

## Financial Performance Analysis of Regional Governments and Its Influence on Community Welfare (Empirical Study on Cities and Regencies in Jambi Province, Fiscal Year 2015-2020)

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**ABSTRACT :** This study aims to analyze financial performance, regional financial capacity and to find out empirically the effect of the Regional Financial Independence Ratio, Fiscal Decentralization Ratio, Effectiveness Ratio, and Regional Financial Efficiency Ratio on the Welfare of the City and District Community of Jambi Province for the 2015-2020 Fiscal Year. The analytical tools used in this study are financial ratios measuring tools, Regional Original Revenue performance analysis tools through share and growth measures which are then described in a financial capability map using the quadrant method and index method, and using panel regression to determine the effect of regional financial performance on welfare community, as measured by the Human Development Index (HDI). The result of this research is that the level of independence of cities and regencies throughout Jambi Province still depends on transfer funds from the Central Government. The average regional independence ratio is 9.40%. The Fiscal Decentralization Ratio is not maximal with an average Fiscal Decentralization Ratio of 8.33%. The effectiveness ratio has shown a positive trend with an average ratio of 103.41%. Efficiency Ratio shows the expenditure for spending less efficient. Average Efficiency Ratio 99.62%. From the results of the analysis of regional financial capabilities, the average share and growth is < 1 which is included in the low category. Then by mapping the regional financial capacity based on the quadrant method, the cities and regencies of Jambi Province are in quadrant IV position. Regional financial performance simultaneously has a positive and significant effect on people's welfare. Regional financial independence has a positive and not significant effect. Fiscal Decentralization has a negative and insignificant effect. Regional Financial Effectiveness has a positive and insignificant effect. Regional Financial Efficiency has a positive and insignificant effect.

**KEYWORDS** -Financial Performance, Community Welfare

### I. INTRODUCTION

Regional autonomy as explained in the Republic of Indonesia's Law number 23 of 2014 is "Regional Autonomy is the right, authority, and obligation of an autonomous region to regulate and manage its own Government Affairs and the interests of the local community in the system of the Unitary State of the Republic of Indonesia." The purpose of this authority is to bring government services closer to the community, make it easier for the community to monitor and control the use of funds sourced from the APBD and to create healthy competition between regions, as well as encourage innovation.

The President of the Republic of Indonesia, Susilo Bambang Yudhoyono through Presidential Regulation Number 32 of 2011 has established a Master Plan for the Acceleration and Expansion of Indonesian Economic Development (MP3EI) which is the direction of Indonesia's economic development until 2025. This program aims to accelerate and strengthen economic development in accordance with advantages and disadvantages. strategic potential in each region in Indonesia. In order for this program to be implemented properly, local initiatives are needed in terms of revenue targets, policies related to infrastructure and regulations, partnerships with the private sector by establishing public private partnerships. All local government policies have the ultimate goal of community welfare.

The indicator to measure people's welfare is human development or the Human Development Index (HDI). The high level of human development will greatly determine the ability of the population to absorb and manage financial resources, both with technology and in institutions as an important means to achieve prosperity.

In Table 1, data on the development of HDI in Regencies and Cities in Jambi Province for the period 2015 to 2020.

**Table 1 :**  
**Regency and City HDI in Jambi Province 2015-2020**

Regency/City	Human Development Index 2015-2020						AVR
	2015	2016	2017	2018	2019	2020	
KERINCI	68,89	69,68	70,03	70,59	70,95	71,21	70,23
MERANGIN	67,15	67,86	68,30	68,81	69,07	69,19	68,40
SAROLANGUN	68,10	68,73	69,03	69,41	69,72	69,86	69,14
BATANGHARI	68,05	68,70	68,92	69,33	69,67	69,84	69,09
MUARO JAMBI	66,66	67,55	67,86	38,34	69,01	69,18	63,10
TANJUNG JABUNG TIMUR	61,12	61,88	62,61	63,32	63,92	64,43	62,88
TANJUNG JABUNG BARAT	65,03	65,91	66,15	67,13	67,54	67,54	66,55
TEBO	67,29	68,05	68,16	68,67	69,02	69,14	68,39
BUNGO	68,34	68,77	69,04	69,42	69,86	69,92	69,23
JAMBI CITY	75,58	76,14	76,74	77,41	78,26	78,37	77,08
SUNGAI PENUH CITY	73,03	73,35	73,75	74,67	75,36	75,42	74,26

*Source: processing data BPS Provinsi Jambi*

Based on the data above, it can be seen that there are 3 (three) regencies and cities that have an average HDI with a high classification, between  $70 < \text{HDI} < 80$ , namely Kerinci Regency, Jambi City, and Sungai Penuh City. This shows that the residents of Kerinci Regency, Jambi City, and Sungai Penuh City have a high ability to absorb and manage financial resources. Meanwhile, 8 (eight) regencies are in the average HDI classification (between  $60 < \text{HDI} < 70$ ), which shows that the population in these 8 (eight) regencies has moderate ability to absorb and manage financial resources.

Abate in Muhajirin (2019) stated that the most important thing in administering government related to regional finances is having sufficient regional revenue. Regional financial sources can be said to be sufficient, if the revenue from the Regional Original Revenue reaches 20% of the regional expenditure. If the PAD has reached 20%, the dependence of the Regional Government on the Central Government is included in the small category. In other words, the regional autonomy policy is said to be better if the greater the percentage of PAD to regional expenditures.

In order to assess that regional financial management has been running effectively, efficiently and accountably, it is necessary to analyze the ratio of finance to regional income and expenditure. Therefore, it is necessary to conduct research on the financial performance of the City and Regency Governments within the Jambi Province to determine the success of the implementation of regional autonomy by using a regional financial ratio analysis tool consisting of the Regional Independence Ratio, Fiscal Decentralization Ratio, Effectiveness Ratio, and Efficiency Ratio. To find out how much regional financial capacity is in financing district and city government expenditures, it is necessary to map regional financial capabilities using parameters for calculating and analyzing PAD performance through share and growth, and can also use the Regional Financial Capability Index (FCI) method.

