financial performance	Purpose: The issue of income inequality in various regions of Indonesia is a significant national concern that requires immediate attention. Despite the government's efforts through fiscal decentralization policies, inequality persists. This study decisively explores the impact of fiscal decentralization and regional income inequality on regional financial performance
Reviewer 2. No. 3	
Reviewer's Comments	Author's Responses
Design/methodology/approach: The research sample comprises 19 districts/cities in West Sumatera province, with data spanning from 2018 to 2020 sourced from the Ministry of Finance and the Central Statistics Agency of West Sumatera Province. The analytical approach utilized in this study is the SmartPLS ver 3.2 model. Delete: spanning	Design/methodology/approach: The research sample comprises 19 districts/cities in West Sumatera province, with data from 2018 to 2020 sourced from the Ministry of Finance and the Central Statistics Agency of West Sumatera Province. The analytical approach utilized in this study is the SmartPLS ver 3.2 model.
Reviewer 2. No. 4	
Reviewer's Comments	Author's Responses
Findings: The first research finding indicates that fiscal decentralization has a positive and substantial impact on regional financial performance. A second finding indicates that regional income inequality also positively and	Findings: The first research finding indicates that fiscal decentralization has a positive and substantial impact on regional financial performance. A second finding suggests that regional income inequality also positively and

significantly affects regional financial performance. Accurate word: Indicates = Suggests Financial = Economic	significantly affects regional economic performance.
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Reviewer 2. No. 5

Reviewer's Comments	Author's Responses
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Research limitations/implications: These results enrich the perspective of Rostow's stages of economic growth model from a different standpoint.	Research limitations/implications: These results enrich the perspective of Rostow's stages of economic growth model from a different standpoint.
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Originality/value: <i>This study contributes to further understanding of economics, politics, and social sciences subjects, particularly within the context of West Sumatra province in Indonesia.</i> This study contributes to a deeper comprehension of the fields of economics, politics, and social sciences, particularly within the specific context of the province of West Sumatra in Indonesia. Overall (highlight in yellow): change Font: Times New Roman without Italic	Originality/value: This study contributes to a deeper comprehension of the fields of economics, politics, and social sciences, particularly within the specific context of the province of West Sumatra in Indonesia
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Reviewer 2. No. 6

Reviewer's Comments	Author's Responses
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Income inequality, typically measured using the Gini Ratio, has decreased over the past decade in Indonesia. However, the COVID-19 pandemic has exacerbated levels of income inequality in West Sumatra, making this research particularly timely and urgent. What specific factors have contributed to the increased income inequality in West Sumatra during the COVID-19 pandemic?	Income inequality, typically measured using the Gini Ratio, has decreased over the past decade in Indonesia. However, the COVID-19 pandemic has exacerbated the level of income inequality in West Sumatra due to the country's economic downturn resulting in decreased national revenue and regional expenditure fell significantly
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These disparities, rooted in variations in financial potential and management across regions (kppd.org), have been a concern. Kuncoro (2013) revealed an unfavorable impact on the growing income inequality phenomenon, drawing comparisons between developed and developing countries. Various factors contribute to these disparities, including differing regional conditions (Faisal, 2011). The long-term increase in income inequality will likely diminish the potential of economic resources to support sustainable development (Sumodiningrat, 2007). This	These disparities, rooted in variations in financial potential and management across regions (Santoso & Mukhlis, 2021). Income inequality can cause social injustice, tension, and increase disparities between groups in society. It can also impact social mobility, social stability, and economic growth in the long term (Bhagaskara, 2023). One of the main factors that determine poverty is income distribution, because poverty is determined by the average per capita expenditure of the population that is below the poverty line, it can be concluded that an in-crease in income
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<p>research, therefore, holds the potential to provide valuable insights into these pressing issues, making it highly relevant in the current socio-economic context.</p>	<p>inequality caused by a decrease in the level of labor income indirectly attracts population groups that initially have average expenditure above the poverty line to average expenditure below the poverty line (Maskur et al., 2023). Basically, the percentage level of the poor in Indonesia is influenced by income inequality, open unemployment, government spending, or the human development index. Conversely, increasing economic growth requires poverty reduction efforts that depend on the effects of income inequality (Suparman, 2021).</p>
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<p>Reviewer 2. No. 7</p>	
<p>Reviewer's Comments</p>	<p>Author's Responses</p>
<p>Providing Comparative Data: Comparing Indonesia's income inequality with that of other countries or regions can help provide a broader context and strengthen the argument regarding the impact of the COVID-19 pandemic.</p>	<p>Indonesia's economic growth before COVID-19 from 2010 to 2019 tended to decline. In 2020, the COVID-19 pandemic entered Indonesia, causing economic growth to fall even further to -2.07%, indicating that the COVID-19 pandemic has affected Indonesia's economic growth and national development (Widiastuti & Silfiana, 2021).</p>
<p>Each of these development opportunities can be more evenly utilized across regions, thus impacting the development process in developed areas. This approach will help reduce economic disparities between regions, address income inequality within economic sectors, tackle low incomes among individuals or groups, combat unemployment, address isolated areas, improve the quality of human resources (HR), and address environmental challenges. These are significant challenges for stakeholders, including local and central governments, the private sector, and the community, who must work together in synergy to find solutions. The evident disparity in per capita income between districts and cities signals unequal development and investment policies or an imbalance that requires equitable distribution of development to ensure more even increases in per capita income. Todaro and Smith (2006) noted that economic growth and population size can impact income inequality. Studies by Damanik, Zulgani, and Rosmeli (2018) and Matondang (2018) found that total population size influences income inequality.</p>	<p>Each of development opportunities can be more evenly utilized across regions, thus impacting the development process in developed areas. This approach will help reduce economic disparities between regions, address income inequality within economic sectors, tackle low incomes among individuals or groups, combat unemployment, address isolated areas, improve the quality of human resources (HR), and address environmental challenges. These are significant challenges for stakeholders, including local and central governments, the private sector, and the community, who must work together in synergy to find solutions. The evident disparity in per capita income between districts and cities signals unequal development and investment policies or an imbalance that requires equitable distribution of development to ensure more even increases in per capita income. Studies by Damanik et al (2018) and Matondang (2018) found that economic growth and population size can impact income inequality</p>

<p>Policies aimed at fostering economic development have inadvertently worsened regional economic disparities. Various factors contribute to unequal welfare across different regions, as evidenced by the Human Development Index (HDI). The disparities result from regional differences, development issues in West Sumatra, and particularly challenges in the health and infrastructure sectors (Ramadhani & Utomo, 2019). The core feature of regional autonomy is its ability to demonstrate financial potential, decentralization, and effective financial management. The distribution of income and fiscal decentralization significantly impact regional financial performance. Halim (2001) emphasized that regional financial performance is measured by its effectiveness, efficiency, financial independence, harmony, and the collection of Regional Original Income.</p>	<p>Policies aimed at fostering economic development have inadvertently worsened regional economic disparities. Various factors contribute to unequal welfare across different regions, as evidenced by the Human Development Index (HDI). The disparities result from regional differences, development issues in West Sumatra, and particularly challenges in the health and infrastructure sectors (Ramadhani & Utomo, 2023). The core feature of regional autonomy is its ability to demonstrate financial potential, decentralization, and effective financial management. The distribution of income and fiscal decentralization significantly impact regional financial performance. Income inequality in developing countries often does not adequately consider its regional dimensions. This is crucial because efforts to reduce income inequality nationally will only succeed in contexts where highly unequal regions coexist with economically relatively equal regions (Savoia, 2020). The expanded authority of regional autonomy allows Regional Governments to independently manage their finances by decentralizing funding to the regions. It is crucial for local governments to transparently and accountably manage these funds to ensure proper allocation and utilization. Fiscal decentralization is vital for enhancing societal welfare by effectively managing regional finances (Rahman & Saputra, 2022).</p>
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Reviewer 2. No. 8	
Reviewer's Comments	Author's Responses
<p>Suggesting Policy Recommendations: Concluding the text with potential policy recommendations or solutions to address income inequality in West Sumatra would add a proactive and actionable element to the research, making it more impactful.</p>	<p>In 2022, the realization of Local Own Source Revenue (PAD) for West Sumatra Province reached 2,848,207,032,876 IDR, marking an increase of 11.6% or approximately 296 billion IDR compared to the previous year. PAD in that year contributed the largest share to regional income, amounting to 46.52%. Local taxes were the largest contributor, comprising 79.86%, followed by Other Legitimate Local Revenues at 16.19%, Income from the Management of Separated Regional Wealth at 3.53%, and Local Levies at 0.42%.</p>

Reviewer 2. No. 9	
Reviewer's Comments	Author's Responses
<p>Adding Concrete Examples: Incorporating specific examples or case studies related to income inequality in West Sumatra could enhance the understanding of the issue and make the text more compelling.</p>	<p>In 2022, the realization of Local Own Source Revenue (PAD) for West Sumatra Province reached 2,848,207,032,876 IDR, marking an increase of 11.6% or approximately 296 billion IDR compared to the previous year. PAD in that year contributed the largest share to regional income, amounting to 46.52%. Local taxes were the largest contributor, comprising 79.86%, followed by Other Legitimate Local Revenues at 16.19%, Income from the Management of Separated Regional Wealth at 3.53%, and Local Levies at 0.42%.</p>
<p>The Indonesian government has implemented a performance-based budget system to improve regional financial management's effectiveness, efficiency, transparency, and accountability, Khan et al., (2024) Effective government policies that support businesses and investors have the potential to significantly boost economic growth. (Paragraph gap)</p>	<p>The Indonesian government has implemented a performance-based budget system to improve regional financial management's effectiveness, efficiency, transparency, and accountability (Khan, 2024).</p>
<p>The research is particularly timely given the high disparity in income distribution between urban and rural areas in West Sumatra, Indonesia, a trend mirrored in other Indonesian cities. This study aims to assess how fiscal decentralization and regional income inequality impact the financial performance of the District Governments of West Sumatra Province.</p>	<p>The research is particularly timely given the high disparity in income distribution between urban and rural areas in West Sumatra, Indonesia, a trend mirrored in other Indonesian cities. This study aims to assess how fiscal decentralization and regional income inequality impact the financial performance of the District Governments of West Sumatra Province.</p>

Reviewer 2. No. 10	
Reviewer's Comments	Author's Responses
<p>2. Fiscal Decentralization</p> <p>Fiscal decentralization involves the transfer of expenditure responsibilities and revenue assignments to lower levels of government, as regulated by Elmi (Elmi, 2003). This shift in government authority has significant implications for budget administration and fiscal decentralization, particularly regarding the responsibilities of district/city and provincial government bureaucracies in Indonesia. (Redraft the sentence with meaningfully)</p>	<p>2. Fiscal Decentralization</p> <p>To implement fiscal decentralization, sources of local government funding are designed more equitably. It reduces political conflict between the central and local governments and provides local government operational funds consisting of local taxes and levies, as well as central and local government balancing funds from the APBN (Sinaga, 2023). This shift in government authority has significant implications for budget administration and fiscal decentralization, particularly regarding the responsibilities of</p>

	district, city, and provincial government bureaucracies in Indonesia.
The sentence Fiscal decentralization is characterized by the autonomy of local governments in managing regional finances, granting them discretion to allocate funds based on regional priorities. Regional autonomy refers to self-governing regions' rights, authority, and obligations to serve local communities in line with statutory regulations.	The sentence Fiscal decentralization is characterized by the autonomy of local governments in managing regional finances, granting them discretion to allocate funds based on regional priorities.

