THE EFFECT OF REGIONAL FINANCIAL PERFORMANCE ON ECONOMIC GROWTH OF PROVINCES IN INDONESIA

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Abstract

The objectives of this study are: (1) to determine the ratio of independence to affect the economic growth of provinces in Indonesia, (2) to determine the ratio of effectiveness affects the economic growth of provinces in Indonesia, and (3) to determine the efficiency ratio affects the economic growth of provinces in Indonesia. This study used a sample of 33 provinces in Indonesia. The sampling technique used cluster samples. The data used are secondary data. The data collection technique uses documentation in the form of reports on the realization of regional income and expenditure budgets and reports on economic growth at constant prices based on the field of business from 2016-2018. The data analysis technique used to answer the hypothesis is multiple linear regression. The results of research that have been conducted state that: (1) the ratio of independence affects the economic growth of provinces in Indonesia, (2) the effectiveness ratio affects the economic growth of the provinces in Indonesia, and (3) the efficiency ratio affects the economic growth of the provinces in Indonesia.

Keywords: Independence Ratio, Effectivity Ratio, Efficiency Ratio, Economic Growth.

I. INTRODUCTION

The issue of discussing regional financial performance on economic growth is still interesting to reveal empirically. There are several reasons why this issue is interesting. First, Law No. 33 of 2004 explains that the Republic of Indonesia organizes state governance and national development to achieve a just, prosperous, and equitable society based on Pancasila and the 1945 Constitution of the Republic of Indonesia.

The Republic of Indonesia is divided into provincial areas and the provincial areas consist of regencies or cities. Each region has the right and obligation to regulate and manage its government affairs to increase the efficiency and effectiveness of government administration and services to the community, namely regional autonomy gives authority to local governments to manage their households and there may be little interference from the central government. [1] revealed that good governance structures are generally able to protect and serve the needs of the community. In good governance, government structures are usually based on a system of checks and balances. Indicators of success in government organizations are not measured by retained earnings, but by the quality of service and efficiency in the use of available funds. Therefore, a region can prosper if the local government can manage the regional finances well. Effective and efficient regional financial management will encourage regional economic growth and can reduce the negative impacts of the region, such as high unemployment and poverty.

Second, research on the effect of regional financial performance on economic growth has been carried out. [1] concluded that the independence ratio has a positive effect on the economic growth of the former Surakarta residency. If the region becomes more independent, the economic growth in that area can increase. [2] concluded that the ratio of independence and effectiveness ratio has a significant positive effect on economic growth, while the efficiency ratio has a positive and insignificant effect on economic growth. [3] concluded that financial performance with independence ratios and effectiveness ratios have a positive and significant effect on economic growth, while dependency ratios have a negative and significant effect on economic growth. [4] concluded that the ratio of the degree of decentralization harms supported or accepted economic growth, the ratio of regional dependence harms unsupported or unacceptable economic growth, while the effectiveness ratio has a positive effect on supported or accepted economic growth. [5] concluded that directly, there is no significant influence between the independence ratio and the effectiveness ratio on economic growth in Riau Province, while the efficiency ratio has a significant effect on economic growth in Riau Province. [6] concluded that the ratio of independence, the ratio of effectiveness, the ratio of efficiency, and the balance of spending has a positive effect on economic growth, from several previous studies above, there is an inconsistency in the effect of regional financial performance on economic growth.

Third, there are still many cases regarding regional budgets and public welfare in each region. One of them is a weakness in the accounting recording system and financial reporting. The main
problem in local government financial reports is of course related to fixed assets. There are still many fixed assets in Satuan Kerja Perangkat Daerah (SKPD)/regional work unit that have not been reported to the Satuan Kerja Pengelola Keuangan Daerah (SKPKD)/regional financial management work unit and the government asset ownership of the regions are not clear, so that these requirements can’t be met. Then, the value of fixed assets in the regional government and SKPD balance sheets must be supported by detailed balance sheets and to get fixed asset data, it must be synchronized in the SKPD balance sheet and SKPKD balance sheet. Local governments that can report financial reports properly will receive additional incentives from the central government which will have an impact on regional development and economic growth to encourage increased public welfare, namely reducing unemployment and poverty in each region. Each region will encourage the area to improve community welfare. Welfare can be measured by an increase in economic growth, a low unemployment rate, a low poverty rate, a high level of education for local people, and so on.

