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## Financial Performance Effect on Economic Growth in Special Autonomy Province

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### Article Information    Abstract

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Seeing the ability of the region in carrying out Regional Autonomy, one of which can be measured through regional financial performance. The low financial performance in the provinces of Aceh and Papua has led to unstable and volatile economic growth. The instability of economic growth in Aceh Province will trigger economic and social problems. The purpose of this study was to analyze the effect of financial performance consisting of independence ratios, effectiveness ratios, efficiency ratios, and PAD growth on the economic growth of special autonomy regions through capital expenditures using panel data path analysis. This research method uses path analysis method with panel data sourced from the Ministry of Finance DJPK from 2007 to 2021. The results showed that the independence ratio, effectiveness ratio, efficiency ratio, and PAD growth had a positive effect on the economic growth of special autonomy regions through capital expenditures. Capital expenditures for special autonomy provinces have a positive and significant impact on economic growth. The independence ratio, effectiveness ratio, efficiency ratio, and PAD growth of special autonomy provinces have a positive and significant influence on economic growth through capital expenditures.

## INTRODUCTION

The change in the government system from centralization to decentralization has also changed the policies and authorities of local governments. In the centralized system, development is uneven so that it is considered less efficient. Whereas in a decentralized system, local governments are given authority by the central government in an effort to equalize development and improve services to the community (Mogues and Benin, 2012). Fiscal decentralization aims to maximize the efficiency of the public sector, both in terms of transparency and accountability, as well as in public services and policy making (DeMello, 2020). The case with President Joko Widodo's statement in the government's explanatory speech regarding the 2019 State Revenue and Expenditure Budget Bill and Financial Note, one portion of state spending in 2019 is allocated for strengthening fiscal decentralization. Thus, the central government entrusts the regions to independently manage the given authority.

Classical economic theory says that there is the widest possible freedom in determining which economic activity is best. Meanwhile, in Harrod Domar's theory which discusses the regional economy, decentralization is needed as a sharing of government power between groups holding power at the center with other groups, where each group has the authority to regulate certain fields within the territorial area. Regional original income or hereinafter referred to as PAD is revenue obtained by the region from regional sources within its own territory which is collected based on regional regulations in accordance with regional regulations or applicable laws. The regional income sector plays a very important role, because through this sector it can be seen the extend to which a region can finance government activities and regional development. Therefore, there is a close relationship between financial performance and economic growth. Regional government financial performance is the level of achievement of a work in the field of regional finance which includes regional revenues and expenditures using a financial system determined

through a policy or statutory provision for one budget period. In addition, it turns out that regional capital expenditures are also a bridge for financial performance in influencing regional economic growth. Regional spending is prioritized to protect and improve the quality of people's lives in an effort to fulfill regional obligations which are manifested in the form of improving basic services, education, providing health service facilities, social facilities and proper public facilities as well as developing social security by considering the analysis of spending standards, price standards, performance benchmarks and minimum service standards set in accordance with law number 32 of 2004 on local government.

Seeing the ability of the region in carrying out Regional Autonomy, one of which can be measured through regional financial performance. Local government efforts in exploring sources of funds originating from regional potentials and the ability to manage and utilize existing sources of funds are reflected in the Regional Revenue and Expenditure Budget (APBD). One of them is seen from the financial performance of the local government which is measured using a ratio analysis of the local government's finances. Measurement of local government financial performance is also used to assess regional accountability and capability in implementing regional autonomy. Thus, an area whose performance is declared good means that the region has the financial capacity to finance the implementation of regional autonomy. According to Supina Sino et al (2016) financial performance is measured using the independence ratio, effectiveness ratio, efficiency ratio, and PAD growth. According to Halim (2017) financial performance is measured through effectiveness ratios, growth ratios, compatibility ratios, independence ratios, and efficiency ratios.