Based on the explanation above, this research was conducted with the following objectives:

1. To analyze the financial performance of the City and Regency Governments of Jambi Province for the 2015-2020 Fiscal Year in terms of the Regional Independence Ratio, Fiscal Decentralization Ratio, Effectiveness Ratio, and Efficiency Ratio.
2. To analyze the financial capacity of the City and Regency Governments of Jambi Province for the 2015-2020 Fiscal Year, measured through the share and growth of the Regional Budget, the Financial Capability Index (FCI) and the Regional Financial Capability Map.
3. To find out empirically the effect of Regional Financial Independence on Community Welfare as measured by the ratio of the Human Development Index (HDI) in Cities and Regencies in Jambi Province for the 2015-2019 Fiscal Year.
4. To find out empirically the effect of Fiscal Decentralization on Community Welfare as measured by the ratio of the Human Development Index (HDI) in Cities and Regencies in Jambi Province for the 2015-2019 Fiscal Year.
5. To find out empirically the effect of Regional Financial Effectiveness on Community Welfare as measured by the ratio of the Human Development Index (HDI) in Cities and Regencies in Jambi Province for the 2015-2019 Fiscal Year.

6. To find out empirically the effect of Regional Financial Efficiency on Community Welfare as measured by the ratio of the Human Development Index (HDI) in Cities and Regencies in Jambi Province for the 2015-2019 Fiscal Year.
7. To find out empirically the effect of Regional Financial Performance represented by Regional Financial Independence, Fiscal Decentralization, Effectiveness and Efficiency of Regional Financial Simultaneously on Community Welfare as measured by the ratio of Human Development Index (HDI) in Cities and Regencies throughout Jambi Province Fiscal Year 2015-2019.

## II. LITERATURE REVIEW

### Regional Financial Performance

Financial performance analysis is basically carried out to assess past performance by conducting analyses, in order to obtain a financial position that represents the reality of the entity and the potential for continued performance. According to Halim (2013), "financial performance analysis is an attempt to identify financial characteristics based on available financial reports". One of the tools used to assess the performance of regional governments in managing regional finances as outlined in the Regional Budget is financial ratio analysis.

### Regional Financial Independence Ratio

Regional financial independence shows the ability of local governments to finance their own government activities, development, and services to people who have paid taxes and levies as a source of income needed by the region. The higher the ratio of Regional Original Revenue (PAD) to the Balancing Fund from the central government in the form of the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund (DBH), the better the level of regional financial independence. The higher the ratio of independence also illustrates the level of community participation in regional development. The higher the independence ratio, the higher the participation of the community in paying taxes and regional retributions will describe the higher level of community welfare.

### Fiscal Decentralization Ratio

Fiscal decentralization ratio is a measure to show the level of authority and responsibility given by the central government to local governments to implement development.

### Effectiveness Ratio

The Effectiveness Ratio describes the ability of the regional government to realize the planned Regional Original Revenue compared to the target set based on the real potential of the region. The ability of the region in carrying out its duties is categorized as effective if the ratio achieved is at least 100%. However, the higher the effectiveness ratio, the better the regional capability.

### Efficiency Ratio

The measurement of this efficiency level is to find out how much efficiency the implementation of an activity is by measuring the input used and comparing it with the output produced which requires data on the realization of expenditure and the realization of income. The smaller this ratio, the more efficient it is, and vice versa.

### Regional Financial Capability

Regional Financial Capability Analysis is carried out in 2 (two) stages, namely: 1) Performance Analysis of Regional Revenue (PAD) through share and growth measures; Share is the ratio of Regional Original Revenue (PAD) to total regional expenditure. This ratio measures how far the region's ability to finance routine activities and development activities. This ratio can be used to see the regional financial capacity. Meanwhile, growth is the growth rate of Regional Original Revenue (PAD) in the Regional Budget (APBD) period from the previous year. The growth ratio measures how much the local government's ability to maintain and improve the success that has been achieved from period to period; 2) Mapping and Analysis of Regional Capability; The quadrant method is one way of displaying a map of regional financial capabilities. Each quadrant is determined by the amount of share and growth values. The Financial Capability Index (IKK) method is the calculated average of the growth index, elasticity index, and share index. From the value of the Regional Financial Capability Index (IKK), then the regional financial capability can be analyzed with three classifications of regional financial capability, namely low, medium, and high.

Figure 1. Financial Capability Map Based on Quadrant Method

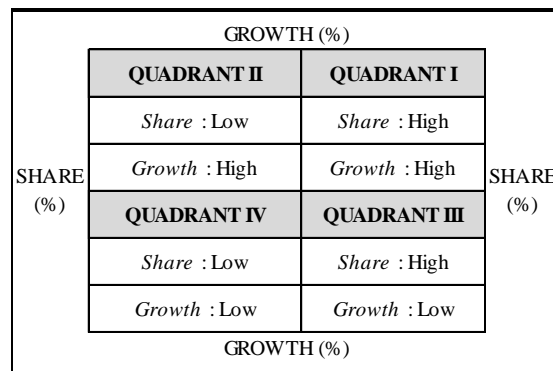


Table 2. Clasification of Regional Capabilities Status Based on Quadrant Method

QUADRANT	CONDITION
I	The most ideal conditions. Regional Original Revenue (PAD) takes a big role in total spending, and regions have the ability to develop local potential. This condition is indicated by the high share and growth values.
II	This condition is not ideal, but the region has the ability to develop local potential so that PAD has the opportunity to have a big role in Total Expenditure. The contribution of PAD to Total Expenditure is still low but PAD growth is high.
III	This condition is not ideal. The large role of PAD in Total Expenditure has little opportunity because the growth of PAD is small. The contribution of PAD to Total Expenditure is high, but PAD growth is low.
IV	This condition is at its worst. The role of PAD has not yet played a large role in Total Expenditure, and the regions do not yet have the ability to develop local potential. The contribution of PAD to Total Expenditure and PAD growth is low.

