

Financial performance of autonomy regions and parent regions: (south sumatera province)

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**LOCAL GOVERNMENT FINANCIAL PERFORMANCE FACTORS:
DECENTRALIZATION IMPACT IN INDONESIA**

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Abstract

This study aims to determine factors that effecting Financial Performance of local government (regional autonomy and parent regions) in South Sumatera province, Indonesia. Budget Realization Report from 2009 to 2013 that inspected and audited by BPK used in this research as secondary data. Data collected from 8 (eight) regional autonomy and 6 (six) parent regions. The analysis technique is multiple linear regression models estimated by ordinary least squares (OLS) with fixed effect model. Result shows that Local own-source revenue (PAD), Capital Capital Expenditure, Operational Expenditure simultaneously significant effect on Independence Ratio and Effectiveness Ratio of Regional autonomy and Parent Regions. Furthermore, they also simultaneously significant effect on Development Expenditure Activity Ratio and Operational Expenditure Activity Ratio of Regional Autonomy and Parent Regions in South Sumatra.

Keyword: *Autonomy, Parent regions, Independence Ratio, Effectiveness Ratio, Activity ratio.*

Introduction

In the late 1990s, decentralization in Indonesia became more of a political imperative. Establishment of regional autonomy in Indonesia is one of implementation decentralization in Indonesia. The formation of regional autonomy carried out in order to accelerate the economic growth of the region to empower local potential based on economy. Based on Law No. 22 of 1999 that changed to Law No. 32 of 2004, the establishment of autonomy region can be incorporated of some regions or part of a region into two regions or more. The two laws drastically altered the national-subnational relations by transferring powers, taxes, funds, and personnel to the regions. As a result of such massive decentralization, the deconcentrated agencies of central government have, for the most part, been abolished, but provinces continue to represent the center in certain instances (Widodo, 2009).

According to Brodjonegoro and Asanuma (2000), there are some regulations in the new laws; first, under the new laws, the central government's power is substantially to be devolved to the second level local governments, whose administrative, managerial and planning capabilities are inadequate. Secondly, a major part of local governments' revenue would rely on the sharing of natural resources taxes, which would aggravate horizontal imbalances. Thirdly, there would be thus a need for large-scale fiscal transfers, which would strain the central government's budget. Lastly, given the enormity of the tasks ahead, a more gradualist approach is preferable. The region that could be implement autonomy has some characteristics. Halim (2008: 167) explains that the main characteristic of a region that is capable of implementing autonomy, namely (1) financial capacity that means the area should have authority and ability to explore the financial source, manage and use sufficient finances

to finance the government implementation, and (2) the dependence on central assistance should be as minimal as possible, so the local own-source revenue (PAD) should be part of the largest financial resources so the government's role has become even greater.

The regulations has consequence to the change in local government fiscal management so financial performance measurement is important to assess transparency and Accountability (accountability) of realization report of local government budgets. The financial performance of local governments is the ability of regions to manage financial their own resources to meet their needs to support the government system, community service and local development by not depend entirely on the central government and have flexibility in using funds for the benefit of local communities within the limits prescribed legislation (Susantih, 2009: 6). Analysis of the financial performance of local governments is not only useful as an evaluation, but also to help understand and interpret the financial statements of the local governments.

Analysis of financial performance and the factors affecting financial performance becomes the important points. Koen et al (2004) tensions between different levels of autonomy appear in practice, indicating the need for an combined and integrated study of the effects of the different dimensions of autonomy on performance. Groves et al (2001), indicated that variables that affect the financial performance of local governments are financial indicators of local governments affected by both financial factors, environmental factors and organizational factors. Moreover, Steven and McGowen (1983) indicated that financial factors (financial factors) consists of revenue, expenditure, operating position, debt structure, unfunded liabilities, and the condition of capital fund and the financial trend is influenced by many factors such as population and income sources for local governments. Furthermore, Hari (2006) stated there is significantly influences both regional economics growth and regional own revenue. It also finds that the government's decision to allocate the greater capital expenditure to the supported economic growth infrastructures will brings more regional own revenue.

Moreover, Stine (1994) The local government revenue response to federal aid was found to be asymmetric. The reduction in federal aid induced a reduction in own-source revenue. The results support the notion that taxpayers prefer fiscal restraint when permanent loss of aid occurs. Furthermore, Rondinelli et al (1989) An integrated political-economy framework that draws from the most useful aspects of each set of approaches can provide policy analysts with a more powerful set of concepts and methods for designing and implementing decentralization policies more effectively. Finally, Nick Devas (1989) stated that in order local governments have optimal ability to levy local taxes in region, it would need to consider regional taxes that are own-sources of income to create efficiency and effectiveness in tax collection.

