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THE IMPACT OF THE LOCAL GOVERNMENT FINANCIAL INDEPENDENCE RATIO, THE LOCAL REVENUE EFFECTIVENESS RATIO, AND THE EXPENDITURE EFFICIENCY RATIO ON THE FINANCIAL PERFORMANCE OF REGENCIES AND CITIES IN ACEH PROVINCE

Marzuki[1], Nadia Mulya[2] Ghazali Syamni[3], Muttaqien[4]

[1,2,3,4]Program Studi Manajemen, Universitas Malikussaleh

Email: marzuki@unimal.ac.id, nadia.220410037@mhs.unimal.ac.id, ghazali.syamni@unimal.ac.id, muttaqien@unimal.ac.id

Correspondensi Author: marzuki@unimal.ac.id

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Abstract

This study aims to analyze the impact of the local government financial autonomy ratio, the Local Own-Source Revenue (PAD) effectiveness ratio, and the expenditure efficiency ratio on the financial performance of regencies and cities in Aceh Province. This study uses a combination of cross-sectional and time-series data from 23 regencies and cities in Aceh Province for the years 2020–2024. The analysis method used is panel data regression using EViews 14. The results show that the local financial autonomy ratio and the PAD effectiveness ratio have a positive and significant effect on local financial performance. Meanwhile, the expenditure efficiency ratio does not have a significant effect on local financial performance. The combined effect of the local financial autonomy ratio, the PAD effectiveness ratio, and the expenditure efficiency ratio on local financial performance accounts for 92.36%, while the remaining 7.64% is influenced by other variables outside the scope of this study. The results of this study indicate that increasing local financial autonomy and the effectiveness of PAD management are key factors in improving local financial performance in the regencies and cities of Aceh Province.

Keywords : Local Government Financial Performance, Local Governmen Financial Independence Ratio, Local Revenue Effectiveness Ratio, Expenditure Efficiency Ratio

PENDAHULUAN

In the era of decentralization and regional autonomy, local governments have broad authority to regulate and manage the interests of their communities in accordance with the potential and needs of their respective regions. Regional autonomy aims to increase regional independence, accelerate development, and realize effective, efficient, transparent, and accountable governance. The success of regional autonomy is measured not only by the breadth of authority granted, but also by the region's ability to independently finance its government needs. Regional financial performance is an important measure because it reflects the ability of local governments to manage financial resources effectively, efficiently, and accountably to support public services and regional development.

Aceh Province, as a region with special autonomy status, still faces challenges in improving regional financial performance. Despite receiving Special Autonomy Funds (DOK), most districts/cities in Aceh remain dependent on transfers from the central government, resulting in suboptimal fiscal independence. Furthermore, regional revenue (PAD) and spending realization across districts/cities show variations, indicating differences in the effectiveness and efficiency of regional financial management.

Based on the results of the analysis of the financial performance of districts/cities in Aceh during 2020–2024, there were various changes, with regions such as Banda Aceh, Langsa, and Southwest Aceh showing better performance compared to other regions, while Aceh Singkil, Gayo Lues, and Subulussalam remained relatively low. The regional financial independence ratio is also still low because most regions are below 25%, although Banda Aceh and Langsa recorded a ratio. In addition, the PAD effectiveness ratio shows that some regions are very effective, but there are still districts/cities that have not achieved the PAD target, while the expenditure efficiency ratio shows that some regions are efficient and some are still less efficient, even North Aceh recorded a very high ratio in 2023.

Based on these conditions, this research is crucial to analyze the influence of the regional financial independence ratio, the PAD effectiveness ratio, and the expenditure efficiency ratio on the financial performance of districts/cities in Aceh Province. This research is expected to provide empirical contributions to the development of regional financial studies and serve as evaluation material for local governments in improving fiscal independence, revenue effectiveness, and the quality of regional expenditure management.

RESEARCH METHODS

This study uses a quantitative approach with the aim of analyzing the influence of the regional financial independence ratio, the effectiveness ratio of Regional Original Income (PAD), and the expenditure efficiency ratio on the financial performance of districts/cities in Aceh Province. The study utilizes secondary data in the form of Budget Realization Reports (LRA) obtained from the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia. The data used is a combination of cross-section data from 23 districts/cities in Aceh Province and time series data for the period 2020–2024, resulting in 115 observations. Data analysis was performed using the E-Views 14 application with a panel data regression method. The analysis stages include descriptive statistical analysis to describe data characteristics, selection of panel data regression models through the Chow Test and Hausman Test, classical assumption testing, panel data regression analysis, partial tests (t-test), simultaneous tests (F-test), and determination coefficient tests (Adjusted R^2). Based on the test results, the most appropriate model used in this study is the Fixed Effect Model (FEM) to explain the influence of the regional financial independence ratio, the effectiveness ratio of PAD, and the expenditure efficiency ratio on regional financial performance.