Reviewer 2. No. 11	
Reviewer's Comments	Author's Responses
This autonomy is recommended anticipated to enhance the efficiency, effectiveness, and accountability of financial management for in local governments government in Indonesia, as highlighted by Hasthoro and Sunardi in 2016 (2016) to enhance Indonesia government policy.	Regional autonomy refers to self-governing regions' rights, authority, and obligations to serve local communities in line with statutory regulations. This autonomy is recommended to enhance the efficiency, effectiveness, and accountability of financial management in local government, as highlighted by Hasthoro and Sunardi in 2016 to enhance Indonesia government policy.

Reviewer 2. No. 12	
Reviewer's Comments	Author's Responses
As local governments government undertake fiscal decentralization, they are expected to have the independence to finance regional expenditures and pursue development separate from the central government, as noted by Nurhidayati (Nurhidayati, 2017). Plagiarism detected from academic web	As local government undertake fiscal decentralization, they are expected to have the independence to finance regional expenditures and pursue development separate from the central government (Iskandar et al., 2021).

Reviewer 2. No. 13	
Reviewer's Comments	Author's Responses
3. Regional Income Inequality According to Per Taylor (2012), income inequality refers to the difference in income levels among individuals, specifically between high and low incomes. Furthermore, income disparity between regions is a common indicator of inequality in regions and developing countries (Daryanto & Hafizrianda, 2010). Income inequality often arises	3. Regional Income Inequality Hakim & Rosini (2022) explained that income inequality refers to the difference in income levels among individuals, specifically between high and low incomes. Furthermore, the inception of the problem of regional disparity indicates differences in welfare levels, so it can be said that rapid growth occurs in some regions while slow growth in

<p>due to suboptimal allocation of resources within society, leading to unequal income distribution among house-holds in a given region or country (Todaro & Smith, 2011). Gee (1983) identifies three aspects on which regional income inequalities can be based: regional income disparity, urban-rural income disparity, and size distribution of income. Addressing economic disparities between regions is crucial for national economic development, as divergent economic growth rates can lead to social tensions and potential conflicts, ultimately threatening the stability of regional and national economies (Sjafrizal, 2008).</p>	<p>others, both of which are caused by the unique characteristics of each region (Asrahmaulyana, 2023). corruption can reduce government spending on education, health, and final consumption, as this leaves fewer resources available for social spending. Thus, it can be concluded that, increased corruption has worsened the position of the poorest. increased corruption will increase income inequality (Sari & Qibthiyah, 2022). San (1983) identifies three aspects on which regional income inequalities can be based: regional income disparity, urban-rural income disparity, and size distribution of income.</p>
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Reviewer 2. No. 14	
Reviewer's Comments	Author's Responses
<p>Overall: too much grammatical error. Rewrite without grammatical error.</p>	<p>Inequality is a major problem of almost every country, especially developing countries. Inequality in distribution can lead to disparities throughout society. Providing equal opportunities to each community to utilize the available social facilities and providing equal opportunities to each community to develop and improve its economy are the main keys in efforts to overcome socioeconomic disparities (Silpia, 2023).</p>

Reviewer 2. No. 15	
Reviewer's Comments	Author's Responses
<p>4. Regional Financial Performance Clarify the meaning of "regional financial performance" and its significance in the first few sentences to ensure comprehends its importance from the outset.</p> <p>Regional financial performance refers to a region's capacity to effectively utilize and manage its sources of income to meet the local community's needs. This is done to support the region's governance and development system without complete reliance on the central government. It allows for flexibility in utilizing funds to benefit the local society within government-regulated limits (Syamsi, 1986). Furthermore, regional financial performance is a yardstick for evaluating the</p>	<p>All local governments in the cities of Sumatra Island demonstrates a significant level of financial dependency on funds received from the central government, provincial government, and other districts. This high dependency reflects a strong reliance on external assistance to support regional governance and development activities. This is evidenced by the fact that the contribution of transfer income exceeds 50% of the total revenue of each district or city in the region (Abdullah & Mardatillah, 2017).</p>

<p>region's financial self-sufficiency in funding regional autonomy and assessing how regional government activities utilize regional revenues to drive growth and development (Halim, 2007).</p>	
	<p>Various factors, including government policies, the economic situation, and regulations governing regional financial management, affect regional financial performance. Improving efficiency, independence, decentralization, effectiveness, and regional dependence can help regional financial performance (Sartika, 2019). Furthermore, by using predetermined financial indicators, regional financial performance can be defined as the level of achievement of regional work results that aim to determine how well and effectively the region manages finances (Saifrizar, 2022).</p>

<p>Reviewer 2. No. 16</p>	
<p>Reviewer's Comments</p>	<p>Author's Responses</p>
<p>5. Fiscal Decentralization and Regional Financial Performance</p> <p>What specific financial responsibilities are typically transferred from the central government to local administrations in the process of fiscal decentralization?</p>	<p>In Indonesia, fiscal decentralization plays a crucial role in implementing the principles of regional autonomy aimed at improving community welfare based on local potentials, despite facing various challenges. Initially, fiscal decentralization in Indonesia aimed to promote economic independence at the local level. As a result, regions were granted broad authority in various sectors except for foreign affairs, defense, security, justice, finance, and religion. In the context of regional autonomy, fiscal decentralization is considered a significant second step. The package of State Finance Laws, which includes three state finance regulations, has implemented reforms in national financial policy to support this process (Christia & Ispriyarso, 2019).</p>
<p>Fiscal decentralization involves transferring financial responsibilities from the central government to regional or local governments, which is known to impact overall financial performance significantly. This can be observed through the level of autonomy of the central government in handling regional finances and the reduced reliance on the central government. With less dependence on the central government, local administrations can independently manage financial operations, oversee and exploit financial opportunities, and handle budgeting and</p>	<p>In Indonesia, fiscal decentralization plays a crucial role in implementing the principles of regional autonomy aimed at improving community welfare based on local potentials, despite facing various challenges. Initially, fiscal decentralization in Indonesia aimed to promote economic independence at the local level. As a result, regions were granted broad authority in various sectors except for foreign affairs, defense, security, justice, finance, and religion. In the context of regional autonomy, fiscal decentralization is considered a significant second step. The package</p>

<p>allocation. As Lay (2001) suggested, granting local governments the authority to govern independently means they are not reliant on regulations and support from the central government. Therefore, building upon existing theory and research, the initial hypothesis presented in this study is: H1: Fiscal Decentralization has a positive effect on regional financial performance.</p>	<p>of State Finance Laws, which includes three state finance regulations, has implemented reforms in national financial policy to support this process (Christia & Ispriyarso, 2019).</p>
	<p>Fiscal decentralization involves transferring financial responsibilities from the central government to regional or local governments, which is known to impact overall financial performance significantly. This can be observed through the level of autonomy of the central government in handling regional finances and the reduced reliance on the central government. With less dependence on the central government, local administrations can independently manage financial operations, oversee, and exploit financial opportunities, and handle budgeting and allocation. To improve local financial capability, local governments must have the ability to support the financing of government, development, and community activities. In addition, they must encourage the community to participate in regional development and manage local revenue effectively and efficiently (R. T. Santoso et al., 2021). Therefore, building upon existing theory and re-search, the initial hypothesis presented in this study is: H1: Fiscal Decentralization has a positive effect on regional financial performance.</p>

<p>Reviewer 2. No. 17</p>	
<p>Reviewer's Comments</p>	<p>Author's Responses</p>
<p>6. Regional Income Inequality and Regional Financial Performance</p> <p>Income inequality measures how income is distributed among people in a specific area or region during a specific time period. This trend of increasing income inequality is observed at various levels in Indonesia, including rural, urban, national, and provincial levels. In urban areas, income inequality is more pronounced than in rural areas, which has implications for regional</p>	<p>6. Regional Income Inequality and Regional Financial Performance</p> <p>Income inequality measures how income is distributed among people in a specific area or region during a specific time. This trend of increasing income inequality is observed at various levels in Indonesia, including rural, urban, national, and provincial levels. In urban areas, income inequality is more pronounced than in rural areas, which has implications for regional</p>

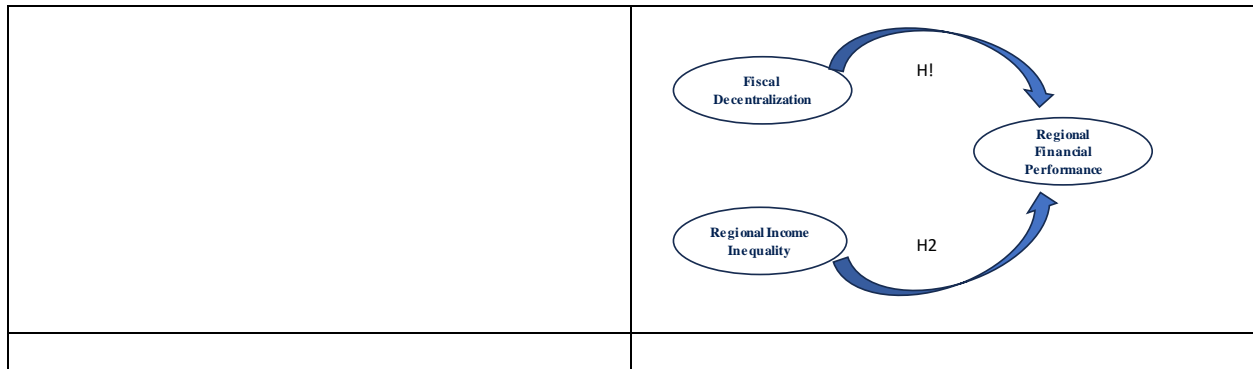
<p>economic performance and public trust in the government. This disparity in income levels can lead to social resentment and poverty, posing significant risks such as civil unrest and separatist movements (Sofyan, 2010), Nurlina, et al., (2019) The elevated poverty rate in the region is attributed to restricted access to education, wage disparities, and the modest incomes of agricultural workers.</p>	<p>economic performance and public trust in the government. Income inequality is closely linked to poverty, and reducing income distribution inequality or income level gaps will inevitably be a top priority in economic development (Wuladari et al., 2022). Hanum & Muda (2019) The elevated poverty rate in the region is attributed to restricted access to education, wage disparities, and the modest incomes of agricultural workers.</p>
<p>By reallocating regional expenditures more effectively, it is possible to promote stronger and more equitable economic growth, thereby addressing the issue of income inequality. Hence, in line with existing theories and previous research, the second hypothesis posited in this study is: H2: Regional Income Inequality has a positive effect on regional financial performance. H2: Regional income inequality exerts a positive impact on regional financial performance.</p>	<p>By reallocating regional expenditures more effectively, it is possible to promote stronger and more equitable economic growth, thereby addressing the issue of income inequality. Hence, in line with existing theories and previous research, the second hypothesis posited in this study is: H2: Regional income inequality exerts a positive impact on regional financial performance.</p>

