

REGIONAL FINANCIAL PERFORMANCE AND HUMAN DEVELOPMENT INDEX BASED ON STUDY IN 20 COUNTIES/CITIES OF LEVEL I REGION

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ABSTRACT

This research aimed to know the financial performance of local government through regional financial ratio analysis, i.e. regional financial independence ratios, regional financial effectiveness ratios, regional financial efficiency ratios and regional expenditure harmony ratios, as well as analyzing the impact of regional financial performance against the Human Development Index (HDI). This research was conducted in 20 counties/cities in level I region. Analysis techniques used was multiple linear regression analysis with SPSS Statistics 21. The results shows that: (1) Ratio of regional financial independence contributes positive and significant effect to HDI, (2) Ratio of the regional financial effectiveness contributes no significant effect to HDI, (3) Ratio of regional financial efficiency contributes no significant effect to HDI, and (4) Ratio of regional financial harmony expenditure contributes no positive effect to HDI.

Keywords: financial independence, effectiveness, efficiency, harmony expenditure, HDI

ABSTRAK

Penelitian ini bertujuan untuk mengetahui kinerja keuangan pemerintah daerah melalui analisis rasio keuangan daerah, seperti rasio keuangan independen daerah, rasio efektivitas keuangan daerah, rasio efisiensi keuangan daerah dan rasio keseimbangan pengeluaran daerah, serta menganalisis dampak dari kinerja keuangan daerah terhadap indeks pembangunan manusia (IPM). Penelitian ini dilakukan di 20 kabupaten / kota di wilayah tingkat I. Teknik analisis yang digunakan adalah analisis regresi linier berganda dengan SPSS Statistik 21. Hasil penelitian menunjukkan bahwa: (1) Rasio kemandirian efek keuangan daerah positif dan signifikan terhadap IPM, (2) Rasio efektivitas keuangan tidak berpengaruh signifikan daerah terhadap IPM, (3) Rasio efisiensi keuangan daerah tidak berpengaruh signifikan terhadap IPM, dan (4) Rasio belanja harmoni keuangan tidak berpengaruh positif terhadap daerah IPM.

Kata kunci: kemandirian finansial, efektivitas, efisiensi, keseimbangan belanja, IPM

INTRODUCTION

The implementation of regional autonomy in Indonesia opens up opportunities for the region in the form of broad, distinctive, and reliable regional autonomy. It is supported by the enactment of Law No. 32 of 2004 on Regional Government and Law No. 33 of 2004 on the financial balance between the Central Government and Local Government. It means that the region is able to develop and build in accordance with the needs and priorities of each region without any interference from the central government (Yayasan Indonesia Forum, 2000).

Regional autonomy is not just the desire to delegate the authority of the central government to local government, but what is more important is the desire to improve the efficiency and effectiveness of financial resources management in order to improve the welfare and service to the community. As stipulated in Government Regulation No. 58 of Article 4 Year 2005 on Regional Financial Management, the local finance is managed in an orderly, obedient to laws and regulations, efficient, economical, effective, transparent, and accountable with regard to the principle of fairness, decency, and benefits for society. Financial management implemented in an integrated system that is embodied in the budget which is annually set by local regulations.

On that basis, it would be necessary to measure the performance of the region. One of the region's financial performance measure is the analysis of financial ratios derived from the budget that has been established and implemented. There are number of local financial ratios derived from the budget that can be developed to measure the accountability of local government, including independence ratio (fiscal autonomy), effectiveness and efficiency ratio, as well as harmony expenditure ratio (Halim, 2007).

The Central Statistics Agency (Badan Pusat Statistik-BPS) and the United Nation Development Program (UNDP) explain the concept of the Human Development Index (HDI) as a process of enlarging the option of people. Human Development Index (HDI) is performed to measure the achievement of human development based on a number of basic components of quality of life. As a measure of quality of life, HDI is built through a basic three-dimensional approach. The dimensions include a long and healthy life, knowledge, and a decent life. These three dimensions mutually influence one to another and they are also influenced by other factors such as economic growth, the availability of employment opportunities, infrastructure, and government policy. In line with the spirit of regional autonomy with the enactment of Law No. 32 of 2004 on Regional Government and in the framework of public accountability, local governments are expected to perform the optimization of financial management in an efficient and effective way to improve the welfare of local communities.