RESULTS AND DISCUSSION

This study uses panel data regression analysis to examine the effect of the regional financial independence ratio, the effectiveness ratio of Regional Original Income (PAD), and the expenditure efficiency ratio on the financial performance of districts/cities in Aceh Province for the 2020–2024 period. Based on the results of model selection using the Chow and Hausman tests, the most appropriate model to use is the Fixed Effect Model (FEM). Next, panel data regression testing was conducted to determine the effect of each independent variable on the dependent variable. The results of the panel data regression equation can be seen in the following table:

Table 1. Panel Data Regression Equation (Fixed Effect Model)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.028407	0.006746	4.210938	0.0001
RKKD	0.172488	0.034778	4.959742	0.0000
REPAD	0.051469	0.005980	8.607168	0.0000
REB	-0.000712	0.004244	-0.167673	0.8672
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.940358	Mean dependent var	0.100332	
Adjusted R-squared	0.923605	S.D. dependent var	0.036867	
S.E. of regression	0.010190	Akaike info criterion	-6.138949	
Sum squared resid	0.009241	Schwarz criterion	-5.518355	
Log likelihood	378.9895	Hannan-Quinn criter.	-5.887053	
F-statistic	56.12979	Durbin-Watson stat	1.362547	
Prob (F-statistic)	0.000000			

Sumber: Data Diolah Peneliti, 2026

Based on Table 1, the regression results show that the regional financial independence ratio has a positive coefficient with a probability value of less than 0.05, thus having a positive and significant effect on regional financial performance. The PAD effectiveness ratio also has a positive coefficient with a probability value of less than 0.05, thus having a positive and significant effect on regional financial performance. Meanwhile, the expenditure efficiency ratio has a probability value greater than 0.05, thus having no significant effect on regional financial performance. In addition, the Adjusted R^2 value of 0.9236 indicates that 92.36% of the variation in regional financial performance can be explained by the three independent variables in this study, while the remainder is influenced by other factors outside the research model.

The results of the study indicate that the regional financial independence ratio has a positive and significant effect on regional financial performance. This means that the greater the regional government's ability to finance regional needs through Regional Original Revenue (PAD), the better the regional financial performance. These results indicate that increasing fiscal independence can reduce regional government dependence on transfer funds from the central government, thus optimizing financial management. These results align with research conducted by Toya (2024), which found that the independence ratio has a positive and significant effect on regional budget realization. This finding is also supported by research by Anynda and Hermanto (2020) and Azzahro (2023), which shows that the level of regional financial independence plays a role in improving regional government financial performance. However, these results differ from research by Murhaban (2023), which found that the regional independence ratio did not significantly influence the financial performance of district/city governments in Aceh Province.

Furthermore, the PAD effectiveness ratio has a positive and significant impact on regional financial performance. This indicates that regional governments that achieve PAD targets or exceed them have better financial performance. High PAD effectiveness reflects the success of regional governments in exploring revenue potential to support development financing and public services. These research findings align with Yeyen's (2023) study, which found that PAD effectiveness positively impacts regional financial performance. These findings are also supported by Supriyadi's (2021) study, which shows that high PAD effectiveness is an indicator of regional government success in optimizing regional revenue. However, these findings differ from Khoiriyyah's (2025) study, which found that PAD effectiveness had no significant impact on regional financial performance in Central Java Province.

Unlike these two variables, the expenditure efficiency ratio did not significantly influence regional financial performance. This indicates that expenditure efficiency is not yet a primary factor determining regional financial performance in districts/cities in Aceh Province. This condition is thought to be influenced by the continued heavy dependence on transfer funds and differences in expenditure allocation policies within each regional government. Therefore, regional governments need to improve the quality of expenditure planning and control to ensure more effective budget use and optimal benefits. The results of this study are inconsistent with Dukomalamo's (2024) study, which stated that regional financial efficiency has a positive and significant effect on capital expenditure allocation. These results also differ from Saputra's (2025) study, which found that the efficiency ratio significantly influences the financial condition of regional governments. However, these results are similar to those of Pardede (2024), which showed that the level of regional financial management efficiency fluctuates and therefore does not consistently impact regional financial performance.

CONCLUSION

The results of this study indicate that the improvement in the financial performance of district/city governments in Aceh Province is more influenced by the region's ability to increase financial independence and optimize Regional Original Revenue (PAD). The greater the ability of the regional government to finance government administration from its own revenue sources and the more effective the achievement of PAD targets, the better the regional financial management. Conversely, spending efficiency has not been able to make a significant contribution to regional financial performance, indicating that spending management alone is not enough to improve financial performance without being supported by the region's ability to increase regional revenue. Thus, the research objective of analyzing the influence of the regional financial independence ratio, PAD effectiveness ratio, and spending efficiency ratio on regional financial performance has been achieved. Further research is recommended to add other variables related to regional financial performance, such as activity ratio, growth ratio, or level of regional financial dependence, as well as expanding the scope of the region and the research period to obtain more comprehensive results.

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