Reviewer 2. No. 18	
Reviewer's Comments	Author's Responses
<p>7. The Effect of Fiscal Decentralization and Regional Income Inequality on Regional Financial Performance</p> <p>Fiscal decentralization has the potential to enhance efficiency in public and production services. However, the implementation of decentralization varies across different regions, leading to diverse effects due to variations in characteristics and institutions. Fiscal decentralization is crucial in improving regional financial performance and reducing income inequality. ((According to Galbraith and Kum (2012), unequal distribution of development results in income inequality within each region, which, in turn, hinders economic growth and exacerbates income inequality (Kuncoro, 2004 – reference 20 years gap now year 2024 so find latest 5 years reference). Please write two different sentence to explain on author's ideology.))</p>	<p>7. The Effect of Fiscal Decentralization and Regional Income Inequality on Regional Financial Performance</p> <p>Fiscal decentralization has the potential to enhance efficiency in public and production services. However, the implementation of decentralization varies across different regions, leading to diverse effects due to variations in characteristics and institutions. Fiscal decentralization is crucial in improving regional financial performance and reducing income inequality. According to Galbraith (2012), unequal distribution of development results in income inequality within each region, which, in turn, hinders economic growth and exacerbates income inequality.</p>
<p>There exists a correlation between financial performance and regional income inequality. Unequal economic growth contributes to</p>	<p>There exists a correlation between financial performance and regional income inequality. Unequal economic growth contributes to</p>

decreased regional income inequality. Regional authorities can proactively and innovatively manage regional finances to foster growth.	decreased regional income inequality. Regional authorities can proactively and innovatively manage regional finances to foster growth.
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Reviewer 2. No. 19	
Reviewer's Comments	Author's Responses
Efriza (2014) examined income inequality among districts/cities (do not use symbol /) in East Java Province and found that the Williamson index indicates significant income inequality, particularly in Kediri and Surabaya. The Theil Entropy Index also confirms a very high-income high-income inequality in East Java province	Efriza (2014) examined income inequality among districts, cities in East Java Province and found that the Williamson index indicates significant income inequality, particularly in Kediri and Surabaya. The Theil Entropy Index also confirms a very high-income inequality in East Java province.
Moreover, the inflation rate positively and significantly impacts regional income inequality. Mustika (2009) noted that the level of independence of Padang Pariaman Regency increased after regional expansion compared to the period before. Therefore, based on existing theory and previous studies, this study proposes the third hypothesis: H3: Fiscal Decentralization and Regional Income Inequality have a positive effect on regional financial performance.	Moreover, the inflation rate positively and significantly impacts regional income inequality. Greater local revenue will make a region more independent in financial management (Sarumaha & Annisa, 2023). Therefore, based on existing theory and previous studies, this study proposes the third hypothesis: H3: Fiscal Decentralization and Regional Income Inequality have a positive effect on regional financial performance.

Reviewer 2. No. 20	
Reviewer's Comments	Author's Responses
II. Methodology Overall Conceptual Framework missing?	<p>This research is a quantitative study that examines and evaluates the effect of fiscal decentralization and regional income inequality on regional financial performance. Secondary data from government institutions such as the Central Bureau of Statistics (BPS) of the relevant regions is the source of this research. The required data are Gross Regional Domestic Product (GRDP), APBD, and population. Revenue reports of regional own-source revenues (PAD), central taxes for regions, general allocation funds (DAU, and other data relevant to the research used from the APBD besides secondary data also collected through literature research to support this research. This research uses data from 12 districts and 7 cities in West Sumatra. This research uses the smart pls 3.2.2 analysis tool.</p> <p>Figure 1. Conceptual Framework</p>



Reviewer 2. No. 21	
Reviewer's Comments	Author's Responses
<p>1. The Evaluation of Measurement Model (Outer Model)</p> <p>The outer model is assessed to determine the relationship between the latent construct and its indicators. This model serves to establish the validity and reliability of the research instruments. The validity test encompasses convergent and discriminant validity. In assessing convergent validity, this study employs the loading factor. Hair et al. (2006) Find reference latest 5 years (2020 - 2024)</p>	<p>1. The Evaluation of Measurement Model (Outer Model)</p> <p>The outer model is assessed to determine the relationship between the latent construct and its indicators. This model serves to establish the validity and reliability of the research instruments. The validity test encompasses convergent and discriminant validity. In assessing convergent validity, this study employs the loading factor (Solling Hamid & M Anwar, 2019).</p>

Reviewer 2. No. 22	
Reviewer's Comments	Author's Responses
<p>state that a loading factor value > 0.50 is practically significant. Additionally, the cross-loading value for each indicator within a variable differs from the indicator in other variables, with a loading value > 0.5. Furthermore, this study utilizes Cronbach's alpha and composite reliability for reliability testing. The Rule of thumb dictates that the values for Cronbach's alpha and composite reliability must exceed 0.7 for the construct or variable to pass the reliability test (Hair et al., 2008). Find reference latest 5 years (2020 -2024)</p>	<p>It stated that a loading factor value > 0.50 is practically significant. Additionally, the cross-loading value for each indicator within a variable differs from the indicator in other variables, with a loading value > 0.5. Furthermore, this study utilizes Cronbach's alpha and composite reliability for reliability testing. The Rule of thumb dictates that the values for Cronbach's alpha and composite reliability must exceed 0.7 for the construct or variable to pass the reliability test (Chua, 2023)</p>

Reviewer 2. No. 23	
Reviewer's Comments	Author's Responses
<p>2. The Evaluation of Structural Model (Inner Model)</p>	<p>2. The Evaluation of Structural Model (Inner Model)</p>

<p>In this study, the aim of evaluating the inner model is to scrutinize the research hypothesis. According to Hartono (2011), the evaluation of the inner model can be elucidated by the R^2 value for the dependent variable, path coefficient value, or t-value for a significant test between constructs in the inner model. A high R^2 value indicates a strong prediction model for this study. The path coefficient value is explicated by t-statistics and then compared with the t-table value in hypothesis testing. For the one-tailed hypothesis with an alpha of 5%, the t-table value is 1.64 in the case of the mediation effect. The significance test parameter output is derived from the total effect table rather than the path coefficient table. This is because the mediation effect tests the independent variable's direct effect impact on the dependent variable and examines the indirect relationship between the independent and dependent variables through the mediating variable (indirect effect).</p>	<p>In this study, the aim of evaluating the inner model is to scrutinize the research hypothesis. According to Hartono et al (2020), the evaluation of the inner model can be elucidated by the R^2 value for the dependent variable, path coefficient value, or t-value for a significant test between constructs in the inner model. A high R^2 value indicates a strong prediction model for this study. The path coefficient value is explicated by t-statistics and then compared with the t-table value in hypothesis testing. For the one-tailed hypothesis with an alpha of 5%, the t-table value is 1.64 in the case of the mediation effect. The significance test parameter output is derived from the total effect table rather than the path coefficient table. This is because the mediation effect tests the independent variable's direct impact on the dependent variable and examines the indirect relationship between the independent and dependent variables through the mediating variable (indirect effect).</p>
<p>(How are the R^2 value and path coefficient value calculated and interpreted in the context of the inner model evaluation?).</p>	<p>The R^2 value is 0.67 (strong) 0.33 (moderate) and 0.19 (weak) testing the path coefficient individually can be used t test or f test from the regression output.</p>
<p>The primary objective of this research is to analyze the effects of fiscal decentralization and regional income inequality on the financial performance of the West Sumatra Province. This study seeks to delve into the relationship between these factors and their influence on the economic stability and growth of the region. The research design specifically addresses the research problems, objectives, and hypotheses. Employing a quantitative research approach, the study utilizes panel data measurement, comprising observations across 19 districts/cities in West Sumatra, and incorporates five years of time series data spanning from 2016 to 2020.</p>	<p>The primary objective of this research is to analyze the effects of fiscal decentralization and regional income inequality on the financial performance of the West Sumatra Province. This study seeks to delve into the relationship between these factors and their influence on the economic stability and growth of the region. The research design specifically addresses the research problems, objectives, and hypotheses. Employing a quantitative research approach, the study utilizes panel data measurement, comprising observations across 19 districts/cities in West Sumatra, and incorporates five years of time series data spanning from 2016 to 2020.</p>

<p>Reviewer 2. No. 24</p>	
<p>Reviewer's Comments</p>	<p>Author's Responses</p>
<p>According to the earlier conceptual variables, identifying research involves two independent variables and one dependent variable, comprising exogenous and endogenous variables. The exogenous variables are categorized as fiscal</p>	<p>According to the earlier conceptual variables, identifying research involves two independent variables and one dependent variable, comprising exogenous and endogenous variables. The exogenous variables are categorized as fiscal</p>

decentralization and regional income inequality, while the employed endogenous variable is regional financial performance. These research variables are presented in Table 2 Table 1 below.	decentralization and regional income inequality, while the employed endogenous variable is regional financial performance. These research variables are presented in Table 1 below.
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Reviewer 2. No. 25	
Reviewer's Comments	Author's Responses
Source: Data Processed, 2022 (no clarity on data collection information)	Source: Data Processed, 2022

Reviewer 2. No. 26	
Reviewer's Comments	Author's Responses
Table 2 - (Centralize the alignment of symbol =)	we have made the formula so that the = symbol is in its proper position
Source: Data Processed, 2022 (no clarity on data collection information)	information on data collection has been explained in the methodology.

Reviewer 2. No. 27	
Reviewer's Comments	Author's Responses
The researchers performed a measurement assessment (outer model) to evaluate the validity and reliability of the research instrument. Below is a diagram illustrating the path analysis (PLS algorithm literacy Literacy).	The researchers performed a measurement assessment (outer model) to evaluate the validity and reliability of the research instrument. Below is a diagram illustrating the path analysis (PLS algorithm Literacy).
The loading factor values for the indicators of each valid and invalid research variable are presented. Any invalid loading factor values will be removed, with a minimum loading factor of 0.50 being the benchmark. Following this, the diagram will be revised and retested multiple times to ensure improvements in the research model. (What is the purpose of indicator 0.05 explanation? Any supporting reference for 0.05 indicator?)	The loading factor values for the indicators of each valid and invalid research variable are presented. Any invalid loading factor values will be removed, with a minimum loading factor of 0.50 being the benchmark. Following this, the diagram will be revised and retested multiple times to ensure improvements in the research model.

