

ANALYSIS OF THE EFFICIENCY AND EFFECTIVENESS OF REGIONAL FINANCIAL MANAGEMENT IN THE CITY OF BIMA

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ARTICLE INFO

Keywords:

Efficiency
Effectiveness
Regional financial
Regional expenditure
City of BIMA

ABSTRACT

This study aims to analyze the level of effectiveness and efficiency of regional finance in the City of Bima. The data used is secondary data, namely the Bima City APBD data for the 2016-2020 budget period. This study aims to calculate the level of effectiveness and efficiency of the regional finances of the City of Bima whether regional revenues and expenditures at the Regional Revenue Service of the City of Bima have been carried out efficiently and effectively. The analysis technique used is to calculate the Regional Financial Efficiency Ratio and Effectiveness Ratio. The results obtained show that overall, the average regional financial effectiveness ratio for the City of Bima for the 2016-2020 period has reached an effective level. It can be concluded that the Bima City government has succeeded in realizing Regional Original Income (PAD) from the estimated target so that the potential of existing PAD can be maximized by the local government to support the development of Bima City. Meanwhile, overall, the average regional financial efficiency ratio for the City of Bima during the 2016-2020 fiscal year was stated to be less efficient because regional expenditures were still high when compared to total regional revenues

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1. INTRODUCTION

Fiscal decentralization can be interpreted as the delegation of authority and responsibility (public function) from the central government to local governments, semi-independent organizations (vertical agencies), or to private parties [9]. Fiscal decentralization in Indonesia cannot be separated from the birth of Law Number 22 of 1999 concerning regional government [15] and Law Number 25 concerning financial balance between the central and regional governments [16] as the legal basis for implementing fiscal decentralization. The implementation of fiscal decentralization in Indonesia was practically carried out in 2001 with the hope of increasing the quality of public service delivery, community empowerment, and the level of welfare, which was carried out in a participatory manner with local communities.

In principle, fiscal decentralization is one of the instruments used by the central government to stimulate the economy through regional development. Fiscal decentralization in Indonesia places more emphasis on optimizing the use of budgets funded by the central government through regional transfer funds. Therefore, the discretion of the local government in managing the budget to meet regional needs is the essence of fiscal management autonomy. The principle of transparent and accountable regional financial management is expected to be a manifestation of Indonesia's 2030 Fiscal Decentralization Vision, which is to be consistent in achieving the goal of allocating national resources with their use being transparent and accountable to the public. To achieve this, there are four missions that need to be carried out, including: 1) developing central and regional financial relations that minimize vertical and horizontal inequalities; 2) developing a local tax system that supports efficient national resources; 3) developing discretionary regional expenditures that are responsible for achieving minimum service standards; and 4) achieving harmony between central and regional spending for optimal public service delivery [1].

Fiscal decentralization, according to Saragih (2003), is the process of distributing the budget from a higher government level to a lower government level to support the function of a government task of providing public service. This means that regions must be able to act locally but with a national perspective [3]. Decentralization can also be defined as a method of increasing the ability of government officials and obtaining better information about regional conditions in order to develop regional programs in a more responsive manner and to anticipate problems in their implementation more quickly [10]. In addition, fiscal decentralization also has the ability to reduce regional disparities in eastern and western Indonesia [2].

The allocation of national resources that are channeled to the regions in the form of a budget is a concrete step for the state to stimulate regional independence in carrying out development, in which the regions are expected to be able to use them productively so that they can increase regional sources of income. Regional governments, in this case, are also required to be efficient, effective, and creative in determining the portion of regional spending while directly exploring potential regional revenues. Based on Law Number 23 of 2014 concerning Regional Government [17], regional revenue sources consist of: 1) Local Own Revenue; 2) Transfer Income; and 3) Other Legal Regional Revenues. Regional Original Revenue, as referred to, includes: 1) local taxes; 2) regional levies; 3) results of separated regional wealth management; and 4) other legitimate PAD. Transfer income includes: 1) central government transfers consisting of balance funds, special autonomy funds, privilege funds, and village funds; and 2) inter-regional transfers consisting of revenue sharing and financial assistance.