Source : Bappenas 2003

**Community Welfare**

The United Nations Development Program (UNDP) defines welfare in a broader sense, more than just Gross Domestic Product (GDP) and GDP per capita, namely from the value of the Human Development Index (HDI). The indicators used to measure the level of community welfare are the Human Development Index (IPM), namely the Aggregation of Average Years of Schooling (RLS), Expected Years of Schooling (HLS), and Gross National Product (GNP) per capita. The achievements of human development in an area at a certain time based on BPS (2020), can be grouped into four groups according to the status of their achievements. The groupings are: very high: HDI > 80; high: 70 < HDI < 80; medium: 60 < HDI < 70; and low: HDI < 60.

**Previous Research**

This research is a replication of the research conducted by Muhajirin (2019) regarding "Financial Performance of Regency and City Governments in the SWP Gatekertasusila Plus Area of East Java Province for Fiscal Year 2012-2017 Its Effect on Community Welfare", which in her research states that the level of independence of the majority is still dependent on funds from the central government. The Fiscal

Decentralization Ratio shows that it is still not optimal. The Effectiveness Ratio has shown a positive trend. The efficiency ratio shows that expenditure for spending is optimal. From the results of the analysis of regional financial capabilities, the average share and growth value > 1 is said to be high. Then, by mapping the regional financial capacity based on the quadrant method, the Regency and City in the SWP Gatekertasusila Plus area of East Java Province are in quadrant I position. Regional financial performance simultaneously has a positive and significant effect on people's welfare. Regional financial independence has neither positive nor significant effect on people's welfare. Fiscal decentralization has a positive and significant impact on people's welfare. Regional financial effectiveness has a positive and significant relationship to people's welfare. Efficiency has a negative but significant relationship to people's welfare. The difference between this research and the replicated research, which is both about the financial performance of local governments using descriptive analysis techniques, is the object of research and the year of observation.

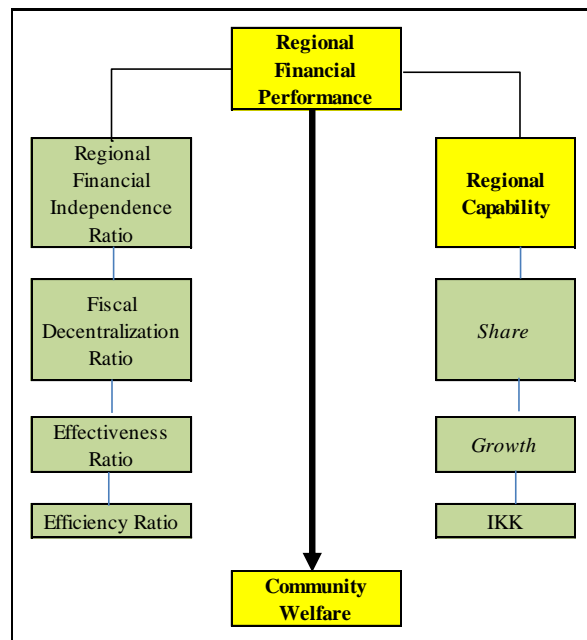
Mauludin, W & Dewi, RM (2020), conducted research on the Ratio of Regional Financial Independence and Economic Growth on the Human Development Index in Banten Province. The result of the research is that there is a simultaneous influence between the independent variable and the dependent variable. While partially, the ratio of regional financial independence has an effect on HDI. Economic growth has no effect on the HDI of districts/cities of Banten Province. The conclusion of this study is that the ratio of regional financial independence and economic growth has an effect on the HDI of districts/cities of Banten Province in 2013 to 2017.

Khairudin et al (2019), researching the Financial Performance and Welfare of Local Governments in Indonesia, found that (1) the financial performance and welfare of local governments in Indonesia were not so good; (2) regional financial independence has a positive and significant effect on community welfare; (3) the effectiveness of regional finance has a positive and insignificant effect on people's welfare; (4) regional financial efficiency has a positive and significant effect on people's welfare and (5) regional financial growth has a negative and significant effect on people's welfare.

**Research Framework**

Researchers conducted an analysis of Regional Financial Performance and Regional Financial Capability of Cities and Regencies in Jambi Province for the 2015-2020 Fiscal Year. Figure 2 describes the Conceptual Framework for Analysis of Regional Financial Performance of Cities and Regencies in Jambi Province for the 2015-2020 Fiscal Year using financial ratio analysis tools, Financial Capability Index (IKK), and regional capacity maps.

*Figure 2. Regional Financial Performance Analysis Framework*



*Figure 3. Conceptual Framework*

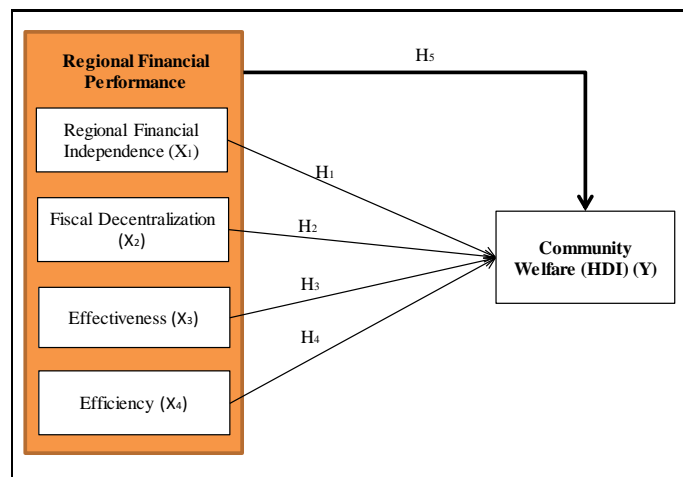


Figure 3 explains the Conceptual Framework of the Relationship of Regional Financial Performance to the Welfare of the City and Regency Community of Jambi Province for the 2015-2020 Fiscal Year using panel regression. The hypotheses in this study are as follows:

- H1** : Regional Financial Independence has a positive and significant effect on Community Welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and Regency for Fiscal Year 2015-2019.
- H2** : Fiscal Decentralization has a positive and significant effect on Community Welfare as measured by the ratio of the Human Development Index (HDI) in Jambi City and Regency for Fiscal Year 2015-2019.
- H3** : The effectiveness of regional finance has a positive and significant effect on Community Welfare as measured by the ratio of the Human Development Index (IPM) in the City and Regency of Jambi Province for the 2015-2019 Fiscal Year.
- H4** : Regional financial efficiency has a positive and significant effect on Community Welfare as measured by the ratio of the Human Development Index (HDI) in the City and Regency of Jambi Province for the 2015-2019 Fiscal Year.
- H5** : Regional Financial Performance which is represented by regional financial independence, fiscal decentralization, effectiveness, and efficiency simultaneously has a positive and significant effect on Community Welfare as measured by the ratio of Human Development Index (IPM) in Cities and Regencies in Jambi Province for Fiscal Year 2015-2019.

### III. RESEARCH METHODS

#### Data, Samples and Research Variables

The population of this research is all cities and regencies in Jambi Province, totaling 11 (eleven) cities and regencies. These eleven cities and regencies are also the objects of this research, which consist of Jambi City, Sungai Penuh City, Batanghari Regency, Bungo Regency, Kerinci Regency, Merangin Regency, Muaro Jambi Regency, Sarolangun Regency, Tanjung Jabung Barat Regency, Tanjung Jabung Timur Regency, and Tebo Regency.

This research is a quantitative descriptive research with a causative nature. This research in addition to analyzing the Regional Financial Performance of Cities and Regencies in Jambi Province for the 2015-2020 Fiscal Year, is also to prove empirically the influence of the relationship between regional financial performance on the welfare of the people of Cities and Regencies throughout the Jambi Province Fiscal Year 2015-2019.

The type of data used is secondary data, namely data obtained from third parties regarding the Financial Statements of Cities and Regencies in Jambi Province for the 2015-2020 Fiscal Year and the 2015-2020 Human Development Index, which was obtained from the Realization Report of the Regional Revenue and Expenditure Budget in the Regency or City within Jambi Province published by the Jambi Provincial Statistics Center, situs [www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id), Regency and City Regional Finance Boards in Jambi Province, and Jambi Provincial Secretariat Finance Bureau.

The variables of this study consist of five independent variables, namely Regional Financial Independence (Variable X1), Fiscal Decentralization (Variable X2), Effectiveness (Variable X3), Efficiency (Variable X4), and Regional Capability (X5), and the dependent variable is Community Welfare (Y).

### Data Analysis Techniques

This research uses panel data regression to examine the effect of Regional Financial Independence (Variable X1), Fiscal Decentralization (Variable X2), Effectiveness (Variable X3), and Efficiency (Variable X4) on Community Welfare (Y) in Cities and Regencies throughout the Jambi Province, with a combination of time series and cross section data. The time series data in this study is 2015-2019, and the cross section data of this study is eleven regencies and cities in Jambi province.

### Model Selection Test

According to Widarjono (2007:258), there are three types of special tests used to select the best panel data regression model for an existing problem, namely the Chow test, Hausman test, and the Lagrange multiplier test. According to Winarno (in Azwar and Subekan, 2014) in brief, the steps for testing the panel data model selection are: 1) Estimation with Fixed Effects. 2) Chow test (to determine whether the model used is Common Effect or Fixed Effect). If H0 is accepted (if the Prob Cross Section F and Chi Square values are > 0.05), then the Common Effect model is selected (finished here). If H0 is rejected (if the value of Prob Cross Section F and Chi Square < 0.05), then the Fixed Effect model is selected. (continue step 3). 3) Estimation with Random Effect. 4) Hausman test (to determine whether the model used is Fixed Effect or Random Effect). If H0 is accepted (if the probability value of random cross-section > 0.05), then the Random Effect model is chosen (finished here). If H0 is rejected (if the random cross-section probability value is <0.05), then the Fixed Effect model is selected (continue step 5). 5) LM test, if there is heteroscedasticity between individual groups (cross section). H0: Homoscedastic and H1: Heteroscedastic. If H0 is accepted, then the Homoscedastic model (completed). If H0 is rejected, then the Heteroscedastic model. Solution: with Cross section Weight (and continue step 6). 6) LR (Likelihood Ratio Test) test, if there is heteroscedasticity and autocorrelation between individual groups (cross section). If H0 is accepted, then the model is heteroscedastic. The solution with Cross Section Weight. If H0 is rejected, then the model is SUR. The solution is with Cross Section SUR. The Lagrange Multiplier test is used to see the best panel data regression model among the models obtained based on the random effects model approach and the model obtained using the common effects model approach.

### Hypothesis Test

Hypothesis testing in this study using the help of Eviews12. To test the hypothesis in a direct relationship used t-test or t-test. Tests are carried out to see the significance of the independent variables partially on the dependent variable with the following hypotheses: 1) If the t test results have a significant value or alpha ( $\alpha$ ) < 0.05 (95% confidence level) then there is a significant effect of the independent variable partially to the dependent variable, so that the hypothesis is accepted. 2) If the t test results have a significant value or alpha value ( $\alpha$ ) > 0.05 (95% confidence level) then there is a less significant effect of the independent variable partially on the dependent variable, so that the alternative hypothesis is accepted.

To make a decision in the joint regression coefficient test (ANOVA/F Test and Significance Test) with the following criteria: a) If F count > F Table and significance < 0.05, it can be concluded that there is an influence between the independent and dependent variables significantly. b) If F count < F table and significance > 0.05, it can be concluded that there is no influence between the independent and dependent variables.