Reviewer 2. No. 28	
Reviewer's Comments	Author's Responses
In this study, the outer model aims to assess the validity of each indicator, as outlined in Figure 1. The study employs three types of validity tests: convergent validity, discriminant validity, and reliability tests. Convergent validity entails a group of indicators representing a single latent variable	In this study, the outer model aims to assess the validity of each indicator, as outlined in Figure 2. The study employs three types of validity tests: convergent validity, discriminant validity, and reliability tests. Convergent validity entails a group of indicators representing a single latent variable

<p>underlying the latent variable. The study demonstrates that during the initial stage of testing the measurement model, an item with a loading factor of 0.50 to 0.60 is considered satisfactory (Jonathan Sarwono, 2020). The image above indicates that all indicators for fiscal decentralization, regional income inequality, and detection of fraud in regional financial performance have passed the convergent validity test, as the loading factor value is > 0.50. The discriminant validity parameter displays the cross-loading value, showing that each indicator corresponds to a variable in the measurement model. The results of the discriminant validity test reveal that the cross-loading value for each indicator in the research variables differs from those in other variables, with a loading value > 0.5. Furthermore, a reliability test is conducted using the PLS algorithm iteration. According to Hair et al. (2008), Find reference latest 5 years (2020 -2024)</p>	<p>underlying the latent variable. The study demonstrates that during the initial stage of testing the measurement model, an item with a loading factor of 0.50 to 0.60 is considered satisfactory (Sarwono, 2020). The image above indicates that all indicators for fiscal decentralization, regional income inequality, and detection of fraud in regional financial performance have passed the convergent validity test, as the loading factor value is > 0.50. The discriminant validity parameter displays the cross-loading value, showing that each indicator corresponds to a variable in the measurement model. The results of the discriminant validity test reveal that the cross-loading value for each indicator in the research variables differs from those in other variables, with a loading value > 0.5. Furthermore, a reliability test is conducted using the PLS algorithm iteration. According to Chua (2023), the general rule of thumb indicates that Cronbach's alpha or composite reliability value must exceed 0.5 to meet the reliability test requirement.</p>
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Reviewer 2. No. 29	
<p>Reviewer's Comments</p> <p>According to the data in Table 3, the R-square value for the endogenous latent variable of Regional Financial Performance is 0.352, equivalent to 35.2%. This indicates that the Regional Financial Performance variable is influenced by fiscal decentralization and regional income inequality to 35.2%. The remaining 64.8% can be attributed to other variables not addressed in this study. (Explain in further why 64.8% not addressed in this study)</p>	<p>Author's Responses</p> <p>According to the data in Table 3, the R-square value for the endogenous latent variable of Regional Financial Performance is 0.352, equivalent to 35.2%. This result indicates that approximately 35.2% of the variability in Regional Financial Performance can be explained by fiscal decentralization and regional income inequality studied in this study. The remaining 64.8% is likely influenced by other factors not included in this study model. Ghazali (2016) explains that a low coefficient of determination suggests limited substantive explanatory power of the independent variables in relation to the dependent variable. Therefore, these findings highlight the necessity of considering other factors that may affect Regional Financial Performance beyond the variables examined in this study.</p>

Reviewer 2. No. 30	
Reviewer's Comments	Author's Responses
<p>The results of the SmartPLS test with Bootstrapping, as depicted in Figure 2, provide insights into the impact of fiscal decentralization on Regional Financial Performance. The path coefficient indicates that a one-unit increase in fiscal decentralization results in a 3.788-unit increase in Regional Financial Performance, assuming other variables remain constant. Similarly, the path coefficient for Regional Income Inequality to Regional Financial Performance is 2.027, signifying that a one-unit increase in regional income inequality leads to a 2.027-unit increase in regional financial performance.</p> <p>(What statistical significance level was used in the SmartPLS test with Bootstrapping?)</p>	<p>The results of the SmartPLS test with Bootstrapping, as depicted in Figure 3, provide insights into the impact of fiscal decentralization on Regional Financial Performance. The path coefficient indicates that a one-unit increase in fiscal decentralization results in a 3.788-unit increase in Regional Financial Performance, assuming other variables remain constant. Similarly, the path coefficient for Regional Income Inequality to Regional Financial Performance is 2.027, signifying that a one-unit increase in regional income inequality leads to a 2.027-unit increase in regional financial performance. Bootstrapping is a statistical technique that is valuable for examining the significance or probability of various effects in structural model analysis, including direct effects, indirect effects, and total effects. Additionally, this method can be utilized to assess the significance of model quality measures such as R-square, adjusted R-square, f-square, outer loading, and outer weight.</p>

Reviewer 2. No. 31	
Reviewer's Comments	Author's Responses
<p>Additionally, as noted by Christy, Walewangko et al. (2019), regional autonomy is largely free from interference by the Central Government, allowing regional governments to generate their own revenues effectively.</p>	<p>Additionally, as noted by Christy et al (2019), regional autonomy is largely free from interference by the Central Government, allowing regional governments to generate their revenues effectively.</p>
<p>What are some specific examples of policies tailored to address income inequality at the regional level?</p>	<p>Policies designed to address income inequality in West Sumatra aim not only to enhance regional inequality but also to foster balanced regional development according to each area's potential. One of the primary focuses is creating new job opportunities as part of these efforts. The success of these policies can be observed through concrete measures of regional development achievements</p>
<p>Based on the results presented in Table 4, the second hypothesis (H2) posits that the variable of Regional In-come Inequality has a significant positive impact on Regional Financial Performance. This is supported by a T-statistic value of 2.027, which surpasses the critical T-Table</p>	<p>Based on the results presented in Table 4, the second hypothesis (H2) posits that the variable of Regional In-come Inequality has a significant positive impact on Regional Financial Performance. This is supported by a T-statistic value of 2.027, which surpasses the critical T-Table</p>

<p>value of 1.66, and a p-value of 0.043, falling below the significance level of 0.05. These findings provide evidence in favor of the hypothesis. The results indicate that efficient allocation of resources within the community can lead to a more balanced income distribution among households in the region, thereby enhancing regional financial performance. Developing specific policies tailored to each area region to address income inequality is imperative. Furthermore, directing regional funds and equity investments to individual districts or cities can improve regional financial performance. Dharmayanti et al. (2021) have also stressed the importance of effectively managing diverse regional potentials to reduce inequality. The presence of a development plan aimed at fostering economic growth signifies the potential to enhance regional financial performance through strategic regional development planning</p>	<p>value of 1.66, and a p-value of 0.043, falling below the significance level of 0.05. These findings provide evidence in favor of the hypothesis. The results indicate that efficient allocation of resources within the community can lead to a more balanced income distribution among households in the region, thereby enhancing regional financial performance. Developing specific policies tailored to each area to address income inequality is imperative. Furthermore, directing regional funds and equity investments to individual districts or cities can improve regional financial performance. (Dharmayanti, 2021) have also stressed the importance of effectively managing diverse regional potentials to reduce inequality. The presence of a development plan aimed at fostering economic growth signifies the potential to enhance regional financial performance through strategic regional development planning.</p>
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Reviewer 2. No. 32	
Reviewer's Comments	Author's Responses
<p>The effective management of finances in regional governments, including the handling of regional income and expenditure, is crucial for ensuring successful decentralization and autonomy for regional authorities. As highlighted by (Leki et al., 2018), the allocation of funds from the central government to regional administrations plays a crucial role in providing the necessary financial resources for these regions to manage their finances independently. This autonomy enables regional governments to efficiently utilize local resources, ultimately contributing to improved economic conditions, lower unemployment rates, reduced poverty levels, and greater income equality within the region. Furthermore, the research conducted by (Leki et al., 2018) and Maulina et al. (2021) underscores the importance of addressing income inequality to enhance the financial performance of regional governments by increasing local original income.</p>	<p>The effective management of finances in regional governments, including the handling of regional income and expenditure, is crucial for ensuring successful decentralization and autonomy for regional authorities. As highlighted by (Leki et al., 2018), the allocation of funds from the central government to regional administrations plays a crucial role in providing the necessary financial resources for these regions to manage their finances independently. This autonomy enables regional governments to efficiently utilize local resources, ultimately contributing to improved economic conditions, lower unemployment rates, reduced poverty levels, and greater income equality within the region. Furthermore, the research conducted by Leki et al (2018) and Thaha et al (2021) underscores the importance of addressing income inequality to enhance the financial performance of regional governments by increasing local original income.</p>
<p>How exactly do regional revenue sources influence income inequality and financial performance within each region?</p>	<p>Fiscal decentralization can increase efficiency, reduce regional disparities, and accelerate economic growth, thereby reducing poverty This is</p>

	because local governments can increase local revenue (PAD) (Manduapessy, 2020).
This research study provides an in-depth analysis of how fiscal decentralization and regional income inequality impact the financial performance of the West Sumatra region (Marya et al., 2024). The lack of specific legislation governing fiscal decentralization has led to exploring its influence on the control and management of regional resources and its overall effect on financial performance.	This research study provides an in-depth analysis of how fiscal decentralization and regional income inequality impact the financial performance of the West Sumatra region (Marya et al., 2024). The lack of specific legislation governing fiscal decentralization has led to exploring its influence on the control and management of regional resources and its overall effect on financial performance

Reviewer 2. No. 33	
Reviewer's Comments	Author's Responses
<p>The effective management of regional financial resources is vital, and fiscal decentralization has the potential to increase government revenues while reducing regional income inequality. The West Sumatra Provincial Central Statistics Agency (2024) data indicates consistent growth in the region's gross domestic product from 2021 to 2023. Specifically, Payakumbuh has achieved the highest average economic growth at 3.99 percent, followed by Bukittinggi and Padang at 3.96 percent each. However, areas such as Padang Pariaman and South Solok have experienced slower economic growth, attributed to disparities in income distribution and resource allocation.</p> <p>The passage can benefit from simplifying some of the language to make it more accessible to a broader audience. This could involve breaking down complex phrases and using more straightforward sentence structures.</p>	<p>While fiscal decentralization has the potential to boost government revenues while lowering regional income disparity, efficient management of regional financial resources is essential. Data from the West Sumatra Province's Central Bureau of Statistics (2024) show that this condition is demonstrated by the province's gross domestic product growing steadily between 2021 and 2023. With an average economic growth of 3.99 percent, Payakumbuh has outperformed Bukittinggi and Padang, which both had 3.96 percent growth. Disparities in resource allocation and income distribution, however, have resulted in slower economic growth in places like Padang Pariaman and South Solok.</p>

Reviewer 2. No. 34	
Reviewer's Comments	Author's Responses
<p>After conducting a thorough analysis and engaging in extensive discussions, we have determined that fiscal decentralization has a notably positive and substantial influence on the financial performance of the regions within West Sumatra Province. This is due to the substantial contribution of regional revenues from the balanced fund, which currently surpasses the original regional revenues. As a result, local governments must be able to</p>	<p>After conducting a thorough analysis and engaging in extensive discussions, we have determined that fiscal decentralization has a notably positive and substantial influence on the financial performance of the regions within West Sumatra Province. This is due to the substantial contribution of regional revenues from the balanced fund, which currently surpasses the original regional revenues. As a result, local governments must be able to</p>

independently manage their regional finances, leading to the need to explore alternative financial sources for funding various regional government initiatives.	independently manage their regional finances, leading to the need to explore alternative financial sources for funding various regional government initiatives.
Moreover, the substantial and positive impact of regional income inequality on regional financial performance can be attributed to various factors, including the influence of regional revenue sources on income inequality. This situation is expected to foster innovation and creativity within each region, ultimately leading to effective financial management and the exploration of more efficient revenue sources	Moreover, the substantial and positive impact of regional income inequality on regional financial performance can be attributed to various factors, including the influence of regional revenue sources on income inequality. This situation is expected to foster innovation and creativity within each region, ultimately leading to effective financial management and the exploration of more efficient revenue sources
What measures can be taken to ensure effective financial management and the exploration of more efficient revenue sources by local governments?	To enhance transparency and accountability in local financial management, effective management of region-al financial performance plays a crucial role. This can be achieved through the implementation of strong account-ability principles in local financial management and by enhancing transparency in all aspects of regional administration.