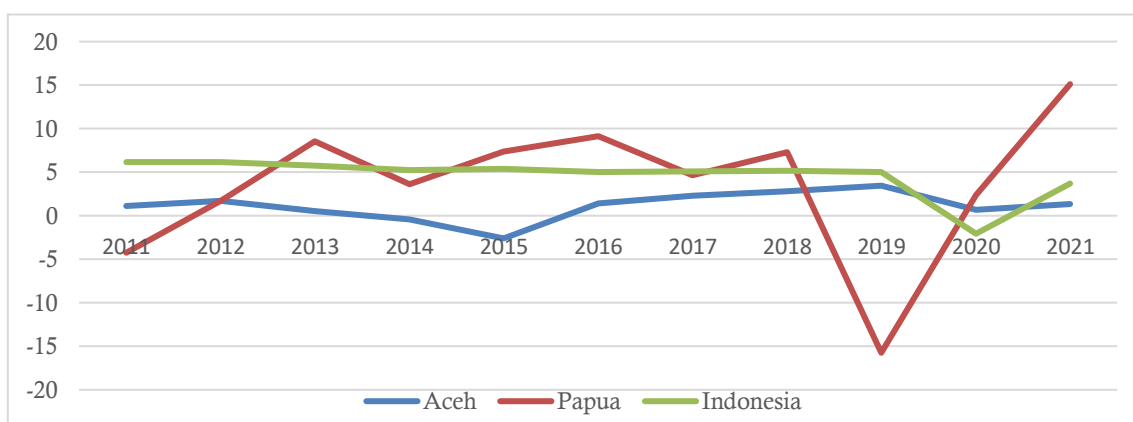
The financial performance of the provinces in Indonesia differs in each region. The five provinces that have the lowest financial performance are West Papua Province, Papua Province, Maluku Province, Aceh Province, and West Sulawesi Province with each having a financial performance value of 0.061; 0.120;

0.160; 0.169; and 0.189. Meanwhile, the five provinces that have the highest financial performance scores in Indonesia are East Kalimantan Province, West Java Province, Banten Province, South Kalimantan Province, and DKI Jakarta Province with each financial performance score of 0.563; 0.604; 0.623; 0.658; and 0.719.

Aceh and Papua are provinces that have been granted special autonomy with significant developments. The implementation of Aceh and Papua as special autonomy regions based on Law No. 18 of 2001 concerning Special Autonomy for the Provinces of the Special Regions of Aceh and Papua. Aceh and Papua are given Special Autonomy (Otsus) funds for a period of 20 years, the first to fifteenth years of Special Autonomy funds are 2% of the national General Allocation Fund (DAU) ceiling, then in the fifteenth to twentieth years it is 1% of the ceiling. national DAU. The use of special autonomy funds used for development and people's welfare is expected to boost regional economic sectors.

The low financial performance in the provinces of Aceh and Papua has led to unstable and volatile economic growth. The instability of economic growth in Aceh Province will trigger economic and social problems. Economic growth in Aceh Province twice in a row had negative growth. In 2014 economic growth in Aceh Province was -0.43 and in 2015 economic growth was -2.61 which was the lowest economic growth in Aceh Province since the last eleven years. Papua's economic growth has experienced a very volatile trend every year for the last eleven years. Papua's economic growth was twice negative in 2011 and 2019.

Based on Figure 1. in 2014 economic growth in Aceh Province was -0.43 and in 2015 economic growth was -2.61 which was the lowest economic growth in Aceh Province since the last eleven years. Papua's economic growth has experienced a very volatile trend every year for the last eleven years. Papua's economic growth was twice negative in 2011 and 2019.



**Figure 1.** Economic Growth of Aceh Province in 2011-2021

Source: BPS Indonesia, 2022 (Processed)

With this privilege, the provinces of Aceh and Papua are still unable to increase their economic growth due to their low financial performance. Capital expenditures can also be the cause of economic growth problems in Aceh Province. According to Stepvani Uhise (2013), the allocation of resources into the capital expenditure budget is a process that is full of political interests. This budget is actually intended to meet the public's need for public facilities and infrastructure provided by local

governments. However, the political interest of the legislature involved in the preparation of the budget process causes the allocation of capital expenditure to be distorted and often ineffective in solving problems in society. The public sector budget contains an activity plan which is presented in the form of a revenue and expenditure acquisition plan in monetary units. Regional Revenue and Expenditure Budget (APBD), is the annual financial plan of the regional government which is discussed and

approved jointly by the regional government and the DPRD, and is stipulated by regional regulations. APBD is the basis for regional financial management which is a guideline for regional governments in providing services to the public within one fiscal year. The APBD consists of regional revenues, regional expenditures and regional financing. Shifting the composition of spending is a logical effort made by the regional government in order to increase the level of public trust which can be done by increasing capital investment in the form of fixed assets, namely equipment, buildings, infrastructure and other fixed assets. With the increase in capital expenditure, it is expected to improve public services because the result of capital expenditure expenditures is an increase in regional fixed assets which is a prerequisite in providing public services by local governments.