R<sup>2</sup> (R-Square) is used to measure how big the proportion of variations of the independent variables together in influencing the dependent variable. The results of this test show how much the independent variable can explain the dependent variable, formulation;

$$R^2 = \frac{ESS}{TSS}$$

Where:

R<sup>2</sup> = Coefficient of determination  
 ESS = Explain Sum Square  
 TSS = Total Sum Square

## IV. RESULTS AND DISCUSSION

### Analysis of Regional Financial Independence Ratio

The ratio of financial independence of the City and Regency Governments of Jambi Province for the 2015-2020 Fiscal Year shows that the majority of City and Regency Governments of Jambi Province are still very dependent on funds from the Central Government through balancing funds. This can be seen from the level of regional financial independence in 9 (nine) cities and regencies out of 11 (eleven) cities and regencies throughout Jambi Province, which are in a very poor position. This is because the revenue from potential sources of regional income is very small compared to the receipt of transfer funds from the Central Government through balancing funds. Meanwhile, there are regencies and cities that have experienced improvements in the management of Regional Original Revenues thereby reducing their dependence on central government transfer

funds, namely Bungo Regency with low regional independence status and Jambi City with moderate regional independence status. This shows that the two regions have entered into a pattern of consultative relations, where according to Paul Hersey and Kenneth Blanchard in Halim (2001), the pattern of consultative relations explains how the intervention of the Central Government has begun to decrease slightly. This is due to the fact that local governments have little capacity to implement and implement regional autonomy policies.

#### Analysis of Fiscal Decentralization Ratio

Based on the results of the analysis of the average level of fiscal decentralization of cities and regencies throughout Jambi Province for the 2015-2020 Fiscal Year, it can be seen that only Jambi City is in the medium category and Bungo Regency is in the poor category, while 9 (nine) cities and other regencies fall into the very poor category. These nine cities and regencies consist of Sungai Penuh City, Batanghari Regency, Kerinci Regency, Merangin Regency, Muaro Jambi Regency, Sarolangun Regency, Tanjung Jabung Barat Regency, Tanjung Jabung Timur Regency, and Tebo Regency. Fiscal decentralization of nine cities and regencies shows that these regions have not been able to optimize Regional Original Income (PAD) in supporting regional income, where the contribution of PAD in supporting regional income to finance its own development is very small.

#### Analysis of Effectiveness Ratio

The results of the calculation of the effectiveness ratio of cities and regencies throughout Jambi Province for the 2015-2020 Fiscal Year, obtained 9 (nine) cities and regencies throughout Jambi Province which have a very effective in effectiveness ratio category, namely Jambi City, Bungo Regency, Kerinci Regency, Merangin Regency, Muaro Jambi Regency, Sarolangun Regency, Tanjung Jabung Barat Regency, Tanjung Jabung Timur Regency, and Tebo Regency. Meanwhile, 2 (two) cities and regencies are categorized as quite effective, namely Sungai Penuh City and Batanghari Regency. From these results, it can be concluded that in general the cities and regencies of Jambi Province have been able to realize Regional Original Revenue (PAD) with the target set based on the real potential of the region. In line with what was conveyed by Suyana Utama (2008), namely effectiveness is related to the degree of success of an operation in the public sector, so that an activity is said to be effective if the activity has a major influence on the ability to provide public services which is a predetermined target.

#### Analysis of Efficiency Ratio

The results of the calculation of the efficiency ratio of cities and regencies throughout Jambi Province for the 2015-2020 Fiscal Year, show that during the 2015-2020 fiscal year, cities and regencies throughout Jambi Province tend to be less efficient in managing regional income to meet regional expenditure needs, where there are 6 (six) cities and regencies that fall into the less efficient category, namely Jambi City, Bungo Regency, Kerinci Regency, Muaro Jambi Regency, Tanjung Jabung Barat Regency, and Tebo Regency. Meanwhile, 5 (five) cities and regencies are included in the inefficient category, namely Sungai Penuh City, Batanghari Regency, Merangin Regency, Sarolangun Regency, and Tebo Regency. The reason for the efficiency level being declared inefficient for the five cities and regencies is because the local government spends more than its revenue capacity. As stated by Mulyadi (2007: 63) suggests that efficiency is the accuracy of the way (effort, work) in doing something without wasting time, effort and cost. Efficiency also means the ratio of input and output costs and profits.

#### Analysis of Regional Financial Capability

From the results of the analysis of regional financial capabilities, the average share and growth  $< 1$  is obtained which is included in the low category. Then by mapping regional financial capabilities based on the Quadrant Method, cities and regencies throughout Jambi Province are in quadrant IV, which shows the worst condition of regional capacity, where the role of Regional Original Revenue (PAD) has not played a large role in Total Expenditures, and regions have not have the ability to develop local potential. The contribution of PAD to Total Expenditure (share) and PAD growth (growth) is low. Based on the results of the analysis of the growth, share, and elasticity index above, it can be obtained the results of the calculation of the regional Financial Capability Index (IKK) as in table 3.

**Table 3. Financial Capability Index (IKK) City Regency in Jambi Province Fiscal of Year 2015-2020**

Index	Calculation	IKK Result	Financial Capability Standard	Financial Capability Status



XE = 0,40	0,40 + 0,19 + 0,20			
XG = 0,19	$\frac{0,40 + 0,19 + 0,20}{3}$	0,26	0,00 - 0,33	Low
XS = 0,20				

Source: Regional Budget Data from DJPK of Financial Ministry and Regional Financial Statistik of Jambi Province 2015 (BPS Jambi), processed on 2022

During the 2015 to 2020 budget period, the City and District Financial Capability Index (IKK) of Jambi Province is on an index scale of 0.26 which is included in the category of low regional financial capability.

### Hypothesis Test Results

#### Model Estimation

The analysis of this model uses the help of Eviews 12 software. In this study, two estimation models were used, namely the Chow test and the Hausman test.

#### Chow Test

The hypothesis used in the Chow test is as follows:

H0 : Common Effect Model is better than Fixed Effect Model.

H1 : Fixed Effect Model is better than Common Effect Model.