Furthermore, Lewis (2003) stated that revenue generated by new taxes and charges would appear to be negligible; even under the most optimistic of assumptions, any increase in regional own-source revenues that may have resulted from the creation of new taxes and charges would be very small relative to overall budgets. Moreover, Research result in some areas in Indonesia have different result. Financial performance of Malang (a city in Western Java) is basically good, when it is viewed from PAD Effectiveness Ratio, Effectiveness of Local Taxes and Expenditure Efficiency Ratio, however ratio of Regional Financial Independence, Degree Contributions enterprises and Analysis of Expenditure Growth has not

shown in the maximum performance (Sidharta, 2008). Moreover, Yanuar (2009) conducted a study Bangka Belitung (a province in Sumatera) has mixed result; good, moderate, and not good financial performace.

Implementation of autonomy has brought impact of expansion in one of high income provinces in Indonesia, South Sumatra. It locates in the southern part of Sumatra Island, spans 91,592.43 km² and had population more than 8 million people. After implementation autonomy regulation, from 2001 to 2013, South Sumatra became to 17 districts/municipalities from 10 municipalities/regencies. The new regional autonomy are Pagar Alam, Prabumulih, Lubuk Linggau, Banyuasin, Ogan Ilir, South OKU, East OKU, Empat Lawang, Penukal Abab Lematang Ilir Regency (PALI), Musi Rawas North. While the parent regions is Lahat, Muara Enim, Musi Rawas, Musi Banyuasin, Ogan Komering Ulu (OKU), Ogan Ilir (OKI) (BPK RI, 2013). The comparison revenue between autonomy and parent regions as can be seen as follows:

Table 1: **PAD Realization on Total Revenue (%)**
Regional Autonomy and Parent Regions
 (South Sumatera, 2009-2013)
 (in thousand IDR)

Parent Regency (R)/ Municipality (M)	Ave rage	Autonomy (Regency(R) / Municipality (M)	Ave rage
Lahat (R)	5,42	Pagaralam (M)	4,38
Muara Enim (R)	6,79	Prabumulih (M)	5,20
Musi Rawas (R)	4,53	Lubuk linggau (R)	4,77
Musi Banyuasin (R)	2,84	Banyuasin (R)	3,00
Ogan Komering Ilir(R)	4,09	Ogan Ilir (R)	2,85

Ogan Komerling Ulu(R)	5,69	OKU Selatan (R)	2,47
		OKU Timur (R)	2,81
		Empat Lawang (R)	2,67
Average	4,89		3,51

Source : BPK
Sumatera

RI Prov.
Selatan.

Based on the tables above, it can be seen the comparison of percentage of local own-source revenues to total revenues is South Sumatra, with an average of 4.89 percent for Parent regions and 3.51 percent for regional autonomy. This means that the level of financial dependence of parent regions to central government aid is lower than the regional autonomy but it is still in very poor category.

The high dependence of regional finance of regional autonomy especially in South Sumatra province to the central government, as well as the pressure in collection of local own-source revenue in South Sumatra are some problems of autonomy in this province. Optimally, the fiscal balance transfer funds that obtained local government finance in South Sumatra Province should be allocated to expenditures which will increase local own-source revenues. However, in reality it indicates, local government finance and its Parent regions tend to ignore the excavation Local own-sources as the main base of local revenue and making the balance transfer funds as substitutes. Based on the motivation above, this study aims to determine factors that effecting financial performance of regional autonomy and parent regions in South Sumatera to accelerate the economic growth of the region to empower local potential based economy.

Literature Review

1. Agency theory

Jansen and Meckling (1976) defines the agency theory as the relationship between the agent (management of a business) and Principal (business owners). In the agency relationship there is a contract in which one or more persons (the principal) govern another person (the agent) to perform a service on behalf of the principal and authorized agent to make the best decisions for the principal. In public sector organizations, especially local government, agency relationship arises between the local government as an agent and Parliament as a principal. If explored further, then the parliament is itself an agent of the public / citizens in the area. In this agency relationship, the public / citizens apply as principal authorizing Parliament (agent) to monitor the performance of local governments. Accountability becomes a logical consequence of the relationship between the agent and the principal.

