



Effect of efficiency, effectiveness, regional financial independence and local government service capacity on regional economic growth

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ABSTRACT

This study aims to determine the effect of efficiency, effectiveness, regional financial independence and local government service capacity on regional economic growth in districts and cities in the province. The population in this study is the regional government of Central Java province, totaling 35 regencies and cities. The sampling method uses the census method where the entire population is taken as research data, namely reports on the realization of regional government budgets throughout Central Java Province for 4 consecutive years, namely 2008-2011. Analysis using multiple linear regression. The results of this study indicate that efficiency, effectiveness, regional financial independence and local government service capacity simultaneously influence regional economic growth. This is indicated by the F count of 11.4346 and the F table of 2.4387. So that F count > F table. Partially, it is known that the efficiency variable has no effect on regional economic growth with a t count < t table or $0.3352 < 1.9777$, for the effectiveness variable has an effect on economic growth with t count > t table or $2.4884 > 1,9777$, the regional financial independence variable affects regional economic growth with t count > t table or $4.5884 > 1.9777$, and local government service capacity influences regional economic growth with t count > t table or $2.0683 > 1,9777$.

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1. INTRODUCTION

Regional economic growth is one of the indicators to evaluate the development/progress of economic development in a region in a certain period (Nuni Wulandari, 2009). The era of regional autonomy which began in 2001 gave regional governments wider authority in managing their administration, including in terms of regional finance. The enactment of Law no. 22 of 1999 which was updated with Law no. 32 of 2004 concerning local government. And Law no. 25 of 1999 which was renewed by Law no. 33 of 2004 concerning financial balance between the central government and regional governments, provides an opportunity for local governments to optimize the ability of the region to finance existing development in the region.

Currently, the capacity of several local governments is still very dependent on revenues from the central government. Therefore, along with the increasing difficulty of state finances and the implementation of regional autonomy itself, it is demanded that each region be able to finance itself through the financial sources under its control. The role of the regional government in exploring and developing various regional potentials as a source of regional revenue will greatly determine the success of implementing governmental tasks, development and community services in the region. To increase regional financial independence, local governments must strive to continuously explore and increase their own financial resources.

Regional finance plays an important role in regional autonomy because regional finance reflects the ability of the region to regulate and manage government affairs on its own based on the principles of regional autonomy and co-administration. In the field of regional finance, local governments have their own policies in managing their finances in order to fulfill their obligations to provide services to the public. Realization of revenue for the Central Java provincial government in 2009 amounted to IDR 5,700,000,000,000 or 106.74% of the predetermined budget. This realization has exceeded the target set in the 2009 Revised State Budget of IDR 5,200,000,000,000. Based on its components, the realization of PAD was recorded at IDR 4,000,000,000,000 or 109.48% of the target which consisted of local tax revenues of IDR 3,230,000,000,000 (Realized 110.10%), regional retribution Rp. 130,000,000,000 (101.32%). Realization of balance fund in 2009 amounted to IDR 1,690,000,000,000 or 100.58%.

Regional spending is one of the most significant regional fiscal instruments besides regional taxes and levies. The amount of regional spending reflects the role of local government in the regional economy. As a fiscal instrument, the amount of regional spending can also boost the pace of regional economic growth. Realization of large regional spending is an indication of an expansive regional fiscal role, which is expected to have a positive effect on increasing regional output, in addition to regional investment and regional exports. Realization of the total regional expenditure of the Central Java Provincial government in 2009 was recorded at 91.37% or IDR 5,200,000,000,000. As in previous years, the realization of absorption of provincial government spending this time has also not been able to reach a maximum of close to 100%. The percentage level of expenditure realization in 2009 was relatively similar to that in 2008, namely 91%. When compared with the realization of spending in the previous quarters, the realization in the fourth quarter was the biggest realization during 2009. The amount of the realization of special spending in this quarter was 41.9%.