Level I Region (X) is a region in eastern Indonesia which is divided into 20 districts and 1 city (BPS, 2012). Level I Region is a relatively small area of 47.349,9 km² with a population of nearly 5 million people (Yayasan Indonesia Forum, 2000). In the last three years, Local Government Finance Report (Laporan Keuangan Pemerintah Daerah-LKPD) in this region has never accomplished Unqualified Opinion (Wajar Tanpa Pengecualian-WTP), even some local governments are not given the opinion (disclaimer) of Finance Auditor Body (Badan Pemeriksa Keuangan-BPK) (www.bpkp.go.id). In order to manage regional finances more transparent, fair, democratic, effective, efficient, and accountable, it is necessary to analyze and evaluate the financial performance of Local Government of level I regions in Indonesia.

Previous research related to the welfare of society through analysis of sub expenditure on strategic sectors contained in the final report 2009 Public Expenditure Analysis (PEA) (Cooperation between AusAID Funded ANTARA team with the Local Government of Level I). The report says, "The majority of expenditure in the budget allocated to the various sectors of access to services in each

sector but unfortunately it can not be followed by improvement of the indicator to increase social welfare" (AFP, 2009). The results of different studies, indicated by Hidayat (2013), which examines the effect of the financial performance of the capital expenditures allocation. Capital expenditure aims to improve the welfare of society that is affected significantly by the financial performance area. In other words, the regional financial well performance will have an impact on improving people's welfare. While Kendall (2009) states that, "The growth of the community with the level of finance have a non-linear relationship. The lack of growth is constrained due to the lack of development in the financial sector, especially regional banks".

With reference to the importance of decentralization and the phenomenon of the importance of measuring the regional financial performance to the level of public welfare, the study aims to analyze how the financial performance of Level I Region (X) in 2009 until 2012 is measured by financial ratios, such as independence ratios, effectiveness ratio, efficiency ratio, and harmony expenditure ratio. The study also aims to analyze whether regional financial performance measured from the independence ratio, effectiveness ratio, efficiency ratio, and harmony expenditure ratio contributes positive influence on the Human Development Index (HDI) of the community in the district and city in level I region.

Implementation of Regional Autonomy stipulated in Law No. 33 of 2004 on the financial balance between the Central Government and Local Government. Regional autonomy in the context of power management means that the central government gives most powers to the regions. Whereas in the financial context, regional autonomy means devolution of financial management authority of the central government to local government. It is considered important that the area has independence in government expenditure and development activities in the region without depending on central government (Chalid, 2005).

Local financial statements prepared under Government Accounting Standards (SAP) as a form of accountability of the Local Government in the implementation of the budget for all resources entrusted to government agencies. It is regulated in Law No. 17 Year 2003 on State finances and Regulation No. 13 Year 2006 on guidelines for financial management. Local Government financial report is important since the application of reward and punishment system to the Local Government by the Ministry of Finance. Local Government financial statements when viewed from the side of the local people is a picture of the financial management of the region in implementing development, so as to improve the welfare of the community.

In the process, the Law No. 17 of 2003 Article 31, states that the financial statements to be presented by the Regional Head at least includes: (1) Realization of Regional Budgets Report, (2) Balance Sheet, (3) Cash Flows Report, and (4) Notes to Financial Report, which is attached by Regional Company's Financial Statements.

The financial performance is to determine criteria by using the financial indicators. Analysis of the financial performance of a region, which is done by assessing previous performance, is carried out in order to be able to obtain information about the financial position of an entity that represents the reality and potential of ongoing performance (Batafor, 2011). Measurement of the financial performance of the Local Government is done to meet three objectives (Mardiasmo, 2002) and those are to improve government performance, help allocate resources, and decision-making and realize the public accountability of local governments in generating a better public service.