Indonesia experienced a monetary crisis in 1997 which had a bad impact on the country and its people. The economic shock caused the economic growth rate to drop dramatically. The current monetary crisis turned into an economic crisis and paralyzed economic activity, causing many workers to become unemployed. The economic crisis that has been experienced by the Indonesian people has made us aware of the importance of a stronger economic foundation to support the economic growth of a country.

Given the large role of local governments in promoting community welfare and can have an impact on regional economic growth, it is necessary to carry out a series of analyzes that allow the detection of these problems so that failure can be anticipated. Analysis that can be done is by analyzing and calculating regional financial performance ratios. The purpose of this study is to test empirically whether the independence ratio, effectiveness ratio, and efficiency ratio have an effect on the economic growth of provinces in Indonesia for the 2016-2018 period.

II. THEORETICAL FRAMEWORK AND HYPOTHESIS

Regional Finance according to Regulation of Minister of Home Affairs No.13 of 2006 concerning Guidelines for Regional Financial Management are all the rights and obligations of the regions in the framework of government and regional administration which can be valued in money, including all forms of assets related to the rights and obligations of the region.

[7] states that financial performance is a measure of performance that uses financial indicators. Financial performance analysis is carried out to assess past performance by conducting various analyzes to obtain a financial position that represents the reality of the entity and the potential for future performance. The public sector performance measurement system is a system that aims to help public managers assess the achievement of a strategy through established performance benchmarks. These performance benchmarks can be in the form of financial and non-financial performance measurements. Performance measurement is very important to assess the accountability of organizations and managers in producing better public services.

The regional financial performance consists of several ratios, namely, the ratio of regional financial independence as seen from the amount of PAD compared to transfer receipts from the center. According to [7] Regional financial independence (fiscal autonomy) shows the ability of local governments to self-finance government activities, development, and services to people who have paid taxes and levies as a source of revenue needed by the region. PAD is the main element in measuring regional financial independence. The effectiveness ratio is the ratio that describes the ability of the local government to realize the planned PAD compared to the target set based on the real potential of the region. PAD is effective if the ratio achieved reaches 100%, thus the greater the effectiveness ratio, the better the government performance [7]. Efficiency Ratio is a ratio that describes the comparison of the number of costs incurred to obtain income to the realization of the income received. The performance of local governments in collecting revenue is categorized as efficient if the ratio achieved is less than one or below 100%. The smaller the efficiency ratio, the better the local government performance.

Economic growth in general can be defined as the process of changing the economic conditions of a country on an ongoing basis towards better conditions during a certain period. The existence of economic growth is an indication of the success of economic development in people's lives. Several factors influence economic growth, namely: natural resources, human resources, science and technology, culture, and capital resources. [8] said that to assess the achievement of economic growth, real domestic income must first be calculated, namely the Gross Domestic Product (GDP) which is calculated according to the prices prevailing in the base year. The value obtained is called GDP according to fixed prices, namely the price prevailing in the base year.
A. Effect of the Ratio of Regional Financial Independence on Economic Growth

According to Mahmudi (2010: 26), the ratio of regional financial independence explains the dependence of regions on external sources of funds. The higher the ratio of independence, the lower the dependence of the region on outside assistance. The ratio of regional financial independence also illustrates the high participation of the public in paying local taxes and levies, which are the main components of PAD [7]. If the ratio of regional independence increases, it will also increase the rate of economic growth of a region, because by having independence, these regions can finance or finance their own needs without depending on the center.

Several previous studies, [5] said that there was no direct significant influence between the ratio of independence to economic growth in Riau Province. [9] in their journals concluded that there was no influence between the ratio of independence and economic growth. According to [10] in his journal, he concluded that the ratio of financial independence to economic growth does not affect.

Consequently, the first hypothesis proposed in this study is:

H1: The ratio of regional financial independence does not affect economic growth.

B. Effect of PAD Effectiveness Ratio on Economic Growth

PAD (Local-Owned Source Revenue) is income consisting of regional taxes and regional levies. It proceeds from the management of separated regional assets, and other legal PAD. This is a form of financial management by local governments [4]. The greater the local revenue absorbed, the greater the ability of local governments to increase economic growth and the more positive financial performance. If it is related to the theory of government agency in the expansion regions, it is expected to be able to provide good performance through the realization of revenue from PAD. The greater the realization of PAD, the better, and it can be seen that the local government is doing well [4].

Several previous studies, [5] said that the effectiveness ratio did not have a significant effect on economic growth in Riau Province. According to [11] in their journals, it is concluded that the effectiveness ratio of PAD does not have a significant effect on economic growth. [12] concluded that the effectiveness ratio has no significant effect on economic growth. According to [10], there is no significant effect between the ratio of effectiveness and economic growth.

