

Effect of Financial Performance on Economic Growth (District/City Case Study on Sumatera Island)

Mohammad Benny Alexandri

*Universitas Padjadjaran, Indonesia
mohammad.benny@unpad.ac.id*
* corresponding author*

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ABSTRACT

Study this aim for knowing role Performance Finance Area on the Economic Growth of Regency/City in Sumatera Island. Data The research is secondary data in the form of Local Government Budget Realization Reports and 2010 Series GRDP Growth Rate based on Regency/City Expenditure in sumatra island Year 2017-2021. Population in study this totaling 10 regencies/cities on the island of Sumatera, with the determination of the sample ie saturated sample. Data were analyzed by multiple linear regression analysis. Analysis results indicates Ratio independence (RK), Ratio Effectiveness (RE), and Ratio Growth (RP) is rejected which means that RK, RE, and RP do not significantly affect significant to Growth Economy area in sumatra island. Whereas RE received which means RE influence significant to Growth Economy area in sumatra island. Thing the indicates the level of financing in order to obtain income with realization income already efficient. Besides that, RK, RE, and RP by together influence Growth Economy area in sumatra island.

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I. Introduction

The success of the regional government cannot be separated from its financial management because regional finance is the lifeblood of the sustainability of government and the main activity that strongly supports the operational activities of the regional government. If traced in detail, regional financial management will begin when the regional government prepares the Regional Revenue and Expenditure Budget Draft (RAPBD) to the accountability of regional heads to the legislature. With the implementation of performance-based budgeting, it means that all planned activities must be based on outputs, no longer on inputs.

This kind of budget becomes a guideline for local governments to manage their finances by applying the concept of value for money, namely economical, effective and efficient so that the performance of local governments is easier to measure. Law Number 22 of 1999 concerning Regional Government that the granting of regional autonomy from the central government to regional governments aims to improve public services, realize justice in the country, including the field of regional finance and Regional Original Income (PAD)" (Law No. 22, 1999). In assessing the success of implementing government policy activities, one of them is by analyzing financial performance in regional financial management by the government (Pemda) using several financial indicators through legislation in one budget period.

The ability of the region to take advantage of the potential of the region to generate PAD generated by the region affects the growth of regional income. so that local governments can minimize dependence on financial support from the central government. Economic growth is an important topic for emerging and developing countries seeking growth in production and consumption. The main benefit is the improvement of the welfare of the country's population. (Section, A., & Zulkarnaen, W. 2020:317) .

Based on Presidential Regulation Number 2 of 2015 that "Policy Directions in the Economic Sector To use increased equity shown through inclusive and equitable economic growth" (Presidential Decree Number 2 of 2015, 2019). The measure of the success of the national or regional economy is indicated by regional economic growth. National economic growth is a process of positive economic change that occurs continuously over a certain period. This growth is indicated by an increase in the number of production of goods and services nationally. This indicates that economic growth can be used as an indicator to determine the success of economic development. In addition, economic success is also indicated by the value of Gross Domestic Product (GDP). Economic growth activities seen through activities are economic activities that can create output in aggregate through the Gross Regional Domestic Product (GRDP) score) Measurement of the rate of national economic growth can use the percentage change in GRDP. Meanwhile for the Province and Regency/City areas it is through the percentage of GRDP (Communications and Informatics, 2020).

The implementation of regional development on the island of Sumatra always involves the community, especially in the economic sector, this is indicated by the increasing development of each region (Sumatra Island Government, 2022). Economic growth is also indicated by an increase in the amount of GDP expenditure. As for calculating GDP expenditure, it can be seen from several components, including: "Household Consumption Expenditure, Government Consumption Expenditure, Domestic Fixed Capital Formation, Change Inventory, Export of Goods and Services, and Import of Goods and Services" (Zaenal Arifin, 2000).