Regional Financial Analisis Ratio

One of the tools to analyze the performance of local governments in managing local finances is to conduct financial ratio analysis of the budget that has been defined and implemented. The parties

concerned with financial ratios of Local Government (Halim, 2007) is: (1) Parliament as a representative of the owner of the area (community), (2) The executive as a basis in preparing the next budget, (3) The Central Government/Province as an input in fostering the implementation of financial management, and (4) Society and creditors, as the party that owns Local Government shares, are willing to provide loans or buy bonds.

Independence Ratio

The ratio of regional financial independence (fiscal autonomy) shows the ability of local governments in financing their own activities of governance, development and service to the public who have paid taxes and levies as a source of income needed by the regions. The percentage of self-reliance ratio indicates the ratio between the amount of local revenue with the help of the central government and loans (Hidayat, 2013).

Hersey and Blanchard in Halim (2001) argues about the relationship between central and regional governments in the implementation of regional autonomy, particularly the implementation of the law on financial balance between central and regional governments, as follows: (1) The pattern of instructive relations, the role of the central government is more dominant than the independence of local government, independence ratio (0-25%), (2) The pattern of consultative relations, interference of the central government has begun to diminish and it is more on providing consultation, independence ratio (> 25% -50%), (3) The pattern of participatory relationships, the role of the central government is diminishing since the degree of independence of the autonomous region is approaching able to carry out the affairs of the autonomy (> 50% -75%), (4) The pattern of discretionary relationship, i.e without any interference of central government since local government has been able to carry out the affairs of regional autonomy (> 75% -100%).

Regional Effectiveness Ratio

Effectiveness ratio shows the ability of Local Government in the realization of the planned local revenues compared with the targets that have been set based on the real potential of the region (Hidayat, 2013). Effectiveness values have been obtained from the comparison as mentioned above, will be measured by the criteria for assessing the effectiveness of the financial management of the area that can be seen in Table 1.

Table 1 Regional Finance Effectiveness Assessment Criteria

Autonomous Regional Financial Effectiveness	Effectiveness Ratio (%)
Very Effective	>100
Effective	>90 – 100
Adequately Effective	>80 – 90
Less Effective	>60 – 80
Not Effective	≤60

(Source: Ministry of Internal Affairs, Decision of Ministry of Internal Affairs number 690.900.327 year 1996 in Bisma dan Hery (2010))

Regional Financial Efficiency Ratio

Efficiency ratio is the ratio used to measure the part of the tax revenue used to cover the cost of tax collection (Bhinadi, 2002). This ratio describes output and input, so it can be said that the smaller this ratio is, the more efficient the region and vice versa (Handayani, 2011). By knowing the results of the comparison between the costs incurred to levy local taxes with the actual revenue

received, and on the basis of efficiency measures, the assessment of financial performance determined in Table 2.

Table 2 Region Finance Efficiency

Autonomous Regional Financial Efficiency	Efficiency Ratio (%)
Very Efficient	≤60
Efficient	>60 – 80
Adequately Efficient	>80 – 90
Less Efficient	>90 – 100
Not Efficient	≥100

(Source: Ministry of Internal Affairs, Decision of Ministry of Internal Affairs number 690.900.327 year 1996 in Bisma dan Hery (2010))

Harmony Expenditure Ratio

This study used the proportion of public expenditure because it is directly intended to improve the welfare of society. This harmony ratio is measured by comparing the actualization of total public expenditure to total budget (Halim, 2007). By knowing the results of the comparison between the public expenditure actualization in region total budget by using the size of harmony expenditure, then the assessment of financial performance is determined as in Table 3.