The novelty in this study is to analyze the effect of financial performance on economic growth in provinces that have special autonomy. Seeing the ability of the region in carrying out Regional Autonomy, one of which can be

measured through regional financial performance. The low financial performance in the provinces of Aceh and Papua has led to unstable and volatile economic growth. The instability of economic growth in Aceh province will trigger economic and social problems.

The purpose of this study was to analyze the effect of financial performance consisting of independence ratios, effectiveness ratios, efficiency ratios, and PAD growth on the economic growth of special autonomy regions through capital expenditures.

### RESEARCH METHODS

This research method uses path analysis method with panel data in Aceh and Papua Provinces sourced from the Ministry of Finance DJPK from 2007 to 2021. With path analysis, the direct and indirect effects of independent variables on the dependent variable can be calculated through intervening variables. The path analysis diagram is as follows:

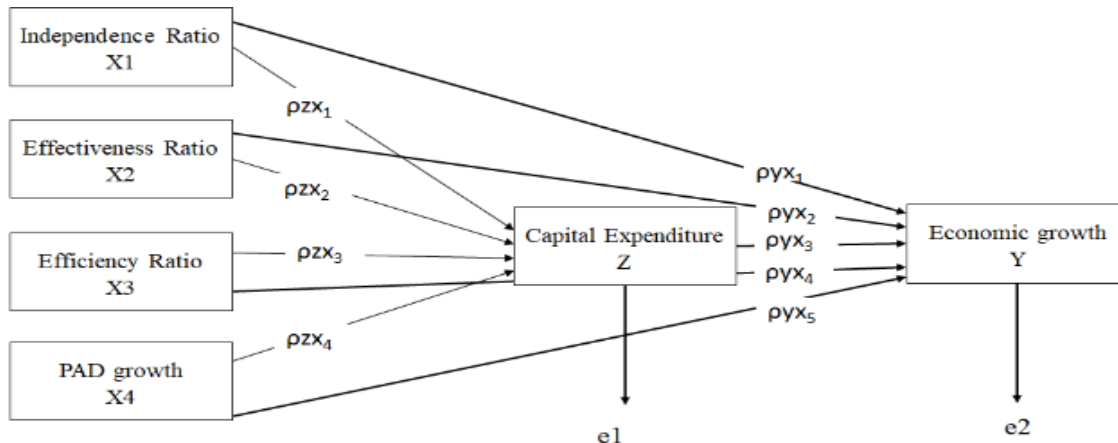


Figure 2. Research Path Analysis Diagram

From the research path analysis diagram above, obtained some regression equation model is as follows:

Model 1:

$$Y = y_{x1}X_1 + y_{x2}X_2 + y_{x3}X_3 + y_{x4}X_4 + e_1 \quad (1)$$

Model 2:

$$Z = z_{x1}X_1 + z_{x2}X_2 + z_{x3}X_3 + z_{x4}X_4 + z_yY + e_2 \dots\dots\dots (2)$$

Where, Y is Economic Growth, Z is Capital Expenditure, X<sub>1</sub> is Regional Financial Independence Ratio, X<sub>2</sub> is Regional Income Effectiveness Ratio, X<sub>3</sub> is Regional Income Efficiency Ratio, X<sub>4</sub> is Regional Income Growth, e<sub>1</sub> is Error term for model 1, and e<sub>2</sub> is Error term for model 2.

## RESULTS AND DISCUSSION

Good regional financial management will affect the progress of a region. Regional financial management that is carried out economically, efficiently and effectively or fulfills the principles of value for money as well as participation, transparency, accountability and justice will be able to encourage economic growth. Good regional financial management not only requires reliable human resources but also must be supported by adequate regional financial capacity. One of the levels of regional financial capability can be measured by the amount of regional revenue, especially regional original income. Local government efforts to explore regional financial capabilities can be seen from regional financial performance as measured using ratio analysis of local government finances. Measurement of financial performance in local government is also used to assess regional accountability and financial capability in the implementation of regional autonomy. Thus, an area whose financial performance is stated to be good means that the region has the financial capacity to finance the implementation of regional autonomy.

However, the regional government, in the process of increasing its financial capacity, especially in terms of financing governance and development, is still lacking. This is reflected in the role of Regional Original Revenue (PAD) in the Regional Income and Expenditure Budget (APBD) in most local governments which is still considered low. According to research conducted by Mahmudi, based on data from the Ministry of Finance and BPS, it was found that the share of regional revenues was still dominated by balance funds, which reached 75-94 percent of total regional revenues. Meanwhile, the national average PAD only contributes between 6-15 percent of regional income (Mahmudi, 2019).