The phenomenon of accumulation of government budget expenditure realization in the last quarter has become a phenomenon that always repeats itself every year and occurs in almost all regional governments. Therefore, a commitment from the government is needed to always plan activities that are mature and well-scheduled so that there are no delays in the realization of the budget. Efficiency in regional financial management in the APBD is one indicator that shows the success of regional autonomy. The efficiency ratio is the ratio that describes the comparison between output and input or the realization of expenses with the realization of regional revenues. In addition, regional autonomy is expected to improve the quality of public services.

Effectiveness relates to the degree of success of an operation in the public sector so that an activity is said to be effective if the activity has a major influence on the ability to provide community services which is a predetermined target. The effectiveness ratio describes the ability of local governments to realize the planned PAD compared to the target set based on the real potential of the region. The greater the realization of PAD revenue compared to the target of PAD revenue, the more effective it can be said, and vice versa. One indicator of the quality of public services is to use the level of local government service capacity which is projected by total regional spending (Nur Indah Susanti, 2010). The higher the spending spent by the regional government used in providing services to the public, it is hoped that it will improve the quality of public services. With the good capacity of local government services can encourage regional economic growth.

Economic growth is important in reducing poverty and increasing people's welfare. Data from BPS (2012), the average rate of economic growth in West Java in 2006-2010 was 5.80%, Central Java 5.50%, East Java 5.95%, Banten 8.95%. In the period from 2006 to 2010, the economic growth of Central Java province increased, but compared to other provinces on the island of Java, economic growth in Central Java province was relatively low. The condition of this growth rate is an interesting problem to study considering that natural resources, supporting infrastructure are relatively the same compared to other provinces, even the location of Central Java province which is in the middle of Java Island is considered to have strategic meaning with all the consequences.

Efficiency, effectiveness, regional financial independence and local government service capacity in Central Java province as indicators of regional autonomy success are expected to encourage regional economic growth. In addition to efficiency, effectiveness and regional financial independence, with an increase in the capacity of local government services it is also expected to increase regional economic growth.

2. RESEARCH METHOD

This type of research is an empirical study on district and city local governments throughout Central Java Province. Research Object The object of this research is regional economic growth which is influenced by efficiency, effectiveness, regional financial independence and local government service capacity. Population and Sample The population in this study is the Regional Government of Central Java province, both regencies and cities, totaling 35 regencies and cities. The method used in taking the sample uses the census method where we take the entire population as research data. Descriptive Analysis Method. Descriptive statistics are used to provide an overview or description of a data seen from the average value (mean), standard deviation, variance, maximum, minimum, sum, range, kurtosis and skewness (distribution skewedness). Descriptive statistics will provide an overview of each research variable. The analysis tools used are the average (mean), maximum and minimum values and standard deviation.

3. RESULTS AND DISCUSSIONS

Population and Sample

The population in this study are local governments throughout Central Java province, both regencies and cities, totaling 35 regencies and cities. The method used in taking the sample uses the census method where the entire population is taken as research data, namely reports on the realization of Regional Government Budgets throughout Central Java province for 4 consecutive years, namely 2008-2011. All cities/regencies in Central Java can retrieve data from Realization Reports of Regional Revenue and Expenditure Budget (APBD) and Gross Regional Domestic Product (GRDP) data so that the data taken as a census as a whole totals 140. Furthermore, the census data taken is used to calculate the Growth variable economy, efficiency, effectiveness, independence and capacity of city/regency governments throughout Central Java.

Table 1. Census of Cities/Districts throughout Central Java Province

No	County town	No	County town
1	Regency. Banjarnegara	19	Regency. Malang
2	Regency. Banyumas	20	Regency. Purbalingga
3	Regency. Stem	21	Regency. Purworejo
4	Regency. Blora	22	Regency. Rembang
5	Regency. Boyolali	23	Regency. Semarang
6	Regency. Brebes	24	Regency. Sragen
7	Regency. Cilacap	25	Regency. Sukoharjo
8	Regency. Demak	26	Regency. Tegal
9	Regency. Grobogan	27	Regency. Temanggung
10	Regency. Jepara	28	Regency. Wonogiri

11	Regency. Karanganyar	29	Regency. Wonosobo
12	Regency. Kebumen	30	City of Magelang
13	Regency. Kendal	31	Pekalongan city
14	Regency. Klaten	32	Salatiga City
15	Regency. Holy	33	Semarang city
16	Regency. Magelang	34	Surakarta City
17	Regency. Starch	35	Tegal City
18	Regency. Pekalongan		

Source: www.bps.go.id.