Tabel 3 Regional Harmony Expenditure

Regional Harmony Expenditure	Harmony Expenditure Ratio (%)
Not Compatible	0 – 20
Adequately Not Compatible	>20 – 40
Adequately Compatible	>40 – 60
Compatible	>60 – 80
Very Compatible	>80 – 100

(Source: Mahsun in Batafor (2011))

People Welfare

As cited in Section IV Agenda for Improving Social Welfare according to BAPPENAS & UNDP (2010), welfare is a tranquil and prosperous state which is defined as a state of sufficiency or not deficiency. It is not only has the physical dimensions or the material but also spiritual dimension. The creation of people welfare is one of the main objectives Republic of Indonesia. In the development of the level of welfare measurement, physically, it can be done with the approach of the Human Development Index (HDI) and Physical Quality Life Index (Quality of Life), which consists of the basic needs and GNP per capita. This study will use a benchmark of HDI, which is one approach to measure the level of human welfare according to the United Nations Development Programme (UNDP). It focuses on measures of life expectancy, educational attainment, and income (BAPPENAS & UNDP, 2010).

The Central Statistics Agency (BPS) explains the concept of the HDI as an option for population expansion process (a process of enlarging the option of people). HDI is performed to measure the achievement of human development based on a number of basic components of quality of life. As a measure of quality of life, HDI is built through a basic three-dimensional approach. The

dimensions include a long and healthy life, knowledge, and a decent life. The three dimensions have a very broad sense since it is associated with many factors. For example, to measure the dimensions of health, life expectancy at birth will be used. Furthermore, the combined indicator of literacy rates and average length of school are used to measure the dimensions of knowledge. As for measuring the dimensions of decent life, indicators of the people ability in purchasing to the amount of basic needs is used and seen from the average amount of expenditure per capita. The amount of expenditure per capita is the income approach representing development gains for a decent life (BPS, 2012).

HDI gives a comprehensive overview of the level of human development achievement as a result of development activities carried out by a state or region. The higher the value of the HDI of a region, it shows an increase of better welfare. Based on the value of the HDI, UNDP divide, the status of human development into three criteria: low to HDI of less than 50, moderate for HDI value between 50-80, and high for HDI value of 80 upwards. As for the comparison between the district/municipal, the level intermediate status is itemized into a lower-middle when the value of the HDI value is between 50-66 and middle-upper when HDI value is between 66-80 (UNDP in IPM Kota Samarinda, 2008).

HDI is part of the intended use of the budget in the implementation of development for public welfare. Growth in HDI annually can be calculated by using a Compound Annual Growth Rate (CAGR). Value CAGR is calculated by taking the n^{th} root of HDI growth rate, where n is the number of years of the period was calculated (Ivalandari, 2010).

Hypotheses

With reference to the theoretical rationale, objectives and the research based on empirical studies to be undertaken with regard to this study, it will put forward a hypothesis as follows:

- H1. The more increasing regional financial independence ratio, the more positive contribution to HDI;
- H2. The more increasing regional financial effectiveness ratio, the more positive contribution to HDI;
- H3. The more increasing regional financial ratio, the more positive contribution to HDI; and
- H4. The more increasing regional harmony expenditure ratio, the more positive contribution to HDI.

METHOD

In this study, secondary data is used limited to budget documents that have been established and implemented in time series from fiscal year 2009 to 2012. Secondary data used include budget data and the actual amount of the budget obtained from the Directorate General of Fiscal Balance (Direktorat Jendral Perimbangan Keuangan-DJPK) and the Human Development Index (Indeks Pengembangan Manusia-IPM) obtained from the Central Statistics Agency (Biro Pusat Statistik-BPS). The scope of the research includes 19 districts and 1 town which is administratively located in the Level I Region.

The obtained data will be used to analyze the financial performance of Local Government and its influence on HDI. HDI is indirectly illustrates the effect of using the budget to the level of welfare in the 20 districts/municipalities in the Level I Region. As for the other non-financial factors, which affect on the budget documents of each district/city, is considered constant.