Therefore, the second hypothesis proposed in this study are:

H2: The effectiveness ratio of PAD does not affect economic growth.

C. Effect of PAD Efficiency Ratio on Economic Growth

The efficiency ratio is a ratio that describes the comparison of the number of costs incurred to obtain income to the realization of the income received. The smaller the efficiency ratio, the better local government performance will be. Local governments need to carefully calculate the number of costs that will be incurred to realize all the revenues they receive so that it can be seen whether the revenue collection activities are efficient or not [7]. The existence of efficiency in the performance of local governments will have an impact on the economic growth of an area. The lower efficiency ratio will have an impact on local government performance, and it will encourage an increase in economic growth.

Several previous studies, [9] in their journals said that the efficiency ratio did not affect economic growth. [10] stated that the efficiency ratio does not affect economic growth. According to Siti (2017), the efficiency ratio harms economic growth.

So that the third hypothesis proposed in this study is:

H3: The efficiency ratio of PAD does not affect economic growth.

From the description above, the model in this study is as follows:

![Figure 1: Framework]

III. RESEARCH METHOD

A. Population and Sample

The population in this study came from provinces in Indonesia. The samples obtained in this study were 33 provinces in Indonesia. The sampling technique used in this study was cluster sampling. According to [13] provinces in Indonesia are divided into three clusters based on people's welfare, namely as follows:

The first cluster includes Aceh Province, Riau Province, DKI Jakarta Province, West Java Province, Banten Province, and East Kalimantan Province with advantages in the fields of net enrollment rates from primary and junior high schools, and access to
electricity, but these provinces have several unemployed people. They also have a high and lack of access to clean water.

The second cluster includes East Nusa Tenggara Province, Central Kalimantan Province, Gorontalo Province, Central Sulawesi Province, West Sulawesi Province, North Maluku Province, Papua Province, and West Papua Province with advantages only in the Open Unemployment Rate sector, but these provinces are weak in the fields of education, health, access to clean water, and access to electricity.

The third cluster includes North Sumatra Province, West Sumatra Province, Riau Province, Jambi Province, South Sumatra Province, Bangka Belitung, Bengkulu Province, Lampung Province, Central Java Province, Yogyakarta Province, East Java Province, Bali Province, West Nusa Tenggara Province, West Kalimantan Province, South Kalimantan Province, North Sulawesi Province, South Sulawesi Province, Southeast Sulawesi Province, and Provinces Maluku. This cluster has advantages in all fields ranging from health, education, low unemployment, and there are no problems with access to electricity and clean water.

B. Data, Variable and Definition of Variables

The type of data in this study is secondary data obtained historically from the Regional Budget Realization Report data for each province in Indonesia for the 2016-2018 period and regional economic growth data obtained by taking information from the Central Statistics Agency. This research is a causal-comparative study, which is a research method that aims to determine the effect of the independent and dependent variables. The data collection technique uses the documentation method.

The variables used in the study consisted of independent and dependent variables. The independent variable is a financial performance which consists of independence ratio, effectiveness ratio, and efficiency ratio, while the dependent variable consists of economic growth.

C. Data Analysis

The data analysis methods used in this study include:

Descriptive Statistical Analysis

This test is conducted to explain and provide descriptions and information related to descriptive research. This test informs about the lowest value, highest value, average, standard deviation, variance, and total statistics on regional financial ratios and economic growth of provinces in Indonesia for the period 2016-2018.

Frequency Statistical Analysis

This test is used to organize data into groups and or certain data classes. The purpose of this test is to facilitate the presentation of data so that it is easy to understand and read as information. This frequency statistical test informs about the frequency, percent, valid percent, and cumulative percent.