**Table 4. Estimation Result of the Chow-Test Model**

Effects Test	Statistic	d.f.	Prob.
Cross-section F	2.799344	(10,40)	0.0100
Cross-section Chi-square	29.179249	10	0.0012

Source: Eviews12, processed data 2022

From the results of this study, it was found that the calculation of the F test is Probability 0.0100 < 0.05 which is the significance level  $\alpha = 0.05$ , thus, H0 is rejected and H1 is accepted. For this reason, this study chose the fixed effect model

#### Hausman Test

The hypothesis used in the Hausman test is as follows:

H0 : Random Effect Model is better than Fixed Effect Model.

H1 : Fixed Effect Model is better than Random Effect Model.

**Table 5. Hausman Model Estimation Test Result**

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	21.834337	4	0.0002

Source: Eviews12, processed data 2022

From the results of this study, it was obtained that the Cross-Section Random calculation was a probability of 0.0002 < 0.05 which was a significance level of  $\alpha = 0.05\%$ . Thus H1 is accepted and H0 is rejected, where the fixed effect model is chosen in this study.

#### Uji Lagrange Multiplier

The hypotheses used in this LM test are as follows:

H0 : Homoscedastic Variant Structure

H1 :Heteroscedastic Variant Structure

Where H0 is accepted if the significance is  $> 0.05$  which means there is no heteroscedasticity and H0 is rejected if the significance is  $<0.05$  which means there is heteroscedasticity.

**Table 6. Lagrange Multiplier Test Result**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	9.967059	10.05950	0.990811	0.3265
X1	0.570878	1.046029	0.545757	0.5877
X2	-0.840189	1.430157	-0.587480	0.5595
X3	0.018941	0.019330	0.979841	0.3319
X4	-0.088649	0.093837	-0.944709	0.3494
R-squared	0.045574	Mean dependent var		1.555669
Adjusted R-squared	-0.030781	S.D. dependent var		3.259025
S.E. of regression	3.308802	Akaike info criterion		5.317557
Sum squared resid	547.4085	Schwarz criterion		5.500042
Log likelihood	-141.2328	Hannan-Quinn criter.		5.388126
F-statistic	0.596871	Durbin-Watson stat		1.256950
Prob(F-statistic)	0.666563			

Source: Eviews12, processed data 2022

From the results of this study, it was found that the calculation using the Cross-Section Fixed model, the probability of each dependent variable  $> 0.05$  which is a significance level of  $\alpha = 0.05\%$ . Thus, H0 is accepted, which means that there is no heteroscedasticity, so the fixed effect model was chosen in this study.

The results of the panel regression test for the fixed effect model of this study are as follows:

**Table 7. Fixed Effect Model Regression Test Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	67.19092	14.93121	4.500033	0.0001
X1	1.477908	2.276385	0.649235	0.5199
X2	-2.293921	3.549927	-0.646188	0.5218
X3	0.001478	0.038441	0.038460	0.9695
X4	0.065574	0.122971	0.533245	0.5968

Source: Eviews12, processed data 2022

The regression equation for the Community Welfare is as follows:

$$Y = 67,19092 + 1,477908X_1 - 2,293921X_2 + 0,001478X_3 + 0,065574X_4 + e$$

Where:

- Y = Community Welfare
- X<sub>1</sub> = Regional Financial Independence
- X<sub>2</sub> = Fiscal Decentralization
- X<sub>3</sub> = Effectiveness
- X<sub>4</sub> = Efficiency
- e = Other variables affect

### Simultaneous Test (F Test)

The hypothesis used in this F test:

H0 :there is no effect between X1, X2, X3, dan X4 simultaneously on Y.

Ha :there is effect between X1, X2, X3, dan X4 simultaneously on Y.

**Table 8. Simultaneous Test Result**

Cross-section fixed (dummy variables)			
R-squared	0.573362	Mean dependent var	68.65327
Adjusted R-squared	0.424038	S.D. dependent var	5.538298
S.E. of regression	4.203133	Akaike info criterion	5.936538
Sum squared resid	706.6530	Schwarz criterion	6.483993
Log likelihood	-148.2548	Hannan-Quinn criter.	6.148243
F-statistic	3.839732	Durbin-Watson stat	3.070335
Prob(F-statistic)	0.000409		

Source: Eviews12, processed data 2022

From table 8, it can be seen that the value (F-statistic) is 0.000409, where the value (F-statistic) is less than  $\alpha = 5\%$  ( $0.000409 < 0.05$ ). Thus the results of this F test are the independent variables have a positive and significant effect on the dependent variable or in other words the variables of regional financial independence, fiscal decentralization, effectiveness, and efficiency have a simultaneous effect on the variable of community welfare.

#### **Partial Significance Test (t Test)**

The t-test is used to test whether there is an effect of the independent variable (Regional Financial Independence, Fiscal Decentralization, Effectiveness, and Efficiency) on the dependent variable (Community Welfare), where the hypothesis is:

H<sub>0</sub> :there is no effect between X1, X2, X3, dan X4 partially against Y.

H<sub>a</sub> :there is effect between X1, X2, X3, dan X4 partially against Y.

In table 7 the probability value for the regional financial independence variable is 0.5199 ( $> 0.05$ ), then H<sub>1</sub> is rejected, which means that regional financial independence has a positive and insignificant effect on community welfare. The variable of fiscal decentralization on community welfare has a probability of 0.5218 ( $> 0.05$ ), then H<sub>2</sub> is rejected, which means that fiscal decentralization has a negative and insignificant effect on community welfare. The effectiveness variable on community welfare has a probability of 0.9695 ( $> 0.05$ ), then H<sub>3</sub> is rejected, which means that fiscal decentralization has a positive and insignificant effect on community welfare. The efficiency variable on community welfare has a probability of 0.5968 ( $> 0.05$ ), then H<sub>4</sub> is rejected, which means that fiscal decentralization has a positive and insignificant effect on people's welfare. Therefore, it can be concluded that the independent variables (Regional Financial Independence, Fiscal Decentralization, Effectiveness and Efficiency) partially have no significant effect on the dependent variable (community welfare).