2. Regional Expansion

Implementation of the autonomous regional government, according to Law No. 32 of 2004 on Regional Government aims to accelerate the realization of people's welfare through improvement, service, empowerment, and community participation, as well as increased competitiveness of the region with regard to principles of democracy, equity, justice, privilege and specificity of a region within the Unitary State of the Republic of Indonesia. The objectives of the expansion under PP 129 of 2000 are; increase in service to the community, accelerating the growth of democratic life, accelerating implementation of regional economic development, acceleration of region management potential, improvement of harmonious relations between the central and local regions.

3. Regional Financial Accounting and Local Government Budget

According to Halim (2008: 42), Regional Financial Accounting is process of identifying, measuring, recognition, and reporting of economic transactions (financial) of local government entities-governments (countries, municipalities, or provinces) which serve as information for economic decision making that required by external parties entity (country, city, or province). Moreover, Local government budgets is prepared to improve local empowerment and welfare of the community. Through budget, an area can maximize local own-source revenue, and spend those funds in appropriate programs and activities that have been specified in the regulations. According to Halim (2008: 23), form of a new budget revenue sources are also divided into three categories: local own-source revenues, fiscal balance transfer funds, and other legitimate revenues.

4. Financial performance

Financial Performance of local governments is the ability of an area to dig and manage financial own-resource to meet their needs to support the passage of the government system, the public service and regional development by not depend entirely on the central government and have flexibility in using funds for the benefit of local community within the limits prescribed legislation (Syamsi, 1989: 199). PAD is a local own-source revenues in a given period, the increasing of revenue hope meet the obligations of government in providing public community services. Operational expenditure is expenditure that benefits only one fiscal year and add an asset to the area. Development expenditure is expenditure that benefits tends to exceed one fiscal year and add to regional assets.

5. Financial Performance Factors

This study uses the expenditure and revenue factors, namely: (1) revenue which is the amount of local revenue by local governments in period, Halim (2008: 52), that compose of local taxes, retribution area, result of separated owned wealth management, other legitimate PAD. (2) Operational Expenditure, according to Halim (2008: 54) is the expenditure that benefits only for one fiscal year and add to asset / wealth for the region. It consists of personnel, good expenditure, interest expenditure, subsidy expenditure, grant expenditures, social assistance expenditure, financial aid expenditures. Finally (3) Development Expenditure, according to Halim (2008: 55) is the expenditure that benefits tend to exceed one fiscal year and will add to asset / wealth of the region, and will further add to the regular budget. It consists of land expenditure, expenditures on equipment, capital expenditure for

building, capital expenditures for roads, irrigation, and networks, other fixed asset expenditures, and other assets expenditures.

6. Financial Ratio Analysis

Financial ratio analysis is the core of performance measurement as well as concept to ensure the management of government organizations doing public accountability to the public. The results of the analysis of financial ratios can be used to measure the performance (Halim, 2008: 126). According to Halim (2008: 230) to evaluate the financial statements, it can be used financial ratio analysis of the posts in the financial statements. Financial ratio analysis of the budget that has been used as benchmarks to: assess the local financial independence in finance decentralized governance, measure effectiveness and efficiency in the realization of regional revenue, measures the extent to which the local government activities in expenditure the revenue, measure the contribution of each revenue source to form local revenue, see revenue and expenditures growth or development incurred during a specific time period.

7. Various Financial Ratios

Independence Ratio of Regional Financial

Local financial independence ratio or what is often referred to as fiscal autonomy in the regions demonstrate the ability of self-finance government activities, construction, and services to the people who have paid taxes and levies as a source of revenue.

$$\text{Independence Ratio} = \frac{\text{PAD}}{\text{Government Transfer} + \text{Provision \& Liability}} \times 100\%$$

Effectiveness Ratio

Effectiveness ratio aims to measure the extent to which the government's ability to mobilize the revenue receipts in accordance with the target. Effectiveness ratio of revenue is calculated by comparing revenue with revenue budgeted revenue target (Halim 2008:234).