The granting of broad, real and responsible authority implied in the law is a reflection of the democratization process in the implementation of regional autonomy to assist the central government in administering

governance in the regions with an emphasis on district/city governments. Juridically, the implementation of broad and real autonomy is not a continuation, but factually empirically, it is a continuation of the implementation of regional autonomy based on Law number 5 of 1974 and even previous regulations. So the aim of the decentralization policy is to realize justice between the capabilities and rights of the regions; increasing regional own-source revenues and reducing subsidies from the center, encouraging regional development in accordance with the aspirations of each region. Regional fiscal autonomy is an important aspect of regional autonomy as a whole, because the definition of regional fiscal autonomy describes the ability of local governments to increase PAD such as taxes, fees and others.

However, it must be admitted that the degree of regional fiscal autonomy in Indonesia is still low, meaning that the regions have not been able to finance their routine expenditures. Therefore regional autonomy can be realized only if it is accompanied by effective finance. Regional governments must be financially independent from the central government by exploring as much as possible the sources of PAD.

In this study there are two research models. The first model explains the effect of the independent variable on the intervening variable while the second model explains the effect of the independent variable and the intervening variable on the dependent variable. In the first model Chow test, the F-statistic value is 1.0000 which means the model is the best in the Chow test is the Common Effect Model (CEM). In the LM Test the F-Statistic value is 1.0000 which indicates that the best model on the LM Test is the Common Effect Model (CEM). So it can be concluded that the best model in the first model is the Common Effect Model (CEM). Based on Table 1. in the LM Test the F-Statistic value is 1.0000 which indicates that the best model on the LM Test is the Common Effect Model (CEM). So it can be concluded that the best model in the first model is the Common Effect Model (CEM).

**Table 1.** Best Model 1 Result

Test	F-Stat Value	Hypothesis and Results
Chow Test	1.0000	H0: CEM is the best model (p-value > 5%) H1: FEM is the best model (p-value < 5%) Result: H1 is rejected, CEM is chosen as the best model
LM Test	26,28571 (1,0000)	H0: CEM is the best model (p-value > 5%) H1: REM is the best model (p-value < 5%) Result: H1 is rejected, CEM is the best model
Conclusion	Two tests choose CEM, so the best model in this model is CEM	

Source: Data Processed, 2022

The second model explains the effect of regional independence ratios, effectiveness ratios, efficiency ratios, PAD growth, and capital expenditures on regional economic growth. Based on Table 2. In the second model Chow test, the F-statistic value is 1.0000 which means the best model in the Chow test is Common Effect

Model(CEM). In the LM Test the F-Statistic value is 1.0000 which indicates that the best model on the LM Test is the Common Effect Model (CEM). So it can be concluded that the best model in the second model is the Common Effect Model (CEM).

**Table 2.** Best Model 2 Result

Test	F-Stat Value	Hypothesis and Results
Chow Test	1.0000	H0: CEM is the best model (p-value > 5%) H1: FEM is the best model (p-value < 5%) Result: H1 is rejected, CEM is chosen as the best model
LM Test	38.10421 (1,0000)	H0: CEM is the best model (p-value > 5%) H1: REM is the best model (p-value < 5%) Result: H1 is rejected, CEM is the best model
Conclusion	Two tests choose CEM, so the best model in this model is CEM	

Source: Data Processed, 2022

The t statistic test is used to determine the effect of individual variables independent bell on the dependent variable. In the first regression model used the White period standard errors & covariance method so that based on the results of

the statistical t test in the table below, it can be concluded that the regional independence ratio, effectiveness ratio, efficiency ratio, and PAD growth have a significant effect on capital expenditure.

**Table 3.** T-Test Model 1 Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.27E+12	0.340455	-1.55E+13	0.0000
Independence	2.11E+13	0.864018	2.45E+13	0.0000
Effectiveness	2.08E+12	0.136882	1.52E+13	0.0000
Efficiency	3.15E+11	0.009083	3.47E+13	0.0000
PAD growth	1.56E+12	0.010295	1.52E+14	0.0000

Source: Data Processed, 2022

In the second model, the regression used is the method White period standard errors & covariance so that based on the results of the t-statistical test in the table 4. below, it can be concluded that the regional independence ratio,

effectiveness ratio, efficiency ratio, PAD growth, and capital expenditure have a significant effect on the economic growth of special autonomy regions.