Operational Definition

Variables used in this study consisted of financial performance area as independent variables and HDI as the dependent variable. The financial performance of the region as an independent

variable, covers several areas of financial ratios, such as: (1) Regional Financial Independence Ratio is the ratio between the amount of Locally-Generated Revenue (Pendapatan Asli Daerah-PAD) and central government aid and loans. The higher this ratio is, the lower the regional dependency on the assistance of the central and the provincial government. It means that participation in paying taxes and levies as the components of PAD is increasing (Hidayat, 2013).

$$\text{Independence Ratio} = \frac{\text{Locally-Generated Revenue}}{\text{Total Balancing Fund}} \quad (1)$$

(2) The Regional Financial Effectiveness Ratio shows the ability of Local Government in the realization of the planned local revenues compared with the targets that have been set based on the real potential of the region. The higher this ratio is, the more effective the regional ability. (Hidayat, 2013).

$$\text{Effectiveness Ratio} = \frac{\text{Revenue Realization}}{\text{Revenue Budget}} \quad (2)$$

(3) Regional Financial Efficiency Ratio is the ratio used to measure the part of the tax revenues used to cover the cost of tax collection (Bhinadi, 2002). This ratio describes output and input, so it can be said that the smaller this ratio is, the more efficient the region and vice versa (Handayani, 2011).

$$\text{Efficiency Ratio} = \frac{\text{Collection Cost}}{\text{Collected Tax Revenue}} \quad (3)$$

(4) Regional Harmony Expenditure Ratio is measured by comparing the actualization of total public expenditure to total budget (Halim, 2007). The higher the percentage of the budget allocated for recurrent expenditure means the percentage of investment expenditure (development expenditure) that is used to provide community facilities and infrastructure tend to be smaller (Halim, 2007)

$$\text{Compatibility Expenditure Ratio} = \frac{\text{Total Public Expenditure Realization}}{\text{Total Budget Expenditure}} \quad (4)$$

HDI is as an option for population expansion process (a process of enlarging the option of people). HDI is performed to measure the achievement of human development based on a number of basic components of quality of life. As a measure of quality of life, HDI is built through a basic three-dimensional approach. The dimensions include a long and healthy life, knowledge and a decent life (BPS, 2012). Meanwhile, it should also be known that the growth of HDI over the years as part of the intended use of the budget in the implementation of development for public welfare. Growth in HDI annually can be calculated by using a Compound Annual Growth Rate (CAGR). Value CAGR is calculated by taking the n root of HDI growth rate, where n is the number of years of the period was calculated (Ivalandari, 2010). CAGR can be formulated as:

$$\text{CAGR} = \left(\frac{\text{Ending Value}}{\text{Beginning Value}} \right)^{\frac{1}{n}} - 1 \quad (5)$$

This study aims to determine the effect of variables were analyzed using multiple linear regression analysis technique which is an analytical tool to look at the effect of a number of independent variables on the dependent variable (Stanislaus, 2009). The data were processed with SPSS Statistics 21. Hypothesis testing is done using panel data regression of independent variables on the dependent variable. Following is the regression equation:

$$\text{IPM} = \alpha + \beta_1 \text{KD} + \beta_2 \text{EFEKD} + \beta_3 \text{EFIKD} + \beta_4 \text{KB} + \epsilon \quad (6)$$

IPM = Human Development Index
 KD = Regional Financial Independence
 EFEKD = Regional Financial Effectiveness

- EFIKD = Regional Financial Efficiency
- KB = Regional harmony Expenditure
- β = The regression coefficients for each independent variable (x).

RESULTS AND DISCUSSION

Normality Test Results

Based on the normality test results by using the normal probability plot, it can be seen that the data (point) spread regularly around the diagonal line. This indicates that the data used is normally distributed, as seen in Figure 1.

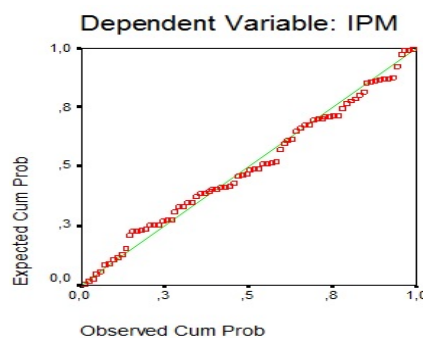


Figure 1 Normal Graphic P-P Plot of Regression Standardized Residual

Multicollinearity Test Results

Based on the test results multicollinearity, it is known that regional financial independence ratio, regional financial effectiveness ratio, regional efficiency ratio, and regional financial harmony expenditure ratio show the value of tolerance > 0.10 and VIF < 10 . It can be concluded that the independent variables used in the regression of this study is free of multicollinearity or in other words are trustworthy and objective, as shows in Table 4.