Description of Research Variables

A. Economic growth

Regional economic growth is calculated from changes in the value of the Gross Regional Domestic Product (GDP) at constant prices from the current year to the previous year in percentage units (%). Description of Regency/City Economic Growth in Java Province.

Table 2. Description of Research Variables

Variable	At a minimum	Maximum	Average	Standard deviation
Economic growth	1.7271	7.4499	4.8680	0.8821
Efficiency	35.2627	98.7836	77.5083	10.6475
Effectiveness	76.9024	252.2676	118.8327	18.3339
independence	4.5878	25.3923	9.4929	3.8068
Capacity	23.9611	26.6251	25.4298	0.4169

Source: Processed SPSS data

Based on table 2, it can be seen that the average district/city economic growth in Central Java is 4.8680. The lowest economic growth occurred in Klaten Regency in 2010, namely 1.7271. The highest economic growth occurred in 2010 by Kendal Regency, which was 7.4499. The standard deviation of the variable economic growth is 0.8821 which indicates that economic growth in regencies/cities in Central Java in 2008-2011 was not too varied.

B. Efficiency

Efficiency is a ratio that describes the comparison between input and output or the realization of spending with the realization of regional income. A brief description of the efficiency of districts/cities in Central Java Province during 2008 - 2011 can be seen in table 2. Based on table 2 it can be seen that the average efficiency of districts/cities in Central Java is 77.5083. The lowest efficiency occurred in the city of Salatiga in 2009, which was 35.2627. The highest efficiency occurred in 2010 by Pati Regency, which was 98.7836. The standard deviation of the Efficiency variable is 10.6475 which indicates that the efficiency of districts/cities in Central Java in 2008-2011 is not too varied.

C. effectiveness

Effectiveness is a ratio that describes the ability of local governments to realize the planned PAD compared to the targets set based on the real potential of the region. A brief description of the effectiveness of districts/cities in Central Java Province during 2008 - 2011 can be seen in table 2. Based on table 2 it can be seen that the average effectiveness of districts/cities in Central Java was 118.8327. The lowest effectiveness occurred in Klaten Regency in 2010, namely 76.9024. The highest effectiveness occurred in 2010 by Banyumas Regency, namely 252.2676. The standard deviation of the Effectiveness variable is 18.3339 which indicates that the effectiveness in districts/cities in Central Java in 2008-2011 is not too varied.

D. Regional Financial Independence

Regional financial independence is a very important aspect of regional autonomy as a whole. The ratio of regional financial independence or often referred to as fiscal autonomy shows the ability of the region to self-finance government activities, development and services to the people who have paid taxes and fees as a necessary source of income. A brief description of the independence of districts/cities in Central Java Province during 2008 - 2011 can be seen in table 2. Based on table 2 it can be seen that the average independence of districts/cities in Central Java was 9.4929. The lowest independence occurred in Batang Regency in 2008, namely 4.5878. The highest independence occurred in 2011 by the City of Semarang, namely 25.3923. The standard deviation of the Independence variable is 3,

E. Local Government Service Capacity

Local government service capacity is a measure of the ability of local governments to provide services to the public which is calculated from local government spending (Harimurti, 2007), especially capital spending. A brief description of the capacity of districts/cities in Central Java Province during 2008 - 2011 can be seen in table 2. Based on table 2 it can be seen that the average capacity of districts/cities in Central Java was 25.4298. The lowest capacity occurred in Batang Regency in 2010, namely 23.9611. The highest capacity occurred in 2011 by the City of Semarang, which was 26.6251. The standard deviation of the capacity variable is 0.4169 which indicates that the capacity of districts/cities in Central Java in 2008-2011 was not varied.

Data analysis

A. Classic assumption test

1. Normality test

To test for normality, an analysis of the Kolmogorov Smirnov test was carried out. The results of the calculation of the data normality test can be seen in table 3.