**Table 4.** T-Test Model 2 Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	30.66990	1.49E-12	2.06E+13	0.0000
Independence	-68.36123	3.82E-12	-1.79E+13	0.0000
Effectiveness	-8.394683	6.06E-13	-1.39E+13	0.0000
Efficiency	-0.917338	4.16E-14	-2.21E+13	0.0000
PAD growth	-8.366465	4.76E-14	-1.76E+14	0.0000
Capital Expenditure	-7.51E-13	1.18E-26	-6.35E+13	0.0000

Source: Data Processed, 2022

The F test was conducted to determine the joint effect of the independent variable on the dependent variable. Based on table 5, the probability value of the F-statistics of the first model is less than alpha 10%, this indicates that the regional independence ratio, effectiveness ratio, efficiency ratio, and PAD growth ratio together have a significant effect on capital expenditure. The probability value of the second models, F-statistics is less than alpha 5%, this indicates that the regional independence ratio, effectiveness ratio, efficiency ratio, PAD growth, and capital expenditure together have a significant effect on special autonomy economic growth.

**Table 5.** F Test Model 1 and 2 Results

Model	F-Stats (Calculate)	Probability	Conclusion
1	2.562605	0.063202	Significant
2	3.838497	0.010705	Significant

Source: Data Processed, 2022

R-test squared used to determine how much the independent variable affects the dependent variable. The value of the coefficient of determination (R<sup>2</sup>) lies between 0 to 1. If the coefficient of determination is 0 it means that the independent variable has absolutely no effect on the dependent variable. However, if the coefficient of determination is getting closer to one, it can be said that the independent variable has an effect on the dependent variable. Based on table 6. the results of the first model R-squared test, in this study R<sup>2</sup> is worth 0.290789 and adjusted R-squared is 0.177315.

This indicates that the regional independence ratio, effectiveness ratio, efficiency ratio, and PAD growth have an effect of 29.07% on capital expenditure. While the remaining variables are explained by other variables outside

this model. Based on the results of the second model R-squared test, in this study R<sup>2</sup> is worth 0.444348 and adjusted R-squared is 0.328587. This indicates that the ratio of regional independence, effectiveness ratio, efficiency ratio, PAD growth, and capital expenditure have an effect of 44.43% on economic growth in special autonomy regions. While the remaining variables are explained by other variables outside this model.

**Table 6.** R<sup>2</sup> Model 1 and 2 Results

Model 1	
R-squared	0.290789
Adjusted R-squared	0.177315
Model 2	
R-squared	0.444348
Adjusted R-squared	0.328587

Source: Data Processed, 2022

The data processing technique in this research is path analysis. Path analysis serves to determine the direct and indirect effects of a set of variables as causal variables (exogenous variables) on a set of other variables which are effect variables (endogenous variables). The first model of this study explains the effect of regional independence, effectiveness ratio, efficiency ratio, and PAD growth on capital expenditures for special autonomy regions.

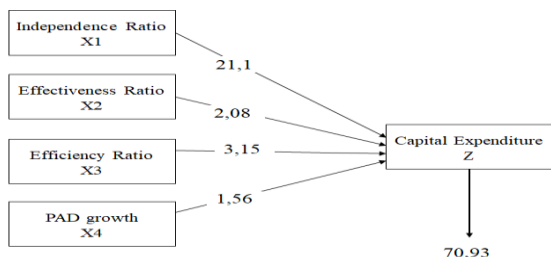
**Table 7.** Model 1 Regression Analysis Results

Variable	Coefficient	Prob.
C	-5.27	0.0000
Independence	21.1	0.0000
Effectiveness	2.08	0.0000
Efficiency	3.15	0.0000
PAD growth	1.56	0.0000
e <sub>t</sub>	70.93	

Source: Data Processed, 2022

Based on the table 7. above, the equation for the analysis of the direct influence path of the first model is:

$$\text{Capital Expenditure} = -5.27 + 21.1 \text{ Independence} + 2.08 \text{ Effectiveness} + 3.15 \text{ Efficiency} + 1.56 \text{ PAD Growth} + 70.93 \dots\dots\dots (3)$$



**Figure 3.** Path Analysis Model 1

Source: Data Processed, 2022

The second model of this study explains the effect of regional independence, effectiveness ratio, efficiency ratio, PAD growth, and capital expenditure on the economic growth of the special autonomy province.