This ratio is defined as follows:

$$\text{Effectiveness Ratio} = \frac{\text{PAD Revenue Realization}}{\text{PAD Revenue Target}} \times 100\%$$

Activity Ratios

There are two type of activity ratio, operational expenditure ratio and development expenditure ratio. The formula can be seen as follows:

$$\begin{aligned} * \text{ Operational Expenditure Ratio} &= \frac{\text{Total Operational Expenditure}}{\text{Total Local Expenditure}} \times 100\% \\ * \text{ Development Expenditure Ratio} &= \frac{\text{Total Development Expenditure}}{\text{Total Local Expenditure}} \times 100\% \end{aligned}$$

Previous Research and Hypotheses Development

Analysis of financial performance and the factors affecting financial performance becomes the important points. Cohen (2006) stated five variables that affect financial performance are: *gross domestic product, citizen population, real estate, tourist and capital*.

These affect expressed in nine financial ratio that consists of: *return on equity, return on assets, profit margin, current ratio, debt/equity, long term liabilities/ total assets, assets turnover, operating revenues/ total revenues and operating revenues/ operating expense.* However, factors that have higher influence are the number of people and capital.

Furthermore, study by Groves et al (2001), indicated that variables that affect the financial performance of local governments are financial indicators of local governments affected by both financial factors, environmental factors and organizational factors that could be monitoring through *Financial Trend Monitoring System (FTMS)*. Moreover, reseach in local government by Steven and McGowen (1983) indicated that financial factors (financial factors) consists of revenue, expenditure, operating position, debt structure, unfunded liabilities, and the condition of capital fund and the financial trend is influenced by many factors such as population and income sources for local governments. While Suyono (2010) the revenue variable positively significant effects on financial performance.

Local Own-source revenue (PAD) Influence on Performance of Local Government Finance.

Nick Devas (1989) stated that in order local governments have optimal ability to levy local taxes in region, it would need to consider regional taxes that are own-sources of income to create efficiency and effectiveness in tax collection. Furthermore, Hari (2006) stated there is significantly influences both regional economics growth and regional own revenue. Moreover, Steven and McGowen (1983) indicated that financial factors (financial factors) consists of revenue, expenditure, operating position, debt structure, unfunded liabilities, and the condition of capital fund and the financial trend is influenced by many factors such as population and income sources for local governments.

Development Expenditure and Operational Expenditure Influence on Local Government Finance Performance

Stine (1994) The local government revenue response to federal aid was found to be asymmetric. Stine (1994) Own source revenue response also may be asymmetrical if revenue maximizing agencies or special interest group resist program reductions. Revenue will be less responsive if the institutional features of representative government lead to excess spending. Moreover Hari (2006) also found that the government's decision to allocate the greater capital expenditure to the supported economic growth infrastructures will brings more regional own revenue.

Effect of new regional autonomy and Parent regions on the Performance of Local Government Finance

Koen et al (2004) tensions between different levels of autonomy appear in practice, indicating the need for an combined and integrated study of the effects of the different dimensions of autonomy on performance. Moreover, Groves et al (2001), indicated that variables that affect the financial performance of local governments are financial indicators of local governments affected by both financial factors, environmental factors and organizational factors. Furthermore, Wihardja (2010) Extreme heterogeneity in endowments, factor immobility, and the endogenous deterioration of local governance institutions can each undermine the supposed development-enhancing promises of decentralized government in emerging economies such as Indonesia.

Then, Stine (1994) The local government revenue response to federal aid was found to be asymmetric. The reduction in federal aid induced a reduction in own-source revenue. The results support the notion that taxpayers prefer fiscal restraint when permanent loss of aid

occurs. Rondinelli et al (1989) also stated that an integrated political-economy framework that draws from the most useful aspects of each set of approaches can provide policy analysts with a more powerful set of concepts and methods for designing and implementing decentralization policies more effectively. Finally, Lewis (2003) stated that revenue generated by new taxes and charges would appear to be negligible; even under the most optimistic of assumptions, any increase in regional own-source revenues that may have resulted from the creation of new taxes and charges would be very small relative to overall budgets. Without access to more substantial tax bases, regional governments will remain unsuccessful in realizing significant own-source revenues and fiscal decentralization in Indonesia will continue to be an unbalanced affair.

Based on motivation above, the hypothesis in this study are explained as follows:

- Hypothesis 1 : PAD, Development Expenditure and Operational Expenditure is significant influence on independence ratio regional autonomy and Parent regions in South Sumatra.
- Hypothesis 2 : PAD, Development Expenditure and Operational Expenditure is significant influence on the effectiveness ratio regional autonomy and Parent regions in South Sumatra.
- Hypothesis 3: PAD, Development Expenditure and Operational Expenditure is significant influence on development expenditure activities ratio of regional autonomy and Parent regions in South Sumatra.
- Hypothesis 4: PAD, Development Expenditure and Operational Expenditure is significant influence on operational expenditure activity ratio regional autonomy and Parent regions in South Sumatra.