Table 3. Data normality test

			Standardized Residuals
N			140
Normal Parameters	a,b	Means	,0000
		std. Deviation	,9855
MostExtreme		absolute	,0816
Differences		Positive	,0816
		Negative	-.0730
Kolmogorov-Smirnov Z			,9652
asympt. Sig. (2-tailed)			,3092

From table 3 above it is known that the Asymp.Sign value is 0.3092 or greater than the alpha value ($\alpha = 0.05$), so that the distribution of data on these variables is normal, and can be continued for further analysis.

2. Multicollinearity Test

Multicollinearity testing was carried out using the SPSS procedure by looking at the results of the collinearity statistics in the VIF column. Testing the multicollinearity of the research variables can be seen in table 4 below.

Table 4. VIF column values for multicollinearity testing

No	Variable	VIF
1	Efficiency	1.2315
2	Effectiveness	1.1116
3	independence	1.2568

Based on the calculations in table 4, it can be seen that the VIF value for the variables Efficiency, Effectiveness, Independence and Capacity of local government services is less than 5 so that it can be said that there is no multicollinearity between the independent variables, so that the independent variables used as predictors in this study are independent.

B. Regression Model Feasibility Test

The accuracy of the sample regression function in estimating the actual value can be measured from the feasibility of the regression model. Statistically, it can be measured from the value of the coefficient of determination, the value of the F statistic and the value of the t statistic. To determine the effect of efficiency, effectiveness, independence and capacity of local government services on regional economic growth, multiple linear regression analysis is used.

Discussion

A. Efficiency on Regional Economic Growth

The results of hypothesis testing show that efficiency has no significant effect on regional economic growth. The more efficient use of regional spending does not lead to a significant increase and regional economic growth. Economic growth is triggered by one of the levels of spending by the government. If the government is too efficient, the amount of spending will automatically decrease, resulting in a counterproductive effect on the level of economic growth. The proportion of spending and spending should be adjusted to the income received.

In 2009 there was a decrease in revenue receipts in the city of Salatiga, from IDR 390,718,847,865 to IDR 376,195,456,003 which resulted in a decrease in spending for the city of Salatiga from IDR 268,393,972,667 to IDR 132,656,545,412. The efficiency of the city of Salatiga has decreased quite drastically from 68.6924. This has resulted in the GRDP of the city of Salatiga increasing, although small, namely from Rp.832,154,880,000 to Rp.869,452,990,000 but economic growth has decreased slightly from 4.9799 ($((Rp. 000 - Rp 792,680,440,000) / 792,680,440,000) \times 100\%$) to 4.4821 ($((Rp869,452,990,000 - Rp832,154,880,000) / Rp832,154,880,000) \times 100\%$). In Pati Regency in 2010, the sharp increase in efficiency was not accompanied by a significant increase in GRDP, namely the GRDP of Pati Regency in 2009 amounted to IDR 4,357,144,040,000 to IDR 4,579,853,000,000. And in 2009 the efficiency of Pati Regency was 73.0074. The results of this study are not in accordance with research conducted by Hamzah (2008) which shows that efficiency has a significant effect on the level of economic growth. Efficiency in regional financial management in the APBD is one indicator that shows the success of regional autonomy. The efficiency ratio is the ratio that describes the comparison between output and input or the realization of expenses with the realization of regional revenues.

B. Effectiveness on Regional Economic Growth.

The results of hypothesis testing show that effectiveness has a significant influence on regional economic growth in regencies/cities in Central Java. The greater the effectiveness of districts or cities in Central Java in collecting Regional Original Income (PAD) the greater the regional economic growth. Effectiveness is the ability of a region or city to achieve the PAD target that has been set based on the real potential of the region. The greater the realization of PAD compared to the target that has been set, it means that the area is more effective.