Based on Law Number 32 of 2004 concerning the Financial Balance of the Central Government and Regional Governments [18], regional finance is all regional rights and obligations in the context of regional government administration that can be valued in money, including all forms of wealth related to regional rights and obligations. According to Halim [5], the scope of regional finance includes regional finances that are managed directly and separated regional assets, which are referred to as the Regional Revenue and Expenditure Budget (APBD) and investment goods owned by the region in directly managed finances.

Based on the Regulation of the Minister of Home Affairs number 77 of 2020 [19], regional financial management is an integral part of the administration of government affairs, which is the authority of the region, and is carried out in an orderly manner, in compliance with the provisions of laws and regulations, efficiently, economically, effectively, transparently, and responsibly by paying attention to the sense of justice, propriety, and benefit to society. The regional financial management process starts with budgeting, which is marked by the establishment of the Regional Revenue and Expenditure Budget (APBD), the implementation and administration of the APBD, and accountability for the implementation of the APBD.

As one of the autonomous regional government entities that has the authority to manage regional finances independently, the Bima City Government is required to always optimize quality regional management by taking into account priority regional needs, improving the quality of public services, and encouraging efficiency and effectiveness. Budgets in regional financial management can be said to be of high quality if they meet six main aspects: economy, efficiency, effectiveness, fairness, accountability, and responsiveness [8]. An analysis of the efficiency and effectiveness of regional financial management in Kota Bima is important to evaluate the financial performance that has been achieved so far.

Measuring the effectiveness and efficiency of regional finances can be observed by calculating the effectiveness and efficiency ratios. The effectiveness ratio is the local government's ability to realize the planned regional original revenue (PAD) compared to the target set based on regional potential. While the efficiency ratio is a ratio that describes the comparison of the realization of regional spending (spending) with the realization of regional revenues, [6].

The need to measure the quality of regional spending stems from the fact that government spending has an impact on the economy [7]. This is because local government spending is part of national output, which is directly related to the calculation of national income and spending. Through spending, local governments try to carry out several important functions, including implementing priority programs from the central government, planning budgets for long-term development, implementing fiscal discipline, and increasing the efficiency of government administration (12). Therefore, the urgency of measuring regional financial management in determining spending policy is an important step to evaluate how much influence it has on achieving regional government goals.

Based on official data released by the Regional Revenue, Financial Management, and Assets Agency (BPPKAD) of Bima City, it is known that the Bima City government has regional financial management performance with revenue realization as shown in tables 1 and 2.

Table 1 Revenue Realization of Bima City 2016-2018

Type of Revenue*	2016	2017	2018
(1)	(2)	(3)	(4)
1. Locally-generated revenue (PAD)	30 524 800	52 465 168	46 115 437
1.1 Local tax	12 341 770	13 910 270	15 953 336
1.2 Regional Fees	5 132 142	5 048 756	5 851 507
1.3 Results of Regionally Owned Companies and Management Separated Regional	1 678 677	2 059 377	1 650 003

Type of Revenue*	2016	2017	2018
(1)	(2)	(3)	(4)
Assets			
1.4 Other Legal PAD	11 372 211	31 446 765	22 660 591
2 Balance Fund	698 913 856	707 754 461	640 693 906
2.1 Tax Sharing	15 743 067	20 081 254	13 876 740
2.2 Not Tax Profit Sharing	46 382 435	38 534 889	18 806 308
2.3 General Allocation Fund	464 125 442	455 972 250	455 972 250
2.4 Special Allocation Fund	172 662 913	193 166 068	152 038 608
3 Other Legal Income	51 645 503	213 116 697	81 261 345
3.1 Grant Income	12 000 000	168 997 000	16 658 548
3.2 Emergency Fund			
3.3 Tax Revenue Sharing Fund from the Province and Other Local Governments	13 011 604	36 619 697	36 843 222
3.4 Regional Adjustment and Autonomy Fund	5 000 000	7 500 500	27 750 000
3.5 Financial Assistance from the Province or Other Local Governments	3 633 900		
3.6 Others			9 575
TOTAL	781 084 159	973 336 326	768 070 688

*in billions of rupiah

(Source: BPS dan BPPKAD Kota Bima)