Reviewer 2. No. 35	
Reviewer's Comments	Author's Responses
Local governments must prioritize enhancing Regional Original Revenue (PAD) through promoting entrepreneurial initiatives. This approach will contribute to the development of human resources, strengthen financial performance, and promote societal welfare, ultimately leading to an improved overall standard of living. To tackle in-come inequality, local governments should foster inclusive economic growth by actively involving all segments of society in the development process and reinforcing social institutions. This collective effort will help create a more balanced and equitable economic landscape for all community members.	Local governments must prioritize enhancing Regional Original Revenue (PAD) through promoting entrepreneurial initiatives. This approach will contribute to the development of human resources, strengthen financial performance, and promote societal welfare, ultimately leading to an improved overall standard of living. To tackle income inequality, local governments should foster inclusive economic growth by actively involving all segments of society in the development process and reinforcing social institutions. This collective effort will help create a more balanced and equitable economic landscape for all community members.
Suggesting Policy Recommendations: Concluding the text with potential policy recommendations or solutions to address income inequality in West Sumatra would add a proactive and actionable element to the research, making it more impactful	To address income inequality, the local government of West Sumatra should improve its public services, increase employment, and provide opportunities for labor to practice skills. In addition, they should use taxes and government spending to reduce current and future inequality

Reviewer 2. No. 36	
Reviewer's Comments	Author's Responses
The study has several limitations. Specifically, the ability to measure fiscal decentralization variables and regional income inequality in relation to about the financial performance of local governments is restricted within public sector accounting research, particularly when using secondary data.	The study has several limitations. Specifically, the ability to measure fiscal decentralization variables and regional income inequality about the financial performance of local governments is restricted within public sector accounting research, particularly when using secondary data
This study's findings only apply to district and city governments in West Sumatra from 2018 to 2020. Future researchers are encouraged to use samples from other districts and cities to adapt the research model to fit the context of the phenomenon and research issues and to develop proxies for measuring fiscal decentralization and regional income inequality in regional financial performance.	This study's findings only apply to district and city governments in West Sumatra from 2018 to 2020. Future researchers are encouraged to use samples from other districts and cities to adapt the research model to fit the context of the phenomenon and research issues and to develop proxies for measuring fiscal decentralization and regional income inequality in regional financial performance.
This will contribute to expanding public sector accounting research literature, particularly in relation to specifically when use of the secondary data. The study results offer a relatively imprecise analysis, with the coefficient of determination from hypothesis testing still relatively low, at 35.2%. Therefore, it is crucial to explore alternative empirical research models and more sophisticated analytical methods to generate research analysis results that are more accurate and aligned with expectations. Revise paragraph without grammatical error	This will contribute to expanding public sector accounting research literature, specifically when use the secondary data. The results of this study provide an analysis with a coefficient of determination from hypothesis testing that is still relatively low, namely 35.2%. Therefore, it is very important to explore alternative empirical research models and new analysis methods to produce more accurate and expected research analysis results

Reviewer 2. No. 37	
Reviewer's Comments	Author's Responses
Reference Overall: Font: Times New Roman without italic, Follow APA Format, follow alphabetical order, Authors are required to follow author guidelines efficiently Find reference latest 5 years (2020 -2024)	

Reviewer 2. No. 38	
Reviewer's Comments	Author's Responses
References (follow APA format) Author name, Year, journal title, Publisher name, Volume, Pages	REFERENCES

Reviewer 2. No. 39	
Reviewer's Comments	Author's Responses



Eva Herianti <eva.herianti@umj.ac.id>

[GBFR] Notification of the manuscript acceptance

9 pesan

gbfr <gbfr@pngba.org>

Kepada: Eva Herianti <eva.herianti@umj.ac.id>

22 Juli 2024 pukul 08.44



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Dear Eva Herianti

Warm greetings from GBFR!

Congratulations!

GBFR Editorial Team is glad to inform you that the following manuscript has passed all blind review processes for the possible publication in the upcoming issues of Global Business and Finance Review (GBFR).

Manuscript ID : **GBFR-24-05-23**

Title : **Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia**

Authors : **Eva Herianti, Amor Marundha**

Submission date : **2024-05-24**

Emails : eva.herianti@umj.ac.id, amor.marundha@dsn.ubharajaya.ac.id

Submitted section : **Economics**

It is your great achievement and must be a precious asset for readers in this field. The main publisher's editorial review process is to begin. Your paper is scheduled to be published in the GBFR upcoming issues only if you could take timely feedback along with publisher's editorial review processes. Please keep up your great works. Upon passing the blind review processes, an article processing charge (APC) of 970 USD is implemented. Note that an additional acknowledgement fee of 290 USD may be implemented if there is any kind of funding from University, Institution, or government. GBFR does not charge the APC or acknowledgement fee for invited papers for special subjects. The final amount you are to pay is presented on the system. Therefore, the total amount posted on your account should be transferred within 5 days from today.

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Again, congratulations on your great research works! All the best for your future!

Thank you

Best regards,
GBFR Editorial Board

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Tel. 82-2-962-0719 / Fax. 82-2-3295-0719

Eva Herianti <eva.herianti@umj.ac.id>
Kepada: haryanto2689@gmail.com

22 Juli 2024 pukul 08.55

[Kutipan teks disembunyikan]

Eva Herianti <eva.herianti@umj.ac.id>
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22 Juli 2024 pukul 11.02

Dear Editor Team,

We are writing to express our sincere gratitude for accepting our manuscript submission. After reviewing the APC settlement information in your system, we are ready to proceed with the payment of USD 970 using a credit card.

Before making the payment, we kindly request your official Letter of Acceptance, specifying the publication date and volume edition. Your prompt confirmation of this request would be greatly appreciated.

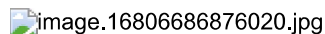
Furthermore, we would like to confirm that this manuscript will not include additional co-authors; the two original authors will be retained.

We are eagerly anticipating receiving your Letter of Acceptance, along with the definite publication schedule.

Best regards,
Dr. Eva Herianti
Corresponding Author
[Kutipan teks disembunyikan]

GBFR <gbfr@pngba.org>
Kepada: Eva Herianti <eva.herianti@umj.ac.id>

22 Juli 2024 pukul 12.58



Dear Eva Herianti

Warm greetings from GBFR!

We will send you LOA after you complete your payment.(publication date and volume)

Please complete your payment in the system ASAP.

Should you encounter any challenges or inquiries, we encourage you to reach out to us without hesitation at gbfr@pngba.org.

Wishing you continued well-being and a productive day ahead.

Best regards,
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Subject : Re: [GBFR] Notification of the manuscript acceptance

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23 Juli 2024 pukul 20.05

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We write to notify you that the article processing charge (APC) has been successfully settled via credit card and the transaction has been verified by our bank and duly reflected in your system.

We kindly request the issuance of the Letter of Acceptance (LoA) for our manuscript. Additionally, we would greatly appreciate your best assistance in expediting the final processing to potentially secure the publication of our manuscript in the August 2024 edition. This is of utmost importance to meet our academic obligations to our respective institutions.

We eagerly await your guidance and support in this matter.

Best regards,
Dr. Eva Herianti
Corresponding Author

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2 lampiran


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Kepada: Eva Herianti <eva.herianti@umj.ac.id>

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Dear Dr. Eva Herianti,

Please check the attached file.

Your manuscript will be published in **September**.

Should you have any other inquiries or special requests, please do not hesitate to contact us at: gbfr@pngba.org

Please stay safe and have a good day.

Best regards,

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356K

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Kepada: GBFR <gbfr@pngba.org>

25 Juli 2024 pukul 11.22

Dear GBFR Editorial Team

I am writing to express my sincere gratitude for sharing the official LoA and confirming the publication date of September 2024.


However, considering our current academic commitments, we find ourselves in urgent need of an earlier publication date for this manuscript. Would you kindly consider expediting the publication to August 2024?

Your attention to this matter is greatly appreciated.

Best regards,
Dr. Eva Herianti
Corresponding Author
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26 Juli 2024 pukul 12.11

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Dear Dr. Eva Herianti,

Manuscripts to be issued in August are already listed, so we can't make any changes in order to publish on time.

However, in our effort to assist you, we are pleased to inform you that our journal has an option of fast-track publication. If you take this option, we will find a slot for your paper on the list of manuscripts to be issued in **August**. The fast-track fee is **436 USD**.

If you have any other inquiries, or special requests, please do not hesitate to contact us at: gbfr@pngba.org

Wishing you continued success and safety.

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Subject : Re: [RE]Re: [RE]Re: [GBFR] Notification of the manuscript acceptance

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Eva Herianti <eva.herianti@umj.ac.id>
Kepada: GBFR <gbfr@pngba.org>

26 Juli 2024 pukul 19.35

Dear GBFR Editorial Team,

Thank you for your quick response. I would like to confirm our decision to proceed with the fast-track publication option and cover the additional USD436 fee to ensure the inclusion of our manuscript in your August 2024 edition.

Please inform us if the fast-track fee option has been integrated into your system so that we can proceed with the payment using our credit card.

I look forward to receiving your further guidance and assistance.

Best regards,
Dr. Eva Herianti
Corresponding Author
[Kutipan teks disembunyikan]



Eva Herianti <eva.herianti@umj.ac.id>

[GBFR] Additional fee payment information

4 pesan

gbfr <gbfr@pngba.org>

Kepada: Eva Herianti <eva.herianti@umj.ac.id>

28 Juli 2024 pukul 10.00



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Dear Eva Herianti

Warm greetings from GBFR!

Firstly, we want to extend our appreciation for your previous payment of the Article Processing Charge (APC) for your manuscript below. Your contribution helps us maintain the quality and integrity of our publication process.

Manuscript ID : **GBFR-24-05-23**

Title : **Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia**

Authors : **Eva Herianti, Amor Marundha**

Submission date : **2024-05-24**

Emails : eva.herianti@umj.ac.id, amor.marundha@dsn.ubharajaya.ac.id

Submitted section : **Economics**

The additional payment required is USD 436. This amount is separate from the previous APC payment and is essential to ensure the smooth and timely publication of your manuscript upon your request. Please complete the additional payment at your earliest convenience.

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To complete the Payment: Manuscript submission - Status of manuscript - View - Payment for publication

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If you have any other inquiries, or special requests, please do not hesitate to contact us at: gbfr@pngba.org

Thank you for your cooperation and continued support.

Best regards,
GBFR Editorial Office

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Eva Herianti <eva.herianti@umj.ac.id>
Kepada: haryanto2689@gmail.com

28 Juli 2024 pukul 13.29

[Kutipan teks disembunyikan]

Eva Herianti <eva.herianti@umj.ac.id>
Kepada: [gbfr](mailto:gbfr@pngba.org) <gbfr@pngba.org>

28 Juli 2024 pukul 17.46

Dear GBFR Editorial Office,

I am writing to inform you that we have successfully processed the additional payment for the fast-track option via credit card in your journal's system.

Kindly provide us with the revised Letter of Acceptance (LoA) clearly stating that our manuscript (GBFR-24-05-23) is scheduled for publication in August 2024. This confirmation will allow us to use it as an interim report to our institution. We sincerely hope for your assistance in ensuring that our manuscript will be published in August 2024.

We eagerly anticipate your kind confirmation.


Best regards,
Dr. Eva Herianti
Corresponding Author

[Kutipan teks disembunyikan]

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29 Juli 2024 pukul 12.24

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Dear Dr. Eva Herianti,

Please check the attached file.

Your manuscript will be published in **August**.

Should you have any other inquiries or special requests, please do not hesitate to contact us at: gbfr@pngba.org

Please stay safe and have a good day.