Research Methods

1. The scope of research

This study is focused to analyze the factors that influence performance of Autonomous Government Finance and Parent regions in South Sumatra about PAD, Operational Expenditures, capital expenditures, total revenue and total expenditure contained in Budget Realization Report (LRA) during the 2009-2013 period. Data used in this study only from 2009 till 2013. It is based on consideration in South Sumatera that in 2014 there are some new regional autonomy appear that they still manage new regions. It is not balance if compares new regional autonomy and old regional autonomy.

2. Data Sources

It is a quantitative research using secondary data such as report of budget realization in 2009 to 2013 that have been examined / audited by BPK. Data collected from 8 (eight) regional autonomy and 6 (six) parent regions. The Municipalities of Expansion/autonomy are; Pagar Alam, Prabumulih, Lubuk Linggau, and the regencies are Banyuasin, Empat Lawang, Ogan Ilir, Ogan Komering Ulu Selatan, Ogan Komering Ulu Timur. Furthermore the Regional Parent regions are Lahat, Muara Enim, Musi Banyuasin, Musi Rawas, Ogan komering Ilir, and Ogan Komering Ulu.

3. Data analysis technique

Collecting data in this study with documentation method and analysis using multiple regression techniques with Eviews software using panel data and fixed effect model.

Equation Mode :

$$\text{LnK} = \beta_0 + \beta_1 \text{LnPAD} + \beta_2 \text{LnBP} + \beta_3 \text{LnBR} + \text{dummy} + e$$

$$\text{LnE} = \beta_0 + \beta_1 \text{LnPAD} + \beta_2 \text{LnBP} + \beta_3 \text{LnBR} + \text{dummy} + e$$

$$\text{LnABP} = \beta_0 + \beta_1 \text{LnPAD} + \beta_2 \text{LnBP} + \beta_3 \text{LnBR} + \text{dummy} + e$$

$$\text{LnABR} = \beta_0 + \beta_1 \text{LnPAD} + \beta_2 \text{LnBP} + \beta_3 \text{LnBR} + \text{dummy} + e$$

Description:

Dependent Variable :

LnK = Financial Performance Local Government (Independence Ratio)

LnE = Financial Performance Local Government (Independence Ratio)

LnABP = Financial Performance Local Government (Development Expenditure Activity Ratio)

LnABR = Financial Performance Local Government (Operational Expenditure Activity Ratio)

Independen Variables :

PAD = Local Own-Source Revenue

BR = Operational Expenditure,

BP = Development Expenditure,

Dummy (R) = Autonomy / Parent Regions

β_0 = constanta,

$\beta_1 - \beta_3$ = regression coefficient,

e = residual term.

Results And Discussion

1. Financial Independence of Autonomy and Parent Regions

Prabumulih city has the highest independence value among other regions of autonomous government in South Sumatra. Consistently from 2009 to 2013 with an average value of independence ratio of 5.75%. Although it still classified much less, but it is the greatest independence ratio compare to other regions in South Sumatra. Moreover, for Parent Region, Muara Enim regency has the highest value independence value among other divisions of local government in South Sumatra. Consistently from 2009 to 2013 with an average value of independence ratio of 7.01%. Although it still classified less but if compare to the autonomy expansion that is equal to 5.57%, it is better.

2. Financial Effectiveness of Autonomy and Parent regions

Banyuasin, South OKU, and Empat Lawang regencies are the areas that are very effective which are 149.39%, 143.07%, and 135.36% respectively for managing local revenue. They have local own-source revenue realization (PAD) are higher than PAD target revenue predetermined. Moreover, for Parent Region, Muara Enim regency is an area that is very effective in managing local own-source revenue, with realization (PAD) is higher than the target revenue of PAD predetermined. It can be seen from the magnitude-effectiveness ratio is 109.78%.

3. Operational Expenditure Activities and Financial Development Expenditure

OKU Timur has operational expenditure ratio level of regional autonomy during 2009-2013 with the highest average of 77.22% and the lowest ratio of autonomous regional development expenditure during 2009-2013 with an average of 22.78%. Moreover, for parent region, Lahat regency has the highest level of Operational Expenditure Activity ratio of Parent regions during 2009-2013 with an average of 76.64% and ratio of the lowest of regional development expenditure during 2009-2013 with an average of 23.37%. It shows high percentage of funds allocated to operational expenditure of Parent regions so the fund is used to provide regional development expenditure is getting low. As a result of facilities and infrastructure of economic community will be accepted tend to be smaller.