### TABLE I. OPERATIONAL DEFINITION OF VARIABLES

<table>
<thead>
<tr>
<th>Variable</th>
<th>Concept</th>
<th>Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence Ratio</td>
<td>This ratio shows the ability of local governments to self-finance government activities, development, and services to the community.</td>
<td>Help center and Loan × 100%</td>
</tr>
<tr>
<td>Effectiveness Ratio</td>
<td>This ratio describes the comparison of the amount of PAD realization obtained with the PAD budget or the target set in accordance with the real potential of the region.</td>
<td>Realization of PAD × 100%</td>
</tr>
<tr>
<td>Efficiency Ratio</td>
<td>This ratio illustrates the comparison between the amount of costs incurred to obtain income with the actual revenue received and is categorized as efficient if the ratio is &lt;100%.</td>
<td>Total Realization Regional Income × 100%</td>
</tr>
<tr>
<td>Economic growth</td>
<td>The development of activities in the economy that causes the goods and services produced in society to increase.</td>
<td>Total GRDP − FDRBt − 1 × 100%</td>
</tr>
</tbody>
</table>

Normality test

This test is performed to test whether the residual value resulting from the regression is normally distributed or not. This test uses the Kolmogorov Smirnov test to determine the results in the SPSS program with the criteria $\alpha = 0.05$ where if significant $> 0.05$, the variables are normally distributed.

Multicollinearity Test

This test aims to test whether the regression model found a correlation between the independent variables [14]. If there is a correlation, then there is a multicollinearity problem, if the Variance Inflation

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Factor (VIF) <10 and the tolerance value> 0.1, there will be no multicollinearity.

**Autocorrelation Test**

This test method uses the Durbin-Watson test (DW-test). A good regression model is one that does not have autocorrelation problems, provided that if the DW-test <2 then there is positive autocorrelation, if the DW-test is at a value of -2 to 2 then there is no autocorrelation, and if the DW-test >2 then occurs negative autocorrelation.

**Heteroscedasticity Test**

This test uses the Glejser test using the SPSS application. If the variance of the residual between one observation and another is different, it is called heteroscedasticity. A good model is a model where heteroscedasticity does not occur. If the significance value <0.05, it contains heteroscedasticity.

**Hypothesis testing**

The test is intended to test the regression model for the effect of all independent variables on the dependent variable. The test is performed by determining the conclusion with a significance rate of 0.05. If the significance value <0.05, then Ho is rejected.

**IV. DATA ANALYSIS AND DISCUSSION**

**A. Descriptive Statistical Analysis**

The total number of data in the 2016-2018 period is 99 data. The variables in this study are the ratio of independence, effectiveness ratio, efficiency ratio, and economic growth. The results of the descriptive statistical test of this study are on the Table II.

**B. Frequency Statistical Analysis**

This frequency statistical test informs about the frequency, percent, valid percent, and cumulative percent of the total data in the 2016-2018 period, which amounts to 99 data. The variables in this study are the ratio of independence, effectiveness ratio, efficiency ratio, and economic growth. The results of the frequency statistical test of this study were the independent variables, and the dependent variable was declared valid.

**C. Results of Normality test**

This test uses the Kolmogorov Smirnov test to determine the results in the SPSS program with the criteria α = 0.05 where if significant> 0.05, the variables are normally distributed [14]. The results of the normality test of this study are in the Table III.

<table>
<thead>
<tr>
<th>Model</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tolerance</td>
</tr>
<tr>
<td></td>
<td>Independence Ratio</td>
</tr>
<tr>
<td></td>
<td>Effectiveness Ratio</td>
</tr>
<tr>
<td></td>
<td>Efficiency Ratio</td>
</tr>
</tbody>
</table>

On the table, the significance value of asymp. sig (2-tailed) is 0.07. This proves that the significance of asymp.sig (2-tailed) is greater than the criterion for the significance value, then the data is normally distributed.

**D. Multicollinearity Test**

The method used to detect the presence or absence of multicollinearity is to look at the value of the Variance Inflation Factor (VIF), if VIF <10 and tolerance value> 0.1, multicollinearity does not occur. The results of the multicollinearity test of this study are on the Table IV.

<table>
<thead>
<tr>
<th>Variables</th>
<th>N</th>
<th>Min.</th>
<th>Max.</th>
<th>Sum</th>
<th>Mean</th>
<th>Std. Dev.</th>
<th>Var.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Independence Ratio</td>
<td>99</td>
<td>2.51</td>
<td>96.46</td>
<td>3602.75</td>
<td>36.3914</td>
<td>2.53247</td>
<td>25.19779</td>
</tr>
<tr>
<td>Effectiveness Ratio</td>
<td>99</td>
<td>6.78</td>
<td>136.17</td>
<td>7947.82</td>
<td>80.2810</td>
<td>3.67938</td>
<td>36.60939</td>
</tr>
<tr>
<td>Efficiency Ratio</td>
<td>99</td>
<td>75.38</td>
<td>165.25</td>
<td>10034.80</td>
<td>101.3616</td>
<td>1.20357</td>
<td>11.97532</td>
</tr>
<tr>
<td>Economic growth</td>
<td>99</td>
<td>-4.56</td>
<td>9.93</td>
<td>522.19</td>
<td>5.2746</td>
<td>0.18002</td>
<td>1.79118</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>99</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
These results can be concluded that of all variables do not show any symptoms of multicollinearity because the results of the test all variables have a tolerance value of more than 0.10 and a VIF of less than 10.