Best regards,
GBFR Editorial Office

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To : "gbfr" <gbfr@pngba.org>

Cc :

Sent : 2024-07-28 19:46:31

Subject : Re: [GBFR] Additional fee payment information

[Kutipan teks disembunyikan]

 **[GBFR] Acceptance Letter_GBFR-24-05-23.pdf**
356K

1. Major point

1) What are the primary distinctions observed in the findings of previous literature reviews? **in Literature Review and Hypothesis Development.**

2) The meanings of H2 and H3 are somewhat ambiguous. Please provide a more detailed explanation of these terms. **in Literature Review and Hypothesis Development.**

H2: Regional Income Inequality has a positive effect on regional financial performance.

H3: Fiscal Decentralization and Regional Income Inequality have a positive effect on regional financial performance.

3) Please add and explain about research methodology in a bit more detail **in Methodology.**

4) Please provide a more detailed explanation of the data source. This paper seems to only mention things too briefly **in Methodology.**

Employing a quantitative research approach, the study utilizes panel data measurement, comprising observations across 19 districts/cities in West Sumatra, and incorporates five years of time series data spanning from 2016 to 2020.

5) What is the novelty of the presented research results? Please explain and add in a bit more detail compared to previous studies **in Conclusions.**

6) Please describe the key points of the results of this study in more detail **in Conclusions.**

7) I think it would be good to write the implications separately from an academic perspective and a practical perspective **in Conclusions.**

2. Minor point

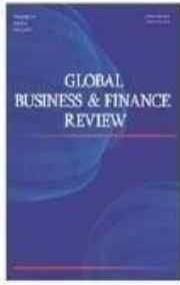
1) Please format the references again. The last reference is also written in Korean.

2) Please double check for typos and capital letters and small letters, etc.

Ex) In table 2, Dependence (Y)

3. Overall rating

You did a lot of hard work in your research. However, the things mentioned above are generally insufficient. If you supplement those things, I think it will be better research. Thank you very much!



Global Business and Finance Review

<http://www.gbfrjournal.org/index.asp>

pISSN: 1088-6931 eISSN 2384-1648



Acceptance Letter

2024-07-29

Eva Herianti¹ Amor Marundha²

Universitas Muhammadiyah Jakarta⁽¹⁾

Universitas Bhayangkara Jakarta Raya⁽²⁾

Your manuscript **GBFR-24-05-23 “Exploring the Impact of Fiscal Decentralization and Income Inequality on the Financial Performance of West Sumatera Province in Indonesia”** has been passed official blind review processes and finally accepted for publication in the Global Business and Finance Review (GBFR) Volume 29 Issue 7(August, 2024),pISSN:1088-6931 eISSN: 2384-1648

This letter can be used officially for your personal needs from now on.

If there is any further assistance is needed, please do not hesitate to contact us via email pngba@pngba.org

Sincerely,

Jeong-Gil Choi, Ph.D.

Editor-in-Chief, Global Business and Finance Review (GBFR)

Email: gbfr@pngba.org / Website: <http://www.gbfrjournal.org/index.asp>

Dan Friesner, Ph.D.

Executive Editor, Global Business and Finance Review (GBFR)

Senior Associate Dean and Professor, College of Human Sciences, The University of Akron, USA

After Review by Dr. Mahalakshmi Suppiah Final without authors rev 08.docx

by 1 1

Submission date: 19-Jul-2024 04:00PM (UTC+0200)

Submission ID: 2400216362

File name: After_Review_by_Dr._Mahalakshmi_Suppiah_Final_without_authors_rev_08.docx (247.46K)

Word count: 6496

Character count: 40552



Examining the Effects of Fiscal Decentralization and Income Inequality on the Economic Performance of West Sumatra Province, Indonesia

ABSTRACT

Purpose: The issue of income inequality in various regions of Indonesia is a significant national concern that requires immediate attention. Despite the government's efforts through fiscal decentralization policies, inequality persists. This study decisively explores the impact of fiscal decentralization and regional income inequality on regional financial performance.

Design/methodology/approach: The research sample comprises 19 districts/cities in West Sumatra province, with data from 2018 to 2020 sourced from the Ministry of Finance and the Central Statistics Agency of West Sumatra Province. The analytical approach utilized in this study is the SmartPLS ver 3.2 model.

Findings: The first research finding indicates that fiscal decentralization has a positive and substantial impact on regional financial performance. A second finding suggests that regional income inequality also positively and significantly affects regional economic performance.

Research limitations/implications: These results enrich the perspective of Rostow's stages of economic growth model from a different standpoint.

Originality/value: This study contributes to a deeper comprehension of the fields of economics, politics, and social sciences, particularly within the specific context of the province of West Sumatra in Indonesia.

Keywords: Fiscal Decentralization, Income Inequality, Rostow Model, West Sumatra

I. Introduction

14 Income inequality, typically measured using the Gini Ratio, has decreased over the past decade in Indonesia. However, the COVID-19 pandemic has exacerbated the level of income inequality in West Sumatra due to the country's economic downturn resulting in decreased national revenue and regional expenditure fell significantly. These disparities, rooted in variations

in financial potential and management across regions (F. D. P. Santoso & Mukhlis, 2021). Income inequality can cause social injustice, tension, and increase disparities between groups in society. It can also impact social mobility, social stability, and economic growth in the long term (Bhagaskara, 2023). One of the main factors that determine poverty is income distribution, because poverty is determined by the average per capita expenditure of the population that is below the poverty line, it can be concluded that an increase in income

inequality caused by a decrease in the level of labor income indirectly attracts population groups that initially have average expenditure above the poverty line to average expenditure below the poverty line (Maskur et al., 2023). Basically, the percentage level of the poor in Indonesia is influenced by income inequality, open unemployment, government spending, or the human development index. Conversely, increasing economic growth requires poverty reduction efforts that depend on the effects of income inequality (Suparman, 2021).

Indonesia's economic growth before COVID-19 from 2010 to 2019 tended to decline. In 2020, the COVID-19 pandemic entered Indonesia, causing economic growth to fall even further to -2.07%, indicating that the COVID-19 pandemic has affected Indonesia's economic growth and national development (Widiastuti & Silfiana, 2021).

Each of development opportunities can be more evenly utilized across regions, thus impacting the development process in developed areas. This approach will help reduce economic disparities between regions, address income inequality within economic sectors, tackle low incomes among individuals or groups, combat unemployment, address isolated areas, improve the quality of human resources (HR), and address environmental challenges. These are significant challenges for stakeholders, including local and central governments, the private sector, and the community, who must work together in synergy to find solutions. The evident disparity in per capita income between districts and cities signals unequal development and investment policies or an imbalance that requires equitable distribution of development to ensure more even increases in per capita income. Studies by Damanik et al (2018) and Matondang (2018) found that economic growth and population size can impact income inequality.

Policies aimed at fostering economic development have inadvertently worsened regional economic disparities. Various factors contribute to unequal welfare across different regions, as evidenced by the Hu-

man Development Index (HDI). The disparities result from regional differences, development issues in West Sumatra, and particularly challenges in the health and infrastructure sectors (Ramadhani & Utomo, 2023). The core feature of regional autonomy is its ability to demonstrate financial potential, decentralization, and effective financial management. The distribution of income and fiscal decentralization significantly impact regional financial performance. Income inequality in developing countries often does not adequately consider its regional dimensions. This is crucial because efforts to reduce income inequality nationally will only succeed in contexts where highly unequal regions coexist with economically relatively equal regions (Savoia, 2020).

The expanded authority of regional autonomy allows Regional Governments to independently manage their finances by decentralizing funding to the regions. It is crucial for local governments to transparently and accountably manage these funds to ensure proper allocation and utilization. Fiscal decentralization is vital for enhancing societal welfare by effectively managing regional finances (Rahman & Saputra, 2022).

In 2022, the realization of Local Own Source Revenue (PAD) for West Sumatra Province reached 2,848,207,032,876 IDR, marking an increase of 11.6% or approximately 296 billion IDR compared to the previous year. PAD in that year contributed the largest share to regional income, amounting to 46.52%. Local taxes were the largest contributor, comprising 79.86%, followed by Other Legitimate Local Revenues at 16.19%, Income from the Management of Separated Regional Wealth at 3.53%, and Local Levies at 0.42%.

The Indonesian government has implemented a performance-based budget system to improve regional financial management's effectiveness, efficiency, transparency, and accountability (Khan, 2024).

The research is particularly timely given the high disparity in income distribution between urban and

rural areas in West Sumatra, Indonesia, a trend mirrored in other Indonesian cities. This study aims to assess how fiscal decentralization and regional income inequality impact the financial performance of the District Governments of West Sumatra Province.

A. Literature Review and Hypothesis Development

1. Rostow's Model of Development

Rostow (1960) proposed a development theory outlining a five-stage process for a developing country to achieve developed status. These stages are (1) traditional society, characterized by a limited community structure and low per capita income; (2) the preconditions for take-off, marked by the transition of the middle class towards a more modern society with an advanced economic system; (3) the take-off stage, representing an era of economic development where obstacles to growth give way to forces of progress, leading to a significant increase in investment; (4) the drive to maturity, defined by continuous and regular economic growth utilizing modern technology; and (5) the age of high mass consumption, where the leading sectors of society shift towards durable consumer goods and services. According to this theory, this economic development transition is driven by economic, political, and social orientation changes and shifts in people's attitudes and customs towards economic development.

2. Fiscal Decentralization

To implement fiscal decentralization, sources of local government funding are designed more equitably. It reduces political conflict between the central and local governments and provides local government operational funds consisting of local taxes and levies, as well as central and local government balancing funds from the APBN (Sinaga, 2023). This shift in government authority has significant implica-

tions for budget administration and fiscal decentralization, particularly regarding the responsibilities of district, city, and provincial government bureaucracies in Indonesia. The sentence Fiscal decentralization is characterized by the autonomy of local governments in managing regional finances, granting them discretion to allocate funds based on regional priorities. Regional autonomy refers to self-governing regions' rights, authority, and obligations to serve local communities in line with statutory regulations. This autonomy is recommended to enhance the efficiency, effectiveness, and accountability of financial management in local government, as highlighted by Hastoro & Sunardi (2016) to enhance Indonesia government policy. As local government undertake fiscal decentralization, they are expected to have the independence to finance regional expenditures and pursue development separate from the central government (Iskandar et al., 2021).

3. Regional Income Inequality

Hakim & Rosini (2022) explained that income inequality refers to the difference in income levels among individuals, specifically between high and low incomes. Furthermore, the inception of the problem of regional disparity indicates differences in welfare levels, so it can be said that rapid growth occurs in some regions while slow growth in others, both of which are caused by the unique characteristics of each region (Asrahmaulyana, 2023). corruption can reduce government spending on education, health, and final consumption, as this leaves fewer resources available for social spending. Thus, it can be concluded that, increased corruption has worsened the position of the poorest. increased corruption will increase income inequality (Sari & Qibthiyah, 2022). San (1983) identifies three aspects on which regional income inequalities can be based: regional income disparity, urban-rural income disparity, and size distribution of income.

Inequality is a major problem of almost every country, especially developing countries. Inequality

in distribution can lead to disparities throughout society. Providing equal opportunities to each community to utilize the available social facilities and providing equal opportunities to each community to develop and improve its economy are the main keys in efforts to overcome socioeconomic disparities (Silpia, 2023).

4. Regional Financial Performance

All local governments in the cities of Sumatra Island demonstrates a significant level of financial dependency on funds received from the central government, provincial government, and other districts. This high dependency reflects a strong reliance on external assistance to support regional governance and development activities. This is evidenced by the fact that the contribution of transfer income exceeds 50% of the total revenue of each district or city in the region (Abdullah & Mardatillah, 2017).