Table 4 Multicollinearity Test Results

VARIABLE	TOLERANCE	VIF	DECISION
KD	0,598	1,673	Free Multicollinearity
EFEKD	0,859	1,164	Free Multicollinearity
EFIKD	0,738	1,355	Free Multicollinearity
KB	0,673	1,487	Free Multicollinearity

Source: Processed Data (SPSS Statistics 21).

Heteroscedasticity Test Result

Based on heteroscedasticity test result through the visibility of certain pattern on scatter plot graphic between *residual* *ZRESID to the prediction value of dependent variables *ZPRED, it is

known that heteroscedasticity fails due to invisibility of certain pattern where the dots are spreading above and below number 0 on Y axes. Thus it can be assumed that the residuals have constant variance (homoscedasticity), as seen in Figure 2.

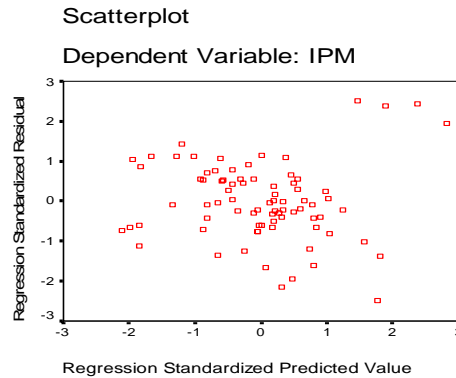


Figure 2 Heteroscedasticity Test

Autocorrelation Test Results

Based on the autocorrelation test results below, the value of the Durbin-Watson statistic test for 1841, this means the residual or error (ϵ) of the multiple regression model $HDI = \alpha + \beta_1KD + \beta_2EFEKD + \beta_3EFIKD + \beta_4KB + \epsilon$, there is no autocorrelation or independent, as shown in Table 5.

Table 5 SummaryModel

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.538(a)	.290	.252	2.98931	1.806

a Predictors: (Constant), KB, EFIKD, EFEKD, KD

b Dependent Variable: IPM

Financial Performance Variable Analysis

Table 6 represents the average ratio of financial performance per region in 2009-2012:

Table 6 The Average Financial Performance Per Region in 2009-2012

DISTRICT/CITY		AVERAGE YEAR 2009-2012			
NO.	NAME	KD	EFEK KD	EFIKD	KB
1	SB	4.41%	105.14%	17.82%	27.27%
2	ST	6.97%	108.83%	11.70%	29.54%
3	K	5.59%	103.96%	10.47%	21.32%
4	TTS	5.08%	104.48%	21.90%	15.72%
5	TTU	5.70%	105.93%	26.92%	26.74%
6	B	4.56%	105.25%	17.16%	25.28%
7	A	6.75%	106.50%	8.72%	28.48%
8	L	3.70%	105.41%	16.93%	39.52%

Table 6 The Average Financial Performance Per Region in 2009-2012 (continued)

DISTRICT/CITY		AVERAGE YEAR 2009-2012			
NO.	NAME	KD	EFEK KD	EFIKD	KB
9	FT	7.23%	104.58%	6.66%	29.27%
10	S	3.94%	107.21%	23.16%	25.97%
11	E	5.69%	109.44%	12.94%	41.01%
12	Ng	6.00%	104.05%	18.94%	23.63%
13	Mg	6.94%	106.77%	13.74%	16.29%
14	RN	3.51%	111.87%	12.76%	45.47%
15	MB	6.61%	109.49%	7.05%	47.73%
16	SBD	3.91%	110.07%	10.38%	64.33%
17	ST	6.02%	109.58%	14.97%	35.23%
18	N	4.56%	106.81%	16.18%	19.54%
19	MT	7.08%	102.22%	15.84%	18.03%
20	KK	10.13%	110.42%	3.26%	15.88%
Rate of Level I Region		5.72%	106.90%	17.82%	29,81%

Variable Human Development Index

Variable Human Development Index (HDI) is the result of the construction of the three main dimensions, namely health, education, and decent living standards community. Table 7 presents a table of data processed HDI 19 districts and 1 town in 2009 until 2012.