E. Autocorrelation Test

The following are the results of the research autocorrelation test:

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.520a</td>
<td>0.27</td>
<td>0.4</td>
<td>1.79451</td>
<td>1.794</td>
</tr>
</tbody>
</table>

Based on the autocorrelation test data, it is known that the Durbin-Watson value is 1.794. The conclusion from the test above, it is not found any problems or symptoms of autocorrelation.

F. Heteroscedasticity Test

If the significance is <0.05, the regression equation contains heteroscedasticity. The following are the results of the heteroscedasticity test of this study:

<table>
<thead>
<tr>
<th>Model</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.719</td>
<td>0.474</td>
</tr>
<tr>
<td>Independence Ratio</td>
<td>0.877</td>
<td>0.383</td>
</tr>
<tr>
<td>Effectiveness Ratio</td>
<td>-0.527</td>
<td>0.599</td>
</tr>
<tr>
<td>Efficiency Ratio</td>
<td>0.173</td>
<td>0.863</td>
</tr>
</tbody>
</table>

The conclusion from the test results is that from all variables there is no heteroscedasticity problem because the results of the test all variables have a significance > 0.05.

G. Results of the Hypothesis Test Multiple Regression Analysis

This test is used to see whether or not there is an influence between the independent variable and the dependent variable. The following are the results of the multiple linear regression analysis tests for this study:

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>7.200</td>
</tr>
<tr>
<td>Independence Ratio</td>
<td>0.7</td>
<td>0.007</td>
</tr>
<tr>
<td>Effectiveness Ratio</td>
<td>0.4</td>
<td>0.005</td>
</tr>
<tr>
<td>Efficiency Ratio</td>
<td>0.3</td>
<td>0.015</td>
</tr>
</tbody>
</table>

Based on the results of the multiple regression analysis tests, the linear regression equation is obtained as follows:

\[
\text{Economic Growth} = 7,200 + 0.7 \text{ Independence Ratio} + 0.4 \text{ Efficiency Ratio} + e
\]  

\[
\text{Effectiveness Ratio} + 0.3 \text{ Efficiency Ratio} + e
\]  

H. T-test

If the significance value <0.05, then Ho is rejected. The following are the results of the t-test of this study:

<table>
<thead>
<tr>
<th>Model</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.00</td>
</tr>
<tr>
<td>Independence Ratio</td>
<td>0.03</td>
</tr>
<tr>
<td>Effectiveness Ratio</td>
<td>0.04</td>
</tr>
<tr>
<td>Efficiency Ratio</td>
<td>0.038</td>
</tr>
</tbody>
</table>

Based on the results of the t-test, it can be concluded in this study as follows:

**Independence Ratio Affects Economic Growth.**

Testing on this hypothesis is performed using the regression coefficient of the independence ratio variable. Based on the results of the above calculations, it is known that the regression coefficient of the independence ratio is 0.70 with a significance value of 0.03. The level of significance \( \alpha = 5\% \), then the regression coefficient is significant because the significance value is 0.03. This proves that statistically, the ratio of independence affects economic growth so that Ho is rejected.

**Effectiveness Ratio Affects Economic Growth.**

Testing on this hypothesis is performed using the regression coefficient of the effectiveness ratio variable. Based on the results of the above calculations, it is known that the regression coefficient of the effectiveness ratio is 0.40 with a significance value of 0.04. The level of significance \( \alpha = 5\% \), then the regression coefficient is significant because the significance value is 0.04. This proves that statistically, the effectiveness ratio affects economic growth so that Ho is rejected.

**Efficiency Ratio Affects Economic Growth.**

Testing on this hypothesis is performed using the regression coefficient of the efficiency ratio variable. Based on the results of the above calculations, it is known that the efficiency ratio regression coefficient is 0.30 with a significance value of 0.038. The level of significance \( \alpha = 5\% \), then the regression coefficient is significant because the significance value is 0.038. This proves that statistically, the
efficiency ratio affects economic growth so that Ho is rejected.