Various factors, including government policies, the economic situation, and regulations governing regional financial management, affect regional financial performance. Improving efficiency, independence, decentralization, effectiveness, and regional dependence can help regional financial performance (Sartika, 2019). Furthermore, By using predetermined financial indicators, regional financial performance can be defined as the level of achievement of regional work results that aim to determine how well and effectively the region manages finances (SAIFRIZAL, 2022).

5. Fiscal Decentralization and Regional Financial Performance

In Indonesia, fiscal decentralization plays a crucial role in implementing the principles of regional autonomy aimed at improving community welfare based on local potentials, despite facing various challenges. Initially, fiscal decentralization in Indonesia aimed to promote economic independence at the local level. As a result, regions were granted broad authority in various sectors except for foreign affairs, defense, security, justice, finance, and religion. In the context of

regional autonomy, fiscal decentralization is considered a significant second step. The package of State Finance Laws, which includes three state finance regulations, has implemented reforms in national financial policy to support this process (Christia & Ispriyarso, 2019).

Fiscal decentralization involves transferring financial responsibilities from the central government to regional or local governments, which is known to impact overall financial performance significantly. This can be observed through the level of autonomy of the central government in handling regional finances and the reduced reliance on the central government. With less dependence on the central government, local administrations can independently manage financial operations, oversee, and exploit financial opportunities, and handle budgeting and allocation. To improve local financial capability, local governments must have the ability to support the financing of government, development, and community activities. In addition, they must encourage the community to participate in regional development and manage local revenue effectively and efficiently (R. T. Santoso et al., 2021). Therefore, building upon existing theory and research, the initial hypothesis presented in this study is:

H1: Fiscal Decentralization has a positive effect on regional financial performance.

6. Regional Income Inequality and Regional Financial Performance

Income inequality measures how income is distributed among people in a specific area or region during a specific time. This trend of increasing income inequality is observed at various levels in Indonesia, including rural, urban, national, and provincial levels. In urban areas, income inequality is more pronounced than in rural areas, which has implications for regional economic performance and public trust in the government. Income inequality is closely linked to poverty, and reducing income distribution inequality or income level gaps will inevitably be a top priority in economic development (Wuladari et al., 2022). Hanum & Muda (2019) The elevated poverty rate in the region is attributed to restricted access to education, wage disparities, and the modest incomes of agricultural workers.

. By reallocating regional expenditures more effectively, it is possible to promote stronger and more equitable economic growth, thereby addressing the issue of income inequality. Hence, in line with existing theories and previous research, the second hypothesis posited in this study is:

H2: Regional income inequality exerts a positive impact on regional financial performance.

7. The Effect of Fiscal Decentralization and Regional Income Inequality on Regional Financial Performance

Fiscal decentralization has the potential to enhance efficiency in public and production services. However, the implementation of decentralization varies across different regions, leading to diverse effects due to variations in characteristics and institutions. Fiscal decentralization is crucial in improving regional financial performance and reducing income inequality. According to Galbraith (2012), unequal distribution of development results in income inequality within each region, which, in turn, hinders economic growth and exacerbates income inequality.

There exists a correlation between financial performance and regional income inequality. Unequal economic growth contributes to decreased regional income inequality. Regional authorities can proactively and innovatively manage regional finances to foster growth. Efriza (2014) examined income inequality among districts, cities in East Java Province and found that the Williamson index indicates significant income inequality, particularly in Kediri and Surabaya.

The Theil Entropy Index also confirms a very high-income inequality in East Java province. Moreover, the inflation rate positively and significantly impacts regional income inequality. Greater local revenue will make a region more independent in financial management (Sarumaha & Annisa, 2023). Therefore, based on existing theory and previous studies, this study proposes the third hypothesis:

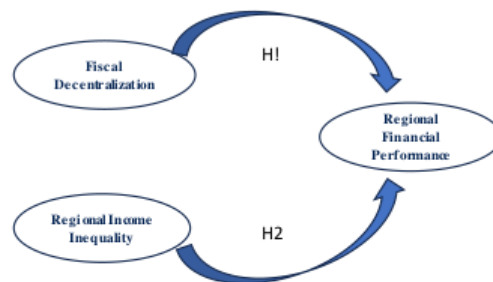
H3: Fiscal Decentralization and Regional Income Inequality have a positive effect on regional financial

performance.

II Methodology

This research is a quantitative study that examines and evaluates the effect of fiscal decentralization and regional income inequality on regional financial performance. Secondary data from government institutions such as the Central Bureau of Statistics (BPS) of the relevant regions is the source of this research. The required data are Gross Regional Domestic Product (GRDP), APBD, and population. Revenue reports of regional own-source revenues (PAD), central taxes for regions, general allocation funds (DAU, and other data relevant to the research used from the APBD besides secondary data also collected through literature research to support this research. This research uses data from 12 districts and 7 cities in West Sumatra. This research uses the smart pls 3.2.2 analysis tool,

Figure 1. Conceptual Framework



A. Data Analysis Method

Descriptive statistics offer an overview of the data profile within a research sample. In this study, descriptive statistics are employed to provide descriptions of the respondents. These statistics are computed using Microsoft Excel to facilitate the analysis. The study utilizes the SEM technique and employs the SmartPLS 3.2.2 analysis tool to evaluate two models, namely the outer and inner models.

1. The Evaluation of Measurement Model (Outer Model)

The outer model is assessed to determine the relationship between the latent construct and its indicators. This model serves to establish the validity and

reliability of the research instruments. The validity test encompasses convergent and discriminant validity. In assessing convergent validity, this study employs the loading factor (Solling Hamid & M Anwar, 2019).

It stated that a loading factor value > 0.50 is practically significant. Additionally, the cross-loading value for each indicator within a variable differs from the indicator in other variables, with a loading value > 0.5. Furthermore, this study utilizes Cronbach's alpha and composite reliability for reliability testing. The Rule of thumb dictates that the values for Cronbach's alpha and composite reliability must exceed 0.7 for the construct or variable to pass the reliability test (Chua, 2023).

2. The Evaluation of Structural Model (*Inner Model*)

In this study, the aim of evaluating the inner model is to scrutinize the research hypothesis. According to Hartono et al (2020), the evaluation of the inner model can be elucidated by the R² value for the dependent variable, path coefficient value, or t-value for a significant test between constructs in the inner model. A high R² value indicates a strong prediction model for this study. The path coefficient value is explicated by t-statistics and then compared with the t-table value in hypothesis testing. For the one-tailed hypothesis with an alpha of 5%, the t-table value is 1.64 in the case of the mediation effect. The significance test parameter output is derived from the total effect table rather than the path coefficient table. This

is because the mediation effect tests the independent variable's direct impact on the dependent variable and examines the indirect relationship between the independent and dependent variables through the mediating variable (indirect effect).

The R² value is 0.67 (strong) 0.33 (moderate) and 0.19 (weak) testing the path coefficient individually can be used t test or f test from the regression output. The primary objective of this research is to analyze the effects of fiscal decentralization and regional income inequality on the financial performance of the West Sumatra Province. This study seeks to delve into the relationship between these factors and their influence on the economic stability and growth of the region. The research design specifically addresses the research problems, objectives, and hypotheses. Employing a quantitative research approach, the study utilizes panel data measurement, comprising observations across 19 districts/cities in West Sumatra, and incorporates five years of time series data spanning from 2016 to 2020.

According to the earlier conceptual variables, identifying research involves two independent variables and one dependent variable, comprising exogenous and endogenous variables. The exogenous variables are categorized as fiscal decentralization and regional income inequality, while the employed endogenous variable is regional financial performance. These research variables are presented in **Table 1** below.

Table 1. Research Object based on Research Variables

No	Variable Name	Indicator Code	Indicators
1	Fiscal Decentralization (X1)	DF 1	Indicator of Regional Expenditure
		DF 2	Indicator of Regional Income
		DF 3	Indicator of Regional Autonomy
2	Regional Income Inequality (X2)	KPD 1	Williamson Index
		KPD 2	Theil Entropy Index
		KPD 3	Jamie Bonet Index
3	Regional Financial Performance (Y)	KKD 1	Compatibility Ratio
		KKD 2	Independency Ratio
		KKD 3	Efficiency Ratio
		KKD 4	Effectiveness Ratio
		KKD 5	Fiscal Effort

Source: Data Processed, 2022

This study incorporates two independent variables and one dependent variable. The indicators used for Decentralization Fiscal include the Indicator of Regional Expenditure, Regional Income, and Regional Autonomy. Additionally, the study utilizes indicators of Regional Income Inequality, such as the Williamson Index, Theil Entropy Index, and Jamie Bonet In-

dex. Furthermore, the study examines Regional Financial Performance using indicators like Compatibility Ratio, Independency Ratio, Efficiency Ratio, Effectiveness Ratio, Fiscal Effort, and Regional Income Growth Rate. Detailed explanations of the measurement for each research variable can be found in Table 2:

Table 2. Operational variables

Variables	Types of variables	Measurement Variable	Measurement Scale
Fiscal Decentralization (X1). (Halim, 2001)	Independent (X1)	$DF1 = \frac{TER}{TCGE}$ <p>TER = Total Expenditures of Regency TCGE = Total central government expenditures</p> $DF2 = \frac{TDGR}{TCGR}$ <p>TDGR = Total District Government Revenue TCGR = Total Central Government Revenue</p> $DF3 = \frac{TODR}{TDR}$ <p>TODR = Total Original District Revenue TDR = Total District Revenue</p>	Ratio
Regional Income Inequality (X2)	Independent (X2)	<p>KPD 1 Williamson Index</p> $IW = \frac{\sqrt{\sum(Y_i - Y)^2 f_i/n}}{Y}$ <p>where: Y_i = GRP Nominal per capita at Province i Y = Average Per Capita Income in West Sumatera F_i = Total Population of District i N = Total Population in West Sumatra Province</p> <p>KPD 2 Theil Entropy Index</p> $T_d = \sum \left(\frac{y_j}{Y} \right) \times \log \left\{ \frac{y_j/Y}{x_j/X} \right\}$ <p>I = Theil Entropy Index Y_j = GRP Nominal per capita at Province j y_j = GRP Nominal per capita at West Sumatera. X_j = Total Population of District j X = Total Population in West Sumatra Province</p> <p>KPD 3 Jamie Bonet Index</p> $lit = \left 1 - \frac{y_j}{Y} \right $ <p>I_{it} = Regional Inequality in I at Year t Y_j = GRP Nominal per capita at Province J</p>	Ratio

Y = GRP Nominal per capita at West Sumatera Province

Regional Financial Performance (Y)

Dependent (Y)

$$KKD1 = \frac{DCER \times 100\%}{DER}$$

Ratio

DCER = District Capital Expenditure Realization
DER = District Expenditure Realization

$$KKD2 = \frac{RODR \times 100\%}{RRTR}$$

RODR = Realization of Original District Revenue
RRTR = Realization of Regency Transfer Revenue

$$KKD3 = \frac{DER \times 100\%}{DRR}$$

DER = District Expenditure Realization
DRR = District Revenue Realization

$$KKD4 = \frac{RROI \times 100\%}{TROR}$$

RROI = Realization of Regional Original Income
TROR = Target of Regional Original Revenue

$$KKD5 = \frac{RROI \times 100\%}{DGRDP}$$

RROI = Realization of Regional Original Income
DGRDP = District Gross Regional Domestic Product

KKD 6

Growth rate of Regional Income Growth

$$R = \frac{P_n - P_0 \times 100\%}{P_0}$$

Information:

R = Growth Ratio

P_n = Total Regional Revenue for Regency/City calculated in the nth year

P₀ = Total Income of West Sumatra Province calculated in the nth year

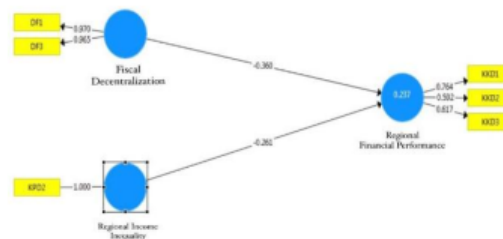
Source: Data Processed, 2022

III. Results

A. The Outer Model Result

The researchers performed a measurement assessment (outer model) to evaluate the validity and reliability of the research instrument. Below is a diagram illustrating the path analysis (PLS algorithm Literacy). The loading factor values for the indicators of each valid and invalid research variable are presented. Any invalid loading factor values will be removed, with a minimum loading factor of 0.50 being the benchmark. Following this, the diagram will be revised and retested multiple times to ensure improvements in the research model.