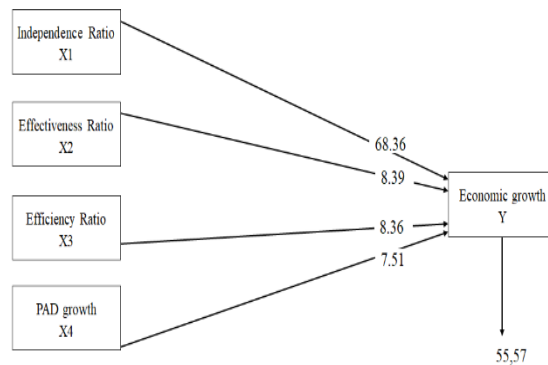
**Table 8.** Model 2 Regression Analysis Results

Variable	Coefficient	Prob.
C	30.66	0.0000
Independence	68.36	0.0000
Effectiveness	8.39	0.0000
Efficiency	0.91	0.0000
PAD growth	8.36	0.0000
Capital Expenditure	7.51	0.0000
$e_2$	55.57	

Source: Data Processed, 2022

Based on the table above, the equation for the analysis of the direct influence path of the second model is:

$$\text{Economic Growth} = 30.66 + 68.36 \text{ Independence} + 8.39 \text{ Effectiveness} + 0.91 \text{ Efficiency} + 8.36 \text{ PAD Growth} + 55.57 \dots\dots\dots (4)$$



**Figure 4.** Path Analysis Model 2

Source: Data Processed, 2022

In calculating the indirect effect of independence, effectiveness, efficiency, and PAD growth on economic growth, it is also influenced by the coefficient value of the path of capital expenditure to economic growth.

**Table 9.** Indirect Effect of Research

Variable	Direct Influence		Indirect Influence
	Capital Expenditure (Z)	Economic Growth (Y)	
Independence	21.1	68.36	158,46
Effectiveness Ratio	2.08	8.39	15,620
Efficiency Ratio	3.15	0.91	23.656
PAD growth	1.56	8.36	11.715
Capital Expenditure	-	7.51	-

Source: Data Processed, 2022

Based on the table above, the ratio of regional independence has an effect of 158,461 units of economic growth in the special autonomy province through capital expenditures. The effectiveness ratio has an effect of 15.6208 units on economic growth in the special autonomy province through capital expenditures. The efficiency ratio has an effect of 23.6565 units on economic growth in the special

autonomy province through capital expenditures. PAD growth has an effect of 11.7156 units on economic growth in the Special Autonomy Province through capital expenditures.

The level of independence of special autonomy regions has not been able to show significant progress even if you look at the current state of government, regional independence



tends to decrease. Utomo (2012) indicates that the regions are less serious in optimizing their potential, by relying more on DAU receipts that are grants. As a practical consideration, this effort is preferred over significantly increasing PAD, so as a consequence the PAD received is smaller. This condition makes the regional independence lower. Sularso and Restianto, (2021) state that financial independence affects the allocation of capital expenditures. This is also consistent with what was described by Harianto and Adi (2017). Based on the research results, the ratio of independence of the special autonomy province has a positive and significant influence on capital expenditure. This is indicated by a coefficient value of 21.1 and a significance value of 0.0000, which means that if the regional independence increases by 1 unit, then capital expenditure will increase by 21.1 units.

Law No. 32 of 2004, one of the sources of regional income is Regional Original Revenue (PAD) which consists of the results of regional taxes, regional levies, the results of separated regional wealth management and other legitimate PAD. According to Nugroho, (2020) the increase in PAD is expected to increase investment in local government capital expenditures so that the quality of public services is getting better. Yustikasari and Darwanto, (2017) also suggest that an increase in PAD will have the impact of increasing regional income which can be used to increase the allocation of capital expenditures. Sularso and Restianto (2021) state that the effectiveness of PAD affects the allocation of capital expenditures. Utomo, (2012) that the effectiveness of PAD has a significant influence on the allocation of capital expenditures. Based on the research results, the effectiveness ratio of the special autonomy province has a positive and significant effect on capital expenditure. This is indicated by a coefficient value of 2.08 and a significance value of 0.0000, which means that if the effectiveness ratio increases by 1 unit, then capital expenditure will increase by 2.08 units.