The focus of this research is the island of Sumatra. Sumatra Island is a combination of several regencies/cities on the island of Sumatra. This region includes Aceh, North Sumatra, West Sumatra, Riau, Riau Islands, Jambi, Bengkulu, South Sumatra, Bangka Belitung and Bandar Lampung City, with economic growth centers in the region. Sumatera island. The area is an industrial agglomeration area in Sumatra, Indonesia, which creates sustainability so that it becomes a driver in the economic aspect. This slowdown in the rate of GRDP growth will of course also have an impact on regional income in the region. The increase in GRDP on the island of Sumatra can have a positive impact on the economy on the island of Sumatra.

Economic growth as measured by GRDP in Sumatra Island fluctuates every year. Increased regional economic growth is correlated with good regional financial management. Financial management must be carried out transparently, effectively, efficiently, economically, and in accordance with applicable regulations (Permendagri No. 13 of 2006). The existence of this regional autonomy provides an opportunity for the region to utilize every potential of its resources, especially in the financial sector, where the government is required to manage its finances effectively and efficiently so as to optimize existing resources in the region.

Therefore, the researchers conducted this study aimed at analyzing the role of regional financial performance on economic growth in several areas of Sumatra. The research variable is the regional financial performance on the island of Sumatra. Regional financial performance measurement uses several indicators, namely: Independence Ratio, Effectiveness Ratio, Efficiency Ratio, and Growth Ratio. Measurement of economic growth using the level of GRDP Expenditure.

II. Method

This study uses quantitative methods. The object of this research is the financial performance of district/city governments on the island of Sumatra. The sample in this study was the DJPK of the Ministry of Finance of the Republic of Indonesia and the Central Statistics Agency in the Regency/City of Sumatra Island. Collecting data through documentation from secondary data, namely the APBD Budget Realization Report and data on Gross Regional Domestic Product by Expenditure through official websites that can be accounted for and literature studies in order to obtain information sourced from books and journals. Variable data in this study were processed using SPSS version 25. Methods of descriptive statistical analysis, financial ratio analysis, classical assumption test, multiple linear regression analysis and hypothesis testing.

III. Result

The purpose of this test is to see whether the data distribution is normally distributed or not. Tests using the Kolomogrov-Sminorv test. If the significance value > 0.05 then the data is normally

distributed, and vice versa. Based on Table 1, the test results show a significant score (probability score) that is $0.051 > 0.05$, so this shows that the data is normally distributed.

Table 1. Normality Test

		Unstandardized Residual	
N		30	
Normal Parameters ^{a,b}	Mean	.0000000	
	Std. Deviation	2.85431288	
Most Extreme Differences	Absolute	.242	
	Positive	.149	
	Negative	-.242	
Test Statistic		.242	
Asymp. Sig. (2-tailed)		.000 ^c	
Monte Carlo Sig. (2-tailed)	Sig.	.051 ^d	
	95% Confidence Interval	Lower Bound	.046
		Upper Bound	.055

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. Based on 10000 sampled tables with starting seed 2000000.

Based on Table 2, the results of the Multicollinearity Test show the VIF value of all independent variables < 10 , this means that all variables do not have multicollinearity.

Table 2. Test Multicollinearity Test

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta				Tolerance	VIF
(Constant)	9.586	5.894			1.626	.116		
X1	.050	.041	.220		1.230	.230	.829	1.206
X2	.040	.033	.208		1.190	.245	.864	1.158
X3	-.112	.038	-.533		-2.928	.007	.800	1.250
X4	-.600	3.033	-.033		-.198	.845	.975	1.025

a. Dependent Variable: Y

Table 3. Autocorrelation Test

	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.581 ^a	.337	.231	3.07419	1.828

a. Predictors: (Constant), X4, X3, X2, X1

b. Dependent Variable: Y

Based on Table 3, the value of Durbin Watson (d) is $1.828 > (dU) 1.7386$ and $< (4-dU) 2.2614$ ($dU < d < 4-dU$), so the conclusion data is that there is no autocorrelation. Based on Graph 1 of the results of the Heteroscedasticity Test, the Scatterplot Graphs X1, X2, X3, and X4 show that the data does not have a clear shape pattern, the points spread around the zero Y axis, so the conclusion is that there is no heteroscedasticity in the regression model.