Figure 2. Outer Model Result



Source: Data Processed, 2022

In this study, the outer model aims to assess the validity of each indicator, as outlined in Figure 2. The study employs three types of validity tests: convergent validity, discriminant validity, and reliability tests. Convergent validity entails a group of indicators representing a single latent variable underlying the latent variable. The study demonstrates that during the initial stage of testing the measurement model,

an item with a loading factor of 0.50 to 0.60 is considered satisfactory (Sarwono, 2006). The image above indicates that all indicators for fiscal decentralization, regional income inequality, and detection of fraud in regional financial performance have passed the convergent validity test, as the loading factor value is > 0.50 . The discriminant validity parameter displays the cross-loading value, showing that each indicator corresponds to a variable in the measurement model. The results of the discriminant validity test reveal that the cross-loading value for each indicator in the research variables differs from those in other variables, with a loading value > 0.5 . Furthermore, a reliability test is conducted using the PLS algorithm iteration. According to Ghani (2023), the general rule of thumb indicates that Cronbach's alpha or composite reliability value must exceed 0.5 to meet the reliability test requirement.

B. The Inner Model Result

The inner model serves as a tool to estimate the causal relationship among latent variables. Evaluating this inner model examines the R-Square for each latent variable. The structural model (inner model) within this conceptual framework will be determined using the Goodness of Fit Inner Model, which is based on the R2 value of each endogenous variable.

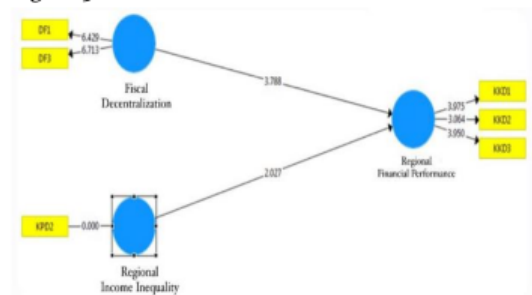
Table 3. R-Square Value of Endogenous Variables

Endogenous Variable	R-square Value
Regional Financial Performance	0.352

According to the data in Table 3, the R-square value for the endogenous latent variable of Regional Financial Performance is 0.352, equivalent to 35.2%. This result indicates that approximately 35.2% of the variability in Regional Financial Performance can be explained by fiscal decentralization and regional income inequality studied in this study. The remaining

64.8% is likely influenced by other factors not included in this study model. Ghozali (2016) explains that a low coefficient of determination suggests limited substantive explanatory power of the independent variables in relation to the dependent variable. Therefore, these findings highlight the necessity of considering other factors that may affect Regional Financial Performance beyond the variables examined in this study.

Figure 3. Inner Model Result



Source: Data Processed, 2022

The results of the SmartPLS test with Bootstrapping, as depicted in Figure 3, provide insights into the impact of fiscal decentralization on Regional Financial Performance. The path coefficient indicates that a one-unit increase in fiscal decentralization results in a 3.788-unit increase in Regional Financial Performance, assuming other variables remain constant. Similarly, the path coefficient for Regional Income Inequality to Regional Financial Performance is 2.027, signifying that a one-unit increase in regional income inequality leads to a 2.027-unit increase in regional financial performance. Bootstrapping is a statistical technique that is valuable for examining the significance or probability of various effects in structural model analysis, including direct effects, indirect effects, and total effects. Additionally, this method can be utilized to assess the significance of model quality measures such as R-square, adjusted R-square, f-square, outer loading, and outer weight.

Table 4. Path Coefficient (Bootstrapping PLS)

	Original Sample	Sample Mean	Std. Deviation	T-Statistics	P-Values
Fiscal decentralization -> Regional Financial Performance	-0,360	-0,373	0,095	3.788	0,000
Regional Income Inequality -> Regional Financial Performance	-0,261	0,259	0,129	2.027	0,043

Source: SmartPLS output, Data Processed by Researchers (2021)

Based on the findings from Table 1, the initial hypothesis (H1) suggests that the variable of Fiscal Decentralization has a positive and significant impact on Regional Financial Performance. This is supported by a T-statistic value of $3.788 \geq T\text{-Table (1.66)}$ and a P-value of 0.000 (indicating support for the hypotheses). The results imply that a one-unit increase in Fiscal Decentralization leads to a 0.3788 increase in regional financial performance. This suggests that transferring government authority to lower levels will enhance regional financial performance. These findings align with the conclusions of Muryawan & Sukarsa (2016), who also found that fiscal decentralization leads to improved regional financial performance. By providing local governments greater financial autonomy, they are compelled to seek independent sources of financing for regional governance. Furthermore, as Hendri (2020) highlighted, managing finances through regional expenditures can enhance regional economic performance across various indicators such as poverty reduction, employment, Per Capita Gross Capital Formation, and regional GDP per capita. Additionally, as noted by Christy et al (2019), regional autonomy is largely free from interference by the Central Government, allowing regional governments to generate their revenues effectively.

Policies designed to address income inequality in West Sumatra aim not only to enhance regional inequality but also to foster balanced regional development according to each area's potential. One of the primary focuses is creating new job opportunities as part of these efforts. The success of these policies can be observed through concrete measures of regional

development achievements

Based on the results presented in Table 1, the second hypothesis (H2) posits that the variable of Regional Income Inequality has a significant positive impact on Regional Financial Performance. This is supported by a T-statistic value of 2.027, which surpasses the critical T-Table value of 1.66, and a p-value of 0.043, falling below the significance level of 0.05. These findings provide evidence in favor of the hypothesis. The results indicate that efficient allocation of resources within the community can lead to a more balanced income distribution among households in the region, thereby enhancing regional financial performance. Developing specific policies tailored to each area to address income inequality is imperative. Furthermore, directing regional funds and equity investments to individual districts or cities can improve regional financial performance. (Dharmayanti, 2021) have also stressed the importance of effectively managing diverse regional potentials to reduce inequality. The presence of a development plan aimed at fostering economic growth signifies the potential to enhance regional financial performance through strategic regional development planning.

IV. DISCUSSION

The effective management of finances in regional governments, including the handling of regional income and expenditure, is crucial for ensuring successful decentralization and autonomy for regional authorities. As highlighted by (Leki et al., 2018), the allocation of funds from the central government to

regional administrations plays a crucial role in providing the necessary financial resources for these regions to manage their finances independently. This autonomy enables regional governments to efficiently utilize local resources, ultimately contributing to improved economic conditions, lower unemployment rates, reduced poverty levels, and greater income equality within the region. Furthermore, the research conducted by Leki et al (2018) and Thaha et al (2021) underscores the importance of addressing income inequality to enhance the financial performance of regional governments by increasing local original income.

Fiscal decentralization can increase efficiency, reduce regional disparities, and accelerate economic growth, thereby reducing poverty. This is because local governments can increase local revenue (PAD) (Manduapessy, 2020). This research study provides an in-depth analysis of how fiscal decentralization and regional income inequality impact the financial performance of the West Sumatra region (Marya et al., 2024). The lack of specific legislation governing fiscal decentralization has led to exploring its influence on the control and management of regional resources and its overall effect on financial performance. The effective management of regional financial resources is vital, and fiscal decentralization has the potential to increase government revenues while reducing regional income inequality. The West Sumatra Provincial Central Statistics Agency (2024) data indicates consistent growth in the region's gross domestic product from 2021 to 2023. Specifically, Payakumbuh has achieved the highest average economic growth at 3.99 percent, followed by Bukittinggi and Padang at 3.96 percent each. However, areas such as Padang Pariaman and South Solok have experienced slower economic growth, attributed to disparities in income distribution and resource allocation.

V. CONCLUSIONS

After conducting a thorough analysis and engaging in extensive discussions, we have determined that fiscal decentralization has a notably positive and substantial influence on the financial performance of the regions within West Sumatra Province. This is due to the substantial contribution of regional revenues from the balanced fund, which currently surpasses the original regional revenues. As a result, local governments must be able to independently manage their regional finances, leading to the need to explore alternative financial sources for funding various regional government initiatives.

Moreover, the substantial and positive impact of regional income inequality on regional financial performance can be attributed to various factors, including the influence of regional revenue sources on income inequality. This situation is expected to foster innovation and creativity within each region, ultimately leading to effective financial management and the exploration of more efficient revenue sources.

To enhance transparency and accountability in local financial management, effective management of regional financial performance plays a crucial role. This can be achieved through the implementation of strong accountability principles in local financial management and by enhancing transparency in all aspects of regional administration.

Recommendations

Local governments must prioritize enhancing Regional Original Revenue (PAD) through promoting entrepreneurial initiatives. This approach will contribute to the development of human resources, strengthen financial performance, and promote societal welfare, ultimately leading to an improved overall standard of living. To tackle income inequality, local governments should foster inclusive economic growth by actively involving all segments of society in the development process and reinforcing social institutions. This collective effort will help create a more balanced and equitable economic landscape for

all community members. To address income inequality, the local government of West Sumatra should improve its public services, increase employment, and provide opportunities for labor to practice skills. In addition, they should use taxes and government spending to reduce current and future inequality.

Limitations

The study has several limitations. Specifically, the ability to measure fiscal decentralization variables and regional income inequality about the financial performance of local governments is restricted within public sector accounting research, particularly when using secondary data. This study's findings only apply to district and city governments in West Sumatra from 2018 to 2020. Future researchers are encouraged to use samples from other districts and cities to adapt the research model to fit the context of the phenomenon and research issues and to develop proxies for measuring fiscal decentralization and regional income inequality in regional financial performance.

This will contribute to expanding public sector accounting research literature, specifically when use the secondary data. The study results offer a relatively imprecise analysis, with the coefficient of determination from hypothesis testing still relatively low, at 35.2%. Therefore, it is crucial to explore alternative empirical research models and more sophisticated analytical methods to generate research analysis results that are more accurate and aligned with expectations.

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Disclosure statement

The authors report that there are no competing interests to declare.

Final approval and accountability

21

All authors have rigorously reviewed and approved the final version of the manuscript and have agreed to uphold accountability for the accuracy and integrity of the work, thereby meeting the authorship criteria.

4

Data availability statement

The data that support the findings of this study are available from the corresponding author, Eva Herianti, upon reasonable request

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