The efficiency ratio is a ratio that is calculated by looking at the comparison between regional revenues and regional expenditures. The

greater the revenue than the expenditure, the more efficient it will be, and vice versa. This means how to produce the maximum output with the smallest input. The more efficient the finances in an area, the higher the proportion for capital expenditure. This is in line with previous researchers, namely Hidayat (2013) and Ardhini and Handayani (2021) found that financial efficiency has a significant effect on capital expenditure. Based on the results of the study, the efficiency ratio of the special autonomy province has a positive and significant effect on capital expenditure. It is characterized by a coefficient value of 3.15 and a significance value of 0, 0000 which means that if the efficiency ratio increases by 1 unit, then capital expenditure will increase by 3.15 units.

Regional income which is quite crucial is PAD as mentioned by Ardhani (2021). This income is sourced from local taxes, user fees and the results of the management of resource wealth owned by the region. Therefore, autonomous regions are expected to be able to increase PAD by optimizing existing resources to improve infrastructure development for the community through the allocation of capital expenditures. It is hoped that the increase in PAD will be in line with the increase in the allocation of capital expenditure for development. In addition, the amount of PAD obtained by a region also affects how much authority the region has to be able to implement its policies. So that the regions can freely build various infrastructure facilities, the local government is required to be able to increase its revenue sourced from PAD. Based on the results of the study, the growth of PAD in the Special Autonomy Province has a positive and significant impact on capital expenditures. This is indicated by a coefficient value of 1.56 and a significance value of 0.0000, which means that if PAD growth increases by 1 unit, then capital expenditures will increase by 1.56 units.

Adi (2017) specifically mentions that there are three main factors or components of economic growth, namely capital accumulation, population growth and matters related to an increase in the number of the workforce which are considered to positively stimulate economic

growth. Adi (2017) which states that the economic growth that has occurred so far is largely determined by the regional development spending factor. According to Kuncoro (2014), the development of facilities and infrastructure by local governments has a positive effect on economic growth. Continuous improvement of public sector services will improve public facilities and infrastructure, government investment also includes improving education, health and supporting facilities other. Based on the research results, the capital expenditure of the special autonomy province has a positive and significant impact on economic growth. This is indicated by a coefficient value of 7.51 and a significance value of 0.0000, which means that if capital expenditures increase by 1 unit, then capital expenditures will increase by 7.51 units.

The independence ratio describes the regional dependence on external sources of funds. The independence ratio also describes the level of community participation in regional development. The higher the community participation, the higher the independence ratio, where sufficient funds are available for the allocation of capital expenditures.

The higher it is independence ratio, regional development will be more advanced, so that economic growth can also increase (Halim, 2022 in Sularso and Restianto, 2021). Ani and Dwirandra (2012), stated that regional financial performance in the form of the independence ratio has a positive and significant effect on economic growth. Based on the results of the study, the independence ratio of the special autonomy province has a positive and significant influence on economic growth through capital expenditures. This is indicated by the coefficient value 158,461 and a significance value of 0.0000 which means that if the independence ratio increases by 1 unit, then economic growth will increase by 158,461 units through capital expenditures.

The effectiveness ratio describes the ability of the region to realize the planned PAD compared to the target set based on the real potential of the region. The ability of the region to carry out its duties is said to be effective if the

ratio achieved is 1 (one) or 100 (one hundred) percent. However, the higher the effectiveness ratio, the better the regional capability. The higher the region's ability to realize the targeted PAD, the more it can meet development spending needs to increase regional economic growth (Sularso and Restianto, 2011). Utomo (2012) states that capital expenditure mediates the relationship between PAD effectiveness and economic growth. This is in line with the research of Sularso and Restianto (2012). Based on the research results, the effectiveness ratio of the special autonomy province has a positive and significant impact on economic growth through capital expenditures. This is indicated by the coefficient value 15,6208 and a significance value of 0.0000 which means that if the effectiveness ratio increases by 1 unit then economic growth will increase by 15,6208 units through capital expenditures.