#### **Coefficient of Determination**

Determination analysis is used to determine the percentage contribution of the influence of the independent variable simultaneously on the dependent variable. The coefficient of determination (R<sup>2</sup>) from this study was 0.573362 or equivalent to 57.33%. This shows that the ability of the independent variables consisting of Regional Financial Independence, Fiscal Decentralization, Effectiveness, and Efficiency is able to explain the dependent variable, namely community welfare. While the remaining 42.40% is explained by other variables outside the model in this study.

#### **The Effect of Regional Financial Independence on Community Welfare**

The results of this study indicate that regional financial independence has a positive but not significant effect on the welfare of the people of cities and regencies throughout Jambi Province for the 2015-2019 Fiscal Year. This shows that the City and Regency Governments throughout the Jambi Province have not been able to manage their regional potential well, so that the level of dependence on aid funds from the Central Government is very high, supported by the value of the regional financial independence ratio which on average is in the very poor category.

Mauludin, W & Dewi, RM (2020), stated the results of his research that the ratio of regional financial independence had an effect on the HDI of districts/cities of Banten Province from 2013 to 2017. Khairudin et al (2019), revealed that regional financial independence has a positive and significant effect on people's welfare. Meanwhile, Muhajirin (2019), stated that the results of his research on regional financial independence had no positive and insignificant effect on people's welfare.

According to Widodo in Muhajirin (2019), "the independence ratio is a ratio that shows local governments in self-financing government activities, the use of services to people who have paid taxes and regional levies as a source of Regional Original Income (PAD) compared to revenue with regional income originating from the local government. from other sources, such as central government assistance or loans."

#### **The Effect of Fiscal Decentralization on Community Welfare**

The results of this study indicate that Fiscal Decentralization has a negative and insignificant effect on HDI. Findings This study refutes the results of previous studies, namely research conducted by Muhajirin (2019) which stated that Fiscal Decentralization had a positive and significant effect on HDI. The results of previous research conducted by Bisma and Susanto (2010), the fiscal decentralization of the province of NTB is in the sufficient category considering the financial dependence on the central government is very high.

By handing over some authority to local governments through fiscal decentralization, it is hoped that public services will be more efficient and ultimately encourage community welfare, local governments are able to exercise control over regional financial resources, can encourage accountability and transparency of local governments, in addition to increasing community participation. in the process of regional development, providing public services in each region.

However, the results of this research on cities and regencies in Jambi Province for the 2015-2020 year, indicate that the awareness of the regional governments of cities and districts throughout Jambi Province in interpreting the concept of fiscal decentralization, namely that the core of decentralization is regional independence, still needs to be improved. The fluctuating dependence on central assistance is understandable, but changes towards independence must continue so that decentralization can achieve its ultimate goal of community welfare.

### **The Effect of Regional Financial Effectiveness on Community Welfare**

The results of this study reveal that the effectiveness of regional finance has a positive and insignificant effect on the welfare of the people of cities and regencies throughout Jambi Province for the 2015 - 2020 fiscal year. FY 2008-2012 has a positive but not significant effect on people's welfare.

However, the results of this study contradict the results of previous studies (Muhajirin, 2019), which stated that Regional Financial Effectiveness had a positive and significant effect on Community Welfare. Muhajirin stated that the higher PAD of an area can guarantee an influence on the welfare of the community, as evidenced by what happened in the SWP Gatekerta Susila Plus district and city in East Java Province in 2012-2017 from the results of the calculation of the effectiveness ratio of 12 districts and cities there were eight regions classified as very effective, two areas are categorized as effective and two areas are categorized as moderately effective. One of the factors that causes PAD growth to affect people's welfare is the large amount of financing to finance capital expenditures. Capital expenditure is a type of expenditure that generates added value for assets, both physical and non-physical, which is carried out in a certain period.

### **The Effect of Regional Financial Efficiency on Community Welfare**

Regional Financial Efficiency has a positive but not significant effect on the welfare of the people of cities and regencies in Jambi Province for the 2015-2020 academic year. The results of this study are in accordance with research conducted by Azwar, et al (2014), which explains that the efficiency of regional financial performance partially has a negative but not significant effect on social welfare. Although in Azwar et al's research there is a negative relationship, financial efficiency does not have a significant effect on public welfare. This is different from the results of the research presented by Muhajirin (2019), where efficiency has a not positive but significant relationship with Community Welfare.

Mahmudi (2011) explained that efficiency is to find out how much efficiency is in the implementation of an activity by measuring the input used and comparing it with the output produced which requires data on the realization of expenditure and realization of income. According to Mulyadi (2007) stated that: "Efficiency is the accuracy of the way (effort, work) in running something without wasting time, effort and money. Efficiency also means the ratio of input and output costs and profits.

The insignificant effect of efficiency on Community Welfare in Cities and Regencies throughout Jambi Province FY 2015-2020, is caused by the non-optimal income generation from sources other than distribution and local taxes. Income from sources other than levies and local taxes (regular and more massive), such as the results of separated regional wealth management or also utilizing wealth such as rental of land and regional buildings which can bring in additional regional revenues. The types of income classified as the result of separated regional wealth management include, among others, the profit share, dividends. Meanwhile, other legitimate sources of PAD can be in the form of proceeds from the sale of regionally owned goods, sales of used goods, motor vehicle installments, official housing installments, receipts of regional assets, third party donations and others.

### **The Effect of Regional Financial Performance Represented by Regional Financial Independence, Fiscal Decentralization, Simultaneous Effectiveness and Efficiency of Regional Finances on Community Welfare**

The results of this study show that the independent variable (Community Welfare) has a positive and significant effect on the dependent variable or in other words the variables of regional financial independence, fiscal decentralization, effectiveness, and efficiency have a simultaneous effect on the variable of community welfare. These results support the findings of previous studies, including those conducted by Mauludin, W & Dewi, RM (2020), Muhajirin (2019), and Hamid, AA (2018).