Table 7 Human Development Index (HDI) of District/City, 2009-2012*)

District/City	2009	2010	2011	2012*)	Rate	CAGR
1. SB	62.9	63.85	64.31	64.88	63.99	1.04%
2. ST	61.41	61.8	62.5	63.33	62.26	1.03%
3. K	65.58	66.00	66.77	67.21	66.39	0.82%
4. TTS	65.28	65.93	66.29	66.61	66.03	0.67%
5. TTU	66.95	67.49	67.93	68.57	67.74	0.80%
6. B	63.91	64.34	64.75	65.52	64.63	0.83%
7. A	68.16	68.48	68.92	69.35	68.73	0.58%
8. L	67.15	67.66	68.07	68.69	67.89	0.76%
9. FT	67.77	68.18	68.71	69.19	68.46	0.69%
10. S	67.29	67.87	68.22	68.74	68.03	0.71%
11. E	66.59	67.11	67.58	68.08	67.34	0.74%
12. Ng	69.01	69.45	70.13	70.63	69.81	0.78%
13. Mg	66.83	67.16	67.81	68.30	67.53	0.73%
14. RN	65.8	66.18	66.61	67.10	66.42	0.65%
15. MB	64.91	65.33	66.09	66.84	65.79	0.98%
16. SBD	60.54	60.99	61.42	62.48	61.36	1.06%
17. ST	59.84	60.8	61.22	61.70	60.89	1.03%
18. N	65.97	66.31	66.59	67.23	66.53	0.63%
19. MT	65.02	65.92	66.55	67.06	66.14	1.04%
20. KK	76.94	77.31	77.71	78.37	77.58	0.62%
Level I Region	65.89	66.41	66.91	67.49	66.68	

Note: *) Temporary Number– Source: IPM DT1 2012, BPS.

Based on Table 7 in 2009 and 2012, the average HDI of 66.68 indicates that the level I regions (excluding New Autonomous Region U) belong to the upper-middle category. Improvement of social welfare can be seen from the HDI, which if it is calculated with Compound Annual Growth Rate

(CAGR), it can be concluded that the growth rate of this variable only ranged between 0% and 1%. This indicates that trimming the shortfall from the use of the local budget that is expected to reach its maximum value, is still very small. On the average HDI, 20 districts/cities are in the medium category, and it requires attention from local governments in improving the welfare of society.

Regression Analysis, F Statistic Test, t Statistic Test

Based on the results of F statistic tests that can be seen in Table 8, the output regression shows a significance value of 0.000 or below the 0.05 significance level. It can be concluded that during the period used, variable KD, EFEKD, EFIKD and KB can deliver variable influence on the HDI. Adjusted R² magnitude is equal to 0.252. This means that 25.2% IPM variation can be explained by four independent variables, namely Regional Independence, Regional Financial Effectiveness, Regional Financial Efficiency, and Harmony Expenditure. While the rest is explained by other causes beyond the model.

Table 8 Hypothesis Test Results Summary

Model	IPM= $\alpha + \beta_1KD + \beta_2EFEKD + \beta_3EFIKD + \beta_4KB + \square$			
Result of regression equation	IPM= 63.730 + 0.603KD + 0.017EFEKD - 0.040EFIKD - 0.058KB + 2.98931			
F Test	7.641			
F Sig	0.000			
Adj R ²	0.252			
Variable	β	t	Sig	Decision
(Constant)	63.730		0.000	
KD	0.603	2.607	0.011	H1 accepted
EFEKD	0.017	0.276	0.783	H2 rejected
EFIKD	-0.040	-0.793	0.430	H3 rejected
KB	-0.058	-2.371	0.020	H4 rejected
Dependent Variable: Human Development Index				
$\square = 2.98931$				

Source: Processed Data (SPSS Statistics 21).