The regional efficiency ratio is a ratio that reflects the costs incurred to obtain income (Ani & Dwirandra, 2014). Mardiasmo (2014) says that efficiency is measured by the ratio between output and input. The greater the output compared to the input, the higher the level of efficiency of an organization. The efficiency ratio reflects the comparison of the realization of expenditure (expenditure) with the realization of regional revenue (Halim, 2018). The analysis of the level of regional financial efficiency can be calculated using the efficiency ratio, which is a ratio that describes the comparison between output and input or realization of expenditure with the realization of regional revenue (Astuti, 2015). The efficiency ratio has an influence on regional economic growth (Sari et al., 2019). An activity is carried out efficiently if the implementation of the work has achieved the results (output) with the lowest cost (input), or with minimal costs the desired results are obtained (Dwiandari et al., 2018). Efficiency ratio is a ratio that describes the comparison between the amount of costs incurred to obtain income with the realization of the income received. By knowing the results of the comparison between the realization of expenditures and the realization of revenues, the

assessment of financial performance can be determined (Budiarto, 2017). The smaller the number obtained, the more efficient the area (Halim, 2018). Based on the results of the study, the efficiency ratio of the special autonomy province has a positive and significant impact on economic growth through capital expenditures. This is indicated by the coefficient value 23.6565 and a significance value of 0.0000 which means that if the efficiency ratio increases by 1 unit, then economic growth will increase by 23.6565 units through capital expenditures.

According to Brata (2014) which states that PAD has a positive effect on economic growth in the region, and research by Tambunan (2016) which states that sustainable PAD growth will lead to an increase in regional economic growth rates. The increase in PAD is actually an access to economic growth. Regions with positive economic growth have the possibility of getting an increase in PAD. This perspective suggests that local governments should concentrate more on empowering local economic forces to create economic growth rather than just issuing laws and regulations related to taxes and levies. Harianto (2017) where PAD is one of the sources of regional spending, if PAD increases, the funds owned by the regional government will be higher and the level of regional independence will also increase, so that the regional government will take the initiative to further explore regional potentials and increase economic growth. Sustainable PAD growth will lead to an increase in regional economic growth itself, (Tambunan, 2016).

The increase in PAD must have an impact on the regional economy (Saragih, 2013). Therefore, the region will not succeed if the region does not experience significant economic growth despite an increase in PAD revenue. If the opposite happens, it can be indicated that there is excessive exploitation of PAD on the community without paying attention to increasing the productivity of the community itself. With revenue from PAD, it can increase regional economic growth and will have an impact on national economic growth. Increased PAD can increase local government investment

so that the quality of public services is getting better. Sidik (2022) asserts that the success of increasing PAD should not only be measured by what is received, but also measured by its role in regulating the community's economy so that it can develop more, which in turn can improve the welfare of the local community. The increase in PAD will encourage regional economic growth. An increase in PAD will trigger and spur regional economic growth to be better than the previous regional economic growth.

The increase in PAD can also optimize and increase activity in sectors related to economic growth, such as the industrial and trade sectors, the service sector, and other sectors. One of the main objectives of fiscal decentralization is the creation of regional independence. Local governments are expected to be able to explore local financial sources, particularly through PAD. If PAD increases, the funds owned by local governments will be higher. Based on the results of the study, the growth of PAD in the Special Autonomy Province has a positive and significant impact on economic growth through capital expenditures.

This is indicated by the coefficient value If PAD increases, the funds owned by local governments will be higher. Based on the results of the study, the growth of PAD in the Special Autonomy Province has a positive and significant impact on economic growth through capital expenditures. This is indicated by the coefficient value If PAD increases, the funds owned by local governments will be higher. Based on the results of the study, the growth of PAD in the Special Autonomy Province has a positive and significant impact on economic growth through capital expenditures. This is indicated by the coefficient value 11.7156 and a significance value of 0.0000 which means that if PAD growth increases by 1 unit, then economic growth will increase by 11.7156 units through capital expenditures.

## CONCLUSION

The results of the study show Regional independence ratios, effectiveness ratios, efficiency ratios, and PAD growth in special

autonomy provinces have a positive and significant impact on capital expenditures. Capital expenditures for special autonomy provinces have a positive and significant impact on economic growth. The independence ratio, effectiveness ratio, efficiency ratio, and PAD growth of special autonomy provinces have a positive and significant influence on economic growth through capital expenditures. This study has several limitations. First, this study only uses the realized value of district/city government capital expenditures without taking into account the capital expenditures issued by the provincial government and in the central government carried out in the relevant districts/cities. Second, there are data that have not been obtained in this study, so that the regencies/cities with incomplete data were excluded from the sampling of this research. Therefore, it is suggested that further research can eliminate the limitations of this study, namely by including the allocation of the realized value of capital expenditures of the provincial and central governments to the observed districts/cities, as well as completing the district/city data for which data were not obtained in this study.

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