4. Regression Analysis Model Equations

The following data is output by regression results EViews 6.0 program to regression model are:

Equation 1

$$\ln K = 1872,342 - 0,120628 \ln PAD + 1,053073 \ln BP + 1,581585 \ln BR + 9,3775191 \text{ dummy} + e$$

Equation 2

$$\ln E = 1873,289 - 0,339578 \ln PAD + 1,102295 \ln BP + 1,511915 \ln BR + 9,417816 \text{ dummy} + e$$

Equation 3

$$\ln ABP = 1872,214 - 1,641080 \ln PAD + 1,021500 \ln BP + 4,061335 \ln BR + 7,451566 \text{ dummy} + e$$

Equation 4

$$\ln ABR = 1874,173 + 0,000119 \ln PAD + 0,958814 \ln BP + 1,546970 \ln BR + 9,302844 \text{ dummy} + e$$

5. Hypothesis testing

Simultaneous Test (Test F)

Simultaneously, F test of this research can be seen in table below:

Table 2: F Statistics Test Result

MODEL	F- Statistik	F tabel	Probabilitas F	Ho
MODEL I	25,45862	1,980	0.0000< 0,05	Rejected
MODEL	26,07850	1,980	0.0001<	Rejected

II			0,05	
MODEL	29,42657	1,980	0.0000<	Rejected
III			0,05	
MODEL	25,76811	1,980	0.0000<	Rejected
IV			0,05	

Source: output E-views 6.0

As can be seen above, all models are significant simultaneously.

Partial testing (t test)

T test aims to see the significance of the influence of the independent variable on the dependent variable individually. The variables have a significant influence when the value $t_{count} > t_{table}$. Partial test of this research can be seen in table below:

Table 3: t-statistics Test Result

Model	Variable	t- statistics	T table	Probabilitas t	Ho
Model I	Ln PAD	-	1.99714	0.7654>0.05	Accepted
	Ln BP	0.299904		0.0693>0.05	Accepted
	Ln BR	1.854924		0.0010<0.05	Rejected
	Dummy	3.475004		0.0000<0.05	Rejected
Model II	Ln PAD	-1.10550	1.99714	0.2740>0.05	Accepted
	Ln BP	2.208448		0.0316<0.05	Rejected
	Ln BR	3.391318		0.0013<0.05	Rejected
	Dummy	10.92484		0.0000<0.05	Rejected
Model III	Ln PAD	-	1.99714	0.0091<0.05	Rejected
	Ln BP	2.708839		0.0303<0.05	Rejected

	Ln BR	2.227251		0.0002<0.05	Rejected
	Dummy	3.996308		0.0000<0.05	Rejected
		6.913829			
Model	Ln PAD	0.809486	1.99714	0.4219>0.05	Accepted
IV	Ln BP	1.978800		0.0541>0.05	Accepted
	Ln BR	3.464116		0.0011<0.05	Rejected
	Dummy	10.71430		0.0020<0.05	Rejected

Source: output E-views 6.0 (proceed)

As can be seen above, partially only model III is significant, however the others are either significant or insignificant result.

The coefficient of determination (R2)

In Model I and II, based on a linear regression calculation, R2 value of 0.892 and 0.895 respectively, it means that 89.2 and 89.5 per cent of Independence ratio and effectiveness ratio can be explained by local own-source revenue variable (PAD), Development Expenditure (BP), Operational Expenditure (BR). However, other percent are explained by other variables that is not included in the model estimation.

Moreover, in Model III and IV, R2 value of 0.905 and 0.893 respectively, it means that 90.5 and 89.3 per cent of Development Expenditure Activity Ratio and Operational Expenditure Activity Ratio can be explained by local own-source revenue variable (PAD), Development Expenditure (BP), Operational Expenditure (BR), dummy. While other percent is explained by other variables that not included in the model estimation.

Local Own-source revenue (PAD) Influence on Performance of Local Government Finance.