Table 4. Multiple Linear Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.586	5.894		1.626	.116
	X1	.050	.041	.220	1.230	.230
	X2	.040	.033	.208	1.190	.245
	X3	-.112	.038	-.533	-2.928	.007
	X4	-.600	3.033	-.033	-.198	.845

a. Dependent Variable: Y

Processed Data Source (2022)

Based on Table 4 the regression model equations are:

$$Y = 9,586 + 0,050X1 + 0,040X2 - 0,112X3 - 0,600X4$$

The description of the linear regression equation model above is:

constant ($\beta 0$)

Score ($\beta 0$) 9.586 indicates if the variables of RK, Effectiveness Ratio, Efficiency Ratio, and RP are constant then the value of Economic Growth is 9.586 units.

Constants ($\beta 1$) for variables Independence ratio (X1)

The value of the regression coefficient ($\beta 1$) is 0.050 (positive), indicating that there is a unidirectional correlation between Economic Growth (Y) and the Independence Ratio (X1) meaning that if there is an increase of one unit in the value (X1), the value (Y) will increase. of 0.050, where the independent variable is constant.

Constant ($\beta 2$) for Variable Effectiveness Ratio (X2)

The value of the regression coefficient ($\beta 2$) is 0.040 (positive), indicating that there is a unidirectional relationship between Economic Growth (Y) and the Effectiveness Ratio (X2) meaning that if there is an increase of one unit in the value (X2), the value (Y) will increase. of 0.040 where the independent variable is constant.

Constant ($\beta 3$) for Variable Efficiency Ratio (X3)

The value of the regression coefficient ($\beta 3$) -0.112 (negative), indicates that there is a unidirectional relationship between Economic Growth (Y) and Efficiency Ratio (X3) meaning that if there is an increase in one unit value (X3), then the value (Y) will increase, namely 0.112, where the independent variable is constant.

Constant ($\beta 4$) for Growth Ratio Variable (X4)

The value of the regression coefficient ($\beta 4$) -0.600 (negative), indicating that there is a unidirectional correlation between Economic Growth (Y) and Growth Ratio (X4), meaning that if there is an increase in one unit value (X4), then the value (Y) will increase, namely 0.600, where the independent variable is constant.

$$Y = 9,586 + 0,050X1 + 0,040X2 - 0,112X3 - 0,600X4$$

Individual Parameter Significance Test Hypothesis Test (Test Statistics t)

Table 5. Individual Parameter Significance Test Results (Statistical Test t)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	
	B	Std. Error	Beta			
(Constant)		9.586	5.894		1.626	.116
X1		.050	.041	.220	1.230	.230
X2		.040	.033	.208	1.190	.245
X3		-.112	.038	-.533	-2.928	.007
X4		-.600	3.033	-.033	-.198	.845

a. Dependent Variable: Y

The results in Table 5 show the t value of the Independence Ratio (X1) which is 1.230, with a significance value of 0.031 < 0.05, then H₀ is accepted, H₁ is rejected, which shows that the independence ratio has no effect on Regional Economic Growth on the Island of Sumatra.

The results in Table 13 show the t-count value of the Effectiveness Ratio (X2), which is 1.90 with a significance score of 0.245 > 0.05, so H₀ is accepted, H₁ is rejected, which indicates the Effectiveness Ratio has no effect on regional economic growth on the island of Sumatra.

The results in Table 5 show the t value of the Efficiency Ratio (X3) which is -2,928, with a significance score of 0.007 < 0.05, so H₁ is accepted, which indicates Efficiency Ratio has an effect on regional economic growth on the island of Sumatra.

The results in Table 5 show the t value of the Growth Ratio (X4) that is - 0.845 with a significance score of 0.845 > 0.05, so H₀ is accepted which indicates the Growth Ratio has no effect on regional economic growth on the island of Sumatra.

Simultaneous Significance Test (F Statistics Test)

Table 6. Simultaneous Significance Test

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	120.154	4	30.038	3.178	.031 ^b
Residual	236.266	25	9.451		
Total	356.420	29			

a. Dependent Variable: Y

b. Predictors: (Constant), X4, X3, X2, X1

Table 6 shows that the calculated F score is 3,178 with a significance score of 0.031 < 0.05, then H₁ is accepted which indicates RK, Effectiveness Ratio, Efficiency Ratio, and RP have a simultaneous effect on regional economic growth on the island of Sumatra.