With increasing regional financial performance and economic growth, it will lead to an increase in HDI, especially in the education dimension. So the conclusion of the F-test of this study is that the dependent variable is one of the causes of the increase and decrease in HDI in cities and districts in Jambi Province for the 2015-2020 academic year. According to Todaro and Smith in Mauludin (2019), in the Neo Classical stream, economic growth is influenced by three factors, including increasing the quality and quantity of labor, technological advances and increasing capital. This capital is not only from Natural Resources, but also from Human Resources. One way to increase HDI is to improve the quality of human education.

However, although the results of this study show a significant influence between Regional Financial Performance on Community Welfare, the coefficient of determination ( $R^2$ ) of this study is 0.573362 or equivalent to 57.33%, which indicates that the ability of the independent variable consisting of Financial Independence Region, Fiscal Decentralization, Effectiveness, and Efficiency are able to explain the dependent variable, namely the welfare of the community by 57.33%, while the remaining 42.40% is explained by other variables outside the model in this study.

## V. CONCLUSION

### Conclusion

Based on the analysis and discussion, it can be concluded as follows::

1. The financial performance of the Municipal and Regency Governments of Jambi Province for the 2015-2020 Fiscal Year as seen from the Regional Independence Ratio, Fiscal Decentralization Ratio, Effectiveness Ratio, and Efficiency Ratio, in general, is still very dependent on funds from the Central Government through balancing funds, This is supported by the results of the following financial performance ratios: a) The level of independence of cities and regencies throughout Jambi Province still depends on transfer funds from the Central Government. The average regional independence ratio is 9.40%. b) The Fiscal Decentralization Ratio is not maximal with an average Fiscal Decentralization Ratio of 8.33%. c) The effectiveness ratio has shown a positive trend with an average ratio of 103.41%. d) Efficiency Ratio shows the expenditure for spending less efficient. Average Efficiency Ratio 99.62%.
2. The financial capability of the Municipal and Regency Governments of Jambi Province for the 2015-2020 Fiscal Year is measured through the share and growth of the APBD, the Financial Capability Index (IKK) and the Map of Regional Financial Capability, including in the low category, where the average share and growth are obtained value  $< 1$  which is included in the low category. Then by mapping the regional financial capacity based on the quadrant method, the cities and regencies throughout the Jambi province are in quadrant IV position. Quadrant IV is the worst condition, where the role of PAD has not played a large role in Total Expenditure, and the region does not yet have the ability to develop local potential, and the contribution of PAD to Total Expenditure and PAD growth is low.
3. The effect of Regional Financial Independence on Community Welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and District for Fiscal Year 2015-2019 is positive and insignificant. So that the first hypothesis (H1), namely that regional financial independence has a positive and significant effect on people's welfare as measured by the ratio of the Human Development Index (HDI) in the City and District of Jambi Province for the 2015-2019 Fiscal Year, is rejected. This finding can provide support to the results of previous studies.
4. The effect of Fiscal Decentralization on Community Welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and District for Fiscal Year 2015-2019 is that there is a negative and insignificant effect, so the second hypothesis (H2), namely Fiscal Decentralization has an effect positive and significant impact on people's welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and District for Fiscal Year 2015-2019, was rejected. This finding refutes previous research.
5. The Effect of Regional Financial Effectiveness on Community Welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and District for Fiscal Year 2015-2019 is that there is a positive and insignificant effect, so the third hypothesis (H3), namely Financial Effectiveness Regions have a positive and significant effect on people's welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and Districts for the 2015-2019 Fiscal Year, rejected. This finding refutes previous research.
6. The Effect of Regional Financial Efficiency on Community Welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and District for Fiscal Year 2015-2019 is that there is a positive and insignificant effect, so the fourth hypothesis (H4), namely Financial Efficiency Regions have a positive and significant effect on people's welfare as measured by the ratio of the Human Development Index (IPM) in Jambi City and Districts for the 2015-2019 Fiscal Year, rejected. This finding refutes previous research.
7. The Effect of Regional Financial Performance represented by Regional Financial Independence, Fiscal Decentralization, Effectiveness and Efficiency of Regional Financial Simultaneously on Community Welfare as measured by the ratio of Human Development Index (IPM) in Cities and Regencies of Jambi Province for Fiscal Year 2015-2019 is that there is a positive and significant effect, so the fifth hypothesis (H5), namely Regional Financial Performance which is represented by regional financial independence, fiscal decentralization, effectiveness, and efficiency simultaneously has a positive and significant effect on Community Welfare as measured by the ratio of the Human Development Index (HDI) in the City and District of Jambi Province for the 2015-2019 Fiscal Year, accepted. This finding is still consistent with previous research.

**Suggestion**

1. The population and sample used are still relatively small, namely cities and regencies throughout the Jambi province, so that the existing data does not represent the results of this study as a whole or cannot generalize the results of the study well. Regional capabilities between provinces or regions are certainly different, as well as the management of regional financial management. For this reason, future research needs to take into account the increase in the number of population and samples, where a wider or larger population and sample collection can be used partially from the Southern Sumatra region, such as adding areas that are still in the same area as from the provinces of Aceh, North Sumatra and Riau Province, so that the research data will be larger and can represent variables with better research results.
2. The findings of this study also indicate that there are other variables that can also affect the level of community welfare apart from the Regional Financial Performance variable. Thus, it is hoped that future researchers can develop this research model by looking for or finding several other variables as additional variables or intervening variables that are expected to improve this research model for the better.
3. In connection with the economic interpretation of the model equations used, to get a more comprehensive picture, it is better to add the number of time series and cross section data, not only 5 years data. The current data analysis technique uses Eviews12 software, so that the influence between variables cannot be described comprehensively, for future research it is expected to use other data processing methods that are better (goodness & fit) so that the relationship between variables can be described better (comprehensive).

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