In Model 1, it can be seen PAD has t-count less than t-table, it means that PAD does not significant influence the ratio of independence. This insignificant effect due to it has not been able to finance its own activities of governance, development and public service who have paid taxes and levies as a source of revenue (Halim, 2008: 232). PAD has negative effect that means it has a low level of public participation in paying taxes and levies that would describe the low level of social welfare (Halim, 2008: 232). Furthermore, in model 2, it can be seen revenue PAD does not significant and negatively affect Effectiveness ratio. The insignificant effect due to the regency / city governments have not been able to mobilize the revenue receipts in accordance with the target (Halim, 2008: 234).

Moreover, in Model 3, it can be seen that PAD significantly and negatively affect to ratio of Development Expenditure Activity. This means revenue (PAD) are funds allocated to development expenditure of local government district / municipality, while the negative effect means that a high percentage of revenue (PAD) that is allocated will reduce development

expenditure used to provide economic infrastructure of society (Halim, 2008: 236). Finally, in Model 4, it can be seen that revenue (PAD) to ratio of operational expenditure Activity variable has t-count less than t-table, it means that the variable revenue (PAD) has no significant effect and negatively affect effectiveness ratio. This insignificant effect due to revenue (PAD) cannot be given as priority in the allocation of operational funds expenditure (Halim, 2008: 236).

This result supports research by Nick Devas (1989), Steven and McGowen (1983), Hari (2006), Lewis (2003). Nick Devas (1989) stated that in order local governments have optimal ability to levy local taxes in region, it would need to consider regional taxes that are own-sources of income to create efficiency and effectiveness in tax collection. Moreover, Steven and McGowen (1983) indicated that financial factors (financial factors) consists of revenue, expenditure, operating position, debt structure, unfunded liabilities, and the condition of capital fund and the financial trend is influenced by many factors such as population and income sources for local governments. Furthermore, Hari (2006) stated there is significantly influences both regional economics growth and regional own revenue and Lewis (2003) revenue generated by new taxes and charges would appear to be negligible; even under the most optimistic of assumptions, any increase in regional own-source revenues that may have resulted from the creation of new taxes and charges would be very small relative to overall budgets.

Development Expenditure Influence on Local Government Finance Performance.

In Model 1, it can be shown that Development Expenditure on independence ratio has t-count less than t-table, it means that Development Expenditure does not significantly influence the independence ratio. This situation because city or regency government still depends on central government. The Independence that relatively small ratio means, it is not able to change the composition of budget expenditure in of city/regency. Moreover, in Model 2, it can be seen the Effectiveness ratio of Development Expenditure has t-count greater than t-table that means the Development Expenditure significantly influence the effectiveness ratio. This condition can be concluded that the realization of PAD outweigh targets. This indicates that if a regional financial is effective, it has assumptions that the region realize its development budget is quite high, especially for public interest.

Furthermore, in Model 3, it can be seen Development Expenditure on development expenditure activity ratio has t-count greater than t-table, it means that the Development Expenditure variable significantly influence the activity ratio of development expenditure. This significant influence means the increasing ratio of the activities of development expenditure, the increasing development expenditure. Finally, in Model 4, it can be seen the Development Expenditure on operational expenditure activity ratio that does not significantly affect the activity ratio of expenditures. It means that the higher the percentage of funds allocated for operational expenditure, the expenditure percentages used for the development community is getting smaller, so the ratio of operational expenditure is relatively low activity caused no percentage of development expenditure.

This result supports research by Hari (2006) and Stice (1994). Hari (2006) found that the government's decision to allocate the greater capital expenditure to the supported economic growth infrastructures will brings more regional own revenue. Moreover, Stine (1994) The local government revenue response to federal aid was found to be asymmetric. He

also stated that ¹ Own source revenue response also may be asymmetrical if revenue maximizing agencies or special interest group resist program reductions. Revenue will be less responsive if the institutional features of representative government lead to excess spending.

Operational Expenditure Influence on Performance of Local Government Finance

In Model 1, it can be seen that Operational Expenditure on independence ratio has t-count greater than t-table, it means that variable operational expenditure has significant effect on independence ratio. It means that the independence ratio of Regency / City that is relatively high will be able to change the composition of operational expenditure in budgets of Regency / City.

Moreover, in Model 2, it can be seen that Operational Expenditure on effectiveness ratio has significantly influence. This condition can be concluded that the realization of PAD outweigh targets. This indicates that if a regional financial is effective, it means there is assumptions that that region realize highly enough its regular budget. Furthermore, in Model 3, it can be shown Operational Expenditure variables has significantly influence the activity ratio of operational expenditures. Finally, in Model 4, it shown the Development Expenditure significantly influence the activity ratio of operational expenditures.