Analysis of the Influence of Regional Financial Independence Level on HDI

The results shown in Table 9 indicates that the variables Regional Financial Independence ratio provide a significant positive influence on changes in the HDI. This explains the conditions that the increase of regional financial capacity will have an impact on improving HDI of 20 District/Cities Level I Region, and vice versa. Although based on the table 6 in 2009 to 2012, the highest level of the independence ratio (KD) only 10:13%, with an average value of 5.72%, the ratio of local financial independence can be classified into the category of low financial capabilities with a pattern of instructive relationships. This condition proves that the funds from local revenue will be used positively to the development of society, despite the financial contribution of the region is still very small, it will also have an impact to a not-to-big increase in the HDI. It is also evident from the data composition of the balancing funds that the greatest composition of total local revenue comes from equalization funds obtained from the Central Government.

Table 9 Calculation Results Composition Fund Balance

Description	FISCAL YEAR			
	2009	2010	2011	2012
Daerah Tingkat I	77%	73%	64%	43%

Source: Processed Data

Analysis of the Influence of Regional Financial Effectiveness Level on HDI

The results shows that the ratio of local financial effectiveness are classified into the category of highly effective (106.90%), the level of realized income regions can exceed revenue targets that had been budgeted in the budget document. Although it is very effective, it does not give significant effect on the HDI. This is presumably since the greatest composition of regional revenues budgeted and applied is derived from the total balancing fund, so in planning the use of local revenue based on the real regional potential does not have an impact on the HDI.

Analysis of the Influence of Regional Financial Efficiency Level on HDI

The results show that the regional financial efficiency ratio that are classified as highly efficient (17.82%), it has no significant effect on the HDI. This condition indicates although local authorities have a very efficient level of government tax revenues which can cover costs but still a policy related to the efficiency and tax revenues do not give impact on regional HDI.

Analysis of the Influence of Regional Harmony Expenditure Level on HDI

The results show that the level of regional harmony expenditure of districts/cities is classified as less compatible and not positive on the HDI. It can be seen that only 29.81% of the total budget is applied for the benefit of the public, while the budget applied for the benefit of the apparatus is equal to 70.19%. It is certainly not in accordance with the mandate of Law Number 32 of 2004 in the framework of public accountability, that Local Government can be expected to optimize the use of the budget is more appropriate.

The test results indicate the negative effect on regional harmony expenditure level on IPM. It can be presumed the possibility of a public expenditure or expenditure that is expected to benefit directly to the community. However, in the process of implementation of the budget actually realized in the public interest only a small portion of the total budget for the public. Regional harmony expenditure ratio of 20 districts/cities is classified as less compatible. It shows the opposite result with increased rates of HDI that is declining and the percentage CAGR of HDI which only amounted to 0% to 1%.

CONCLUSION

Based on the results of data analysis and discussion that has been stated previously, the district/city government is expected to pay more attention, accommodate, and empower optimally utilize the resources owned by the PAD area. Revenue budget preparation process, such as the use of sources of retribution, the development potential of the mining, and agriculture sectors, will promote the realization of the optimal PAD. PAD can be increased thereby it will reduce the regional dependence on the central government and provincial aid.

The principle of performance-based budgeting and the implementation of management functions need to be a serious concern for implementation. It aims to reduce the number of regional expenditures, which is very inefficient. Budget preparation and realization, in the future expected to consider the financial ratios so that each postal area of serious concern can be increased again.

The availability of adequate human resources in the area with a good standard of competence that would attract the interest and the interest of investors from outside the area. Therefore, the local people who have been successful in overseas are expected to come home and re-build the region. Further research is expected attracted to the financial performance and the welfare of local communities. It can also add a new variable as the dependent and independent variable in accordance with the development of posts in the preparation of the budget and the realization of the budget, so that the results will be more relevant to the times and knowledge increase, especially in the field of local finance in Indonesia.

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