The lowest effectiveness was 76.9024 ($(Rp 54,886,005,749 / Rp 71,371,000,000) \times 100\%$) due to the realization of low PAD revenue compared to the target of PAD revenue by Klaten Regency in 2010 causing an economic growth rate of 1.7271 ($(Rp 4,843,247 000,000 - Rp 4,761,018,670,000) / Rp 4,761,018,670,000) \times 100\%$) below the average value of 4.8680. Then the highest value of Effectiveness

was 252.2676 ((Rp. 164,892,425,634/ Rp. 65,364,092,826) x 100%) by Banyumas Regency in 2010 causing an increase in the economic growth rate to 5.7741 (((Rp. 4,654,634,000,000) -Rp 4,400,542,230,000)/Rp 4,400,542,230,000) x 100%) above the average value of economic growth.

C. Independence towards regional economic growth

The results of testing the hypothesis show that independence has a significant influence on the economic growth of the reporting areas in districts/cities in Central Java. The greater the independence of the district or city, the greater the regional economic growth. Regional self-reliance encourages increased participation in community initiatives and creativity in development and will encourage equitable distribution of development results (justice) throughout the region by utilizing the resources and potential available in the region. In addition, regional self-reliance functions to improve the allocation of productive resources by shifting public decision-making to lower levels of government that have more complete information so that the implementation of development and economic activity can take place effectively.

The independence ratio has a significant influence on the economic growth of cities/districts in West Sumatra. The regional financial independence ratio shows the ability of the region to finance government activities, development and services for the people who have paid taxes and fees as a source of income needed by the region. This ratio also illustrates the dependence of local governments on external funding sources. The higher this ratio, the lower the level of regional dependence on external parties, and vice versa (Abdul Halim in Ardi Hamzah, 2008). With a high ratio of independence, it means that the regional government has succeeded in developing the potential that exists in the region/city which is manifested in PAD and increasing the productivity of its people which is manifested in the GRDP figure.

D. Capacity for regional economic growth

The results of testing the hypothesis show that capacity has a significant influence on the economic growth of the reporting areas in districts/cities in Central Java. The greater the service capacity in a district or city, the greater the regional economic growth. With a large capacity, the regions have the ability and sufficient capital to build infrastructure and revive the economy in a more equitable manner in various fields.

The lowest regional government service capacity was 23.9611 due to low capital expenditure of IDR 25,478,767,023 by Batang Regency in 2010 causing an economic growth rate of 4.9704 ((IDR 2,362,482,000,000- IDR 2,250,616,820,000)/ IDR 2,250,616,820,000) x 100%). Then the highest value of local government service capacity was in Semarang City in 2011 of 26.6251 (capital expenditure of IDR 365,704,393,573) causing an increase in the level of economic growth to 6.4136 (IDR 22,736,136,000,000 - IDR 21,365,818,000,000)/IDR 21,365,818,000,000) x 100% above the average value of economic growth, which is 4.8680.

Likewise, in Banjarnegara Regency in 2009 there was an increase in economic growth which can be seen from 4.9765 ((Rp. ((Rp2,753,935,730,000-Rp2,619,989,610,000)/Rp2,619,989,610,000) x 100%) due to increase in capacity from 2008 to 2009, namely from 25.6526 (capital expenditure of Rp138,287,451,114) to 25.9017 (capital expenditure of IDR 177,399,942,303). Increasing the capacity of a region/city has a significant effect on increasing the level of economic growth of a region/city in Central Java.

Regional government spending is one of the factors that determine the level of regional economic growth. Local government spending that is too small will be detrimental to economic growth, wasteful government spending will hinder economic growth but proportional government

spending will increase economic growth (Reza Monanda, 2009). Because it is necessary to increase the capacity of local government services, it is expected to encourage economic growth. The results of research conducted by Rokhmawati, Anita (2009) concluded that the service capacity of local governments as measured by capital expenditure expenditures has a significant influence on regional economic growth.

4. CONCLUSION

Efficiency does not have a significant influence on regional economic growth. The first hypothesis which states that efficiency has a significant influence on regional economic growth is rejected. Effectiveness has a significant influence on regional economic growth. The second hypothesis which states that effectiveness has a significant influence on regional economic growth is accepted. Independence has a significant influence on regional economic growth. The third hypothesis which states that independence has a significant influence on regional economic growth is accepted. Capacity has a significant influence on regional economic growth.

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