This result supports research by Stine (1994) and Hari (2006). Stice stated that the local ¹ government revenue response to federal aid was found to be asymmetric. He also stated that Own source revenue response also may be asymmetrical if revenue maximizing agencies or special interest group resist program reductions. Revenue will be less responsive if the institutional features of representative government lead to excess spending. Moreover Hari (2006) also found that the government's decision to allocate the greater capital expenditure to the supported economic growth infrastructures will brings more regional own revenue.

Effect of new regional autonomy and Parent regions on the Performance of Local Government Finance

Model 1 shown that dummy (regional autonomy and Parent regions) on the independence ratio. The dummy variable (regional autonomy and Parent regions) has t-count greater than t-table, it means that regional autonomy and Parent regions variable significantly influence the independence ratio. It means that the Government of Regency/City has ability to finance their own regional government activity. Furthermore, in Model 2, it can be viewed dummy (regional autonomy and Parent regions) on the effectiveness ratio. The dummy variable (regional autonomy and Parent regions) has t-count greater than t-table, it means that the dummy variables significantly influence the effectiveness ratio. This significant influence means that Government of Regencies / Municipalities can measure the ability of to mobilize realization according to the target.

Furthermore, in Model 3, it can be viewed that dummy (regional autonomy and Parent regions) on ratio of development expenditure activity which is the dummy variable (regional autonomy and Parent regions) has t-count greater than t-table, it means that the variables significantly influence the ratio of development expenditure activity. It means that local governments prioritize the allocation of funds to the optimal development expenditure. Finally, in Model 4, it shown that dummy (regional autonomy and Parent regions) on independence ratio which is the dummy variable (regional autonomy and Parent regions) has t-count greater than t table that means that the dummy variables significantly influence the

operational expenditure activity ratio. This indicates that local governments prioritize the allocation of funds on a regular expenditure optimally.

This result supports research by Koen et al (2004), Groves et al (2001), Wihardja (2010), Stine (1994), Rondinelli et al (1989). Koen et al (2004) tensions between different levels of autonomy appear in practice, indicating the need for an combined and integrated study of the effects of the different dimensions of autonomy on performance. Moreover, Groves et al (2001), indicated that variables that affect the financial performance of local governments are financial indicators of local governments affected by both financial factors, environmental factors and organizational factors. Furthermore, Pepinsky and Wiharja (2010) Extreme heterogeneity in endowments, factor immobility, and the endogenous deterioration of local governance institutions can each undermine the supposed development-enhancing promises of decentralized government in emerging economies such as Indonesia.

Then, Stine (1994) The local government revenue response to federal aid was found to be asymmetric. The reduction in federal aid induced a reduction in own-source revenue. The results support the notion that taxpayers prefer fiscal restraint when permanent loss of aid occurs. Rondinelli et al (1989) also stated that an integrated political-economy framework that draws from the most useful aspects of each set of approaches can provide policy analysts with a more powerful set of concepts and methods for designing and implementing decentralization policies more effectively. Finally, Lewis (2003) Revenue generated by new taxes and charges would appear to be negligible; even under the most optimistic of assumptions, any increase in regional own-source revenues that may have resulted from the creation of new taxes and charges would be very small relative to overall budgets. Without access to more substantial tax bases, regional governments will remain unsuccessful in realizing significant own-source revenues and fiscal decentralization in Indonesia will continue to be an unbalanced affair.

Conclusion

Based on the results of multiple linear regression equation, it can be explained as follows:

- Local Own-source Revenue (PAD), Development Expenditure, Operational Expenditure are simultaneously significant effect on Independence Ratio and Effectiveness Ratio of Regional autonomy and Parent Regions in South Sumatra.
- Local Own-Source Revenue (PAD), Capital Expenditure, Operational Expenditure are simultaneously significant effect on Development Expenditure Activity Ratio and Operational Expenditure Activity of Regional autonomy and Parent Regions in South Sumatra.

Limitation and Future Research

This research has limitation which is data used in this study only from 2009 till 2013. This period is based on situation in South Sumatera when 2014 there are some new regional autonomy appear and they still implemented new management. It is not balance if compares new regional autonomy and old regional autonomy. For further research, it is better to cover all new autonomy in Indonesia with long period year analysis.

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