**Determination Coefficient Test (R2)**

Following are the results of the coefficient of determination of this study:

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.520</td>
<td>0.27</td>
<td>0.4</td>
<td>1.79451</td>
</tr>
</tbody>
</table>

Based on the results of the coefficient of determination test, it can be concluded that the coefficient of regression analysis shows the coefficient of determination or R Square (R2) of 0.270. This value implies that the effect of the independence ratio, effectiveness ratio, and efficiency ratio on economic growth is 27%, while 73% of economic growth is influenced by other variables not included in this regression model.

I. **Discussion of Research Results**

**Independence Ratio Affects Economic Growth**

The results of data analysis that have been carried out, it can be concluded that the ratio of regional independence for each province in Indonesia which is divided into three clusters has an effect on economic growth in each province. The p-value is 0.03 with a significance level of $\alpha = 5\%$, so the result of the p-value is significant because 0.03 <0.05. These results indicate that the ratio of regional independence in financing government activities can increase PAD and will affect the rate of economic growth in the region.

The implementation of fiscal decentralization in the regions is expected to be able to finance all government activities by themselves, with the existence of fiscal decentralization in the regions that can provide better public services. Regions that are unable to implement fiscal decentralization in the form of delegation of authority from the center, these regions will be left behind and result in a decline in regional economic growth. Regions that can be independent and manage their respective regions will have an impact on increasing economic growth in every province in Indonesia.

**Effectiveness Ratio Affects Economic Growth**

The results of data analysis that have been carried out, it can be concluded that the ratio of regional effectiveness for each province in Indonesia which is divided into three clusters has an effect on economic growth in each province. The value of $p-$value is 0.04 with a significance level of $\alpha = 5\%$, then the result of the p-value is significant because 0.04 <0.05. These results indicate the ratio of regional effectiveness in maximizing budget management, management of the existing potential in the area, and optimal public service will affect the regional economy.

The application of fiscal decentralization in the regions is expected to be able to provide better public services and to explore potential revenue independently. Regions have the right and obligation to manage and regulate their government affairs to increase the effectiveness of government administration which can affect the regional economy. Local governments that have succeeded in achieving the targets that have been planned in regulating and managing their regions will affect the rate of regional economic growth. The effectiveness in implementing government activities increases, so that the economic growth of provinces in Indonesia also increases.

**Efficiency Ratio Affects Economic Growth**

The results of data analysis that have been carried out, it can be concluded that the efficiency ratio for each province in Indonesia which is divided into three clusters has an effect on economic growth in each province. The p-value is 0.038 with a significance level of $\alpha = 5\%$, so the result of the p-value is significant because it is 0.038 <0.05. These results indicate the ratio of regional efficiency in obtaining regional income and regional expenditure will affect the regional economy.

The application of fiscal decentralization in the regions is expected to be able to manage regional revenues and expenditures independently. Regions have the right and obligation to manage and regulate their government affairs to increase the efficiency of government administration which can affect the regional economy. Local governments that are successful in regulating and realizing expenditure costs as little as possible compared to the total revenues themselves will have an effect on the rate of economic growth in the region. Efficiency in the administration of government revenue increases, so the economic growth of provinces in Indonesia will also increase.

V. **Conclusions, Limitations, and Suggestions**

A. **Conclusion**

Based on the results of tests conducted by researchers, the following conclusions can be drawn:

The ratio of independence affects the economic growth of provinces in Indonesia. These results indicate that the increased regional independence to carry out all regional government activities will have an impact on increasing regional economic growth. The effectiveness ratio affects the economic growth of the provinces in Indonesia. These results indicate that the increasing effectiveness of the region in managing its area will have an impact on increasing regional economic growth. The efficiency ratio
affects the economic growth of the provinces in Indonesia. These results indicate that the increased efficiency in managing regional income and expenditure will have an impact on increasing the economic growth of the region.

B. Limitations
Research conducted at this time still has several shortcomings and limitations, including the following:

The factors that influence economic growth in this study only consist of three variables, namely the independence ratio, effectiveness ratio, and efficiency ratio, while other factors affect economic growth. The data used is only at the provincial level throughout Indonesia with a total of 33 provinces out of 34 provinces.

C. Suggestion
Based on the results of the research discussion and the conclusions above, suggestions for further research can be given as follows:

Adding other variables that can affect economic growth in Indonesia. The next researcher can extend the research period and the number of samples to obtain better and more accurate results. Future researchers are expected to be able to increase the amount of data to the district level throughout Indonesia. Future researchers are expected to study more sources and references related to regional financial performance and economic growth so that their research results are better and more complete.

REFERENCES