Determination Test (R²)

Table 7. Test of Determination.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.581 ^a	.337	.231	3.07419

a. Predictors: (Constant), X4, X3, X2, X1

b. Dependent Variable: Y

Based on Table 7, it is known that the coefficient of determination (R²) of 0.337 which indicates Economic Growth (Y) can be explained by the variables RK, RP, Effectiveness Ratio, and Efficiency Ratio of 33.7%, while more than 80% explains other factors that are not reviewed in this study.

The Influence of Independence Ratio on Regency/City Economic Growth on Sumatra Island. The results of this test show that H_0 is accepted, which means the Independence Ratio has no effect on regional economic growth on the island of Sumatra. This is shown from the results of the statistical hypothesis test t Independence Ratio (X_1) is 1.230 with a significance value of $0.031 < 0.05$. This is supported by the results of research from Renggo (2021) that the Independence Ratio is low, there is no effect on the economy (Renggo, 2021)

Based on the average percentage value of the Independence Ratio in 2017-2021, the Independence Level is categorized as the lowest. It can be said that regional independence on the island of Sumatra still depends on assistance from the Central Government or other Regional Governments.

The Effect of Effectiveness Ratio on Regency/City Economic Growth on Sumatra Island. The results of this test show that H_0 is accepted, meaning that the Effectiveness Ratio has no effect on regional economic growth on the island of Sumatra. This is indicated by the results of the hypothesis test of the t -statistical test which shows the magnitude of the t -count of the Effectiveness Ratio (X_2), which is 1.90 with a significance value of $0.245 > 0.05$. This is in accordance with research from Ani and Dwirandra (2014) that the Effectiveness Ratio has no significant effect on Economic Growth.

Judging from the Average Effectiveness Ratio in 2017-2021 the percentage of the Effectiveness Level is still relatively low. The conclusion is the ability of the local government of the island of Sumatra to be able to realize PAD according to the real target potential.

The Effect of Efficiency Ratio on Economic Growth of Regency/City in Sumatra Island. The results of this analysis indicate that H_1 is accepted, meaning that the Efficiency Ratio has an effect on regional economic growth on the island of Sumatra. This shows that the results of the t -statistical hypothesis test show the magnitude of the t -count Efficiency Ratio (X_3), which is -2,928, with a significance score of $0.007 < 0.05$.

In accordance with the theory that Economic Growth has a negative and significant impact (Greydi Normala Sari, Paulus Kindangen, 2014). Judging from the average Efficiency Ratio in 2017-2021 the percentage of regional efficiency levels on the island of Sumatra illustrates the comparison between expenditure or financing for the use of obtaining income in accordance with the realization of an already efficient income.

The Effect of Growth Ratio on Regency/City Economic Growth on Sumatra Island. The results of the analysis show that H_0 is accepted, which means the Growth Ratio has no effect on regional economic growth on the island of Sumatra. This is indicated by the results of the hypothesis test of the t -statistical test where the t value of the Growth Ratio (X_4) is -0.198 with a significance value of $0.845 > 0.05$.

The Influence of Independence Ratio, Effectiveness Ratio, Efficiency Ratio, and Growth Ratio on Regency/City Economic Growth on Sumatra Island. The results of this analysis indicate that H_1 is accepted, which means RK, RP, Effectiveness Ratio, and Efficiency Ratio have a simultaneous effect on Regional Economic Growth on the Island of Sumatra. This is shown from the results of the hypothesis test of the F Statistical Test which obtained a calculated F score of 3.178 with a significance score of $0.031 < 0.05$.

IV. Conclusion

Based on the results of this study, several conclusions were obtained, namely: The ratio of independence, effectiveness, and growth partially has no significant effect on regional economic growth on the island of Sumatra. Efficiency Ratio has a significant effect on regional economic growth on the island of Sumatra. Independence Ratio, Effectiveness Ratio, Efficiency Ratio, and Growth Ratio together affect regional economic growth on the island of Sumatra.

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