Table 2 Revenue Realization of Bima City 2019-2020

Type of Income*	2019	2020
(1)	(2)	(3)
1. Locally-generated revenue (PAD)	50 446 548	47.279.818
1.1 Local Tax	17 441 638	18.558.632
1.2 Regional Fees	10 217 981	11.151.091
1.3 Results of Regionally Owned Companies and Management Separated Regional Assets	1 461 853	1.579.916
1.4 Other Legal PAD	21 325 076	15.990.179
2 Balance Fund	640 070 384	607.033.428
2.1 Tax Sharing	13 040 070	13.627.373
2.2 Not Tax Profit Sharing	19 694 349	13.165.724
2.3 General Allocation Fund	481 411 135	439.644.557
2.4 Special Allocation Fund	125 924 830	121.110.004
3 Other Legal Income	80 564 253	59.054.311
3.1 Grant Income	17 864 982	17.750.216
3.2 Emergency Fund		
3.3 Tax Revenue Sharing Fund from the Province and Other Local Governments	49 161 941	41.304.095
3.4 Regional Adjustment and Autonomy Fund	13 537 330	
3.5 Financial Assistance from the Province or Other Local Governments		
3.6 Others		
TOTAL	771 081 185	713.367.557

* in billions of rupiah

(Source: BPS dan BPPKAD Kota Bima)

Furthermore, the Regional Revenue, Financial Management, and Assets Agency (BPPKAD) of Kota Bima also released the financial performance of the Bima City government in realizing regional spending, which is summarized in Table 3.

Table 3 Summary of Expenditure Realization of Bima City 2016-2020

Expenditure Type*	2016	2017	2018	2019	2020
(1)	(2)	(3)	(4)	(5)	(6)
1 Indirect Expenditure	404 598 355	352 296 941	407 048 427	385 960 292	391 516 340
2 Direct Expenditure	383 732 368	793 993 812	454 051 531	406 945 652	390 646 686
TOTAL	788 330 723	1 146 290 753	861 099 958	792 905 944	782 163 085

* in billions of rupiah

(Source: BPS dan BPPKAD Kota Bima)

Based on the results of the regional financial management of the City of Bima for the last five years, namely from 2016 to 2020, as shown in tables 1, 2, and 3, So this research was conducted with the intention of testing and analyzing the level of efficiency and effectiveness of regional financial management using efficiency ratio analysis to calculate the output achieved in meeting the set targets. As well as using the effectiveness ratio to test the contribution of the output to the achievement of the goals set.

From this background, there is a formulation of the problem with the main questions as an analytical framework in this research, namely: How is the ratio of efficiency and effectiveness of regional financial management implemented in the Bima City Government in the 2016-2020 period? This study aims to analyze the level of efficiency and effectiveness of regional financial management implemented by the Bima City Government in the 2016-2020 period.

Zarkasyi [13], in his research entitled Efficiency and Effectiveness in Regional Financial Management of Cilacap Regency, aims to analyze the level of efficiency ratios and weaknesses in budget performance in Cilacap. The research method used is a qualitative approach with a descriptive research form. The results of this study found that the average efficiency level of financial management in the Cilacap district from 2016-2020 was 3.37%, which is very efficient. Then the level of effectiveness is high, touching an average value of 100.35%.

Hasana, M., and Anitasari, M. [4], in a study entitled "Analysis of Regional Spending for the City of Bengkulu, 2014-2017 (Efficiency and Effectiveness Review)," aim to analyze the level of efficiency and effectiveness of regional spending in the City of Bengkulu throughout 2008-2017. The research method includes a quantitative approach and a descriptive analysis method. The result of this study is the discovery of the efficiency ratio for Bengkulu regional government spending, which has tended to decrease from year to year since 2008-2017 and has an average efficiency value of 98%. Furthermore, it was also found that the level of effectiveness tends to be stable from 2008-2017; the level of effectiveness of Bengkulu City government spending is at an average value of 90%.

2. METHOD

This study uses a quantitative research method with a descriptive data explanation. The data used in this research is secondary data. The data is the Bima City Government Financial Report data in the form of budget data and APBD realization as well as Bima City's economic growth. The data period taken was 5 years, namely 2016-2020, and was sourced from data from the Central Statistics Agency (BPS) and the Regional Revenue, Asset Management, and Finance Agency (BPPKAD) in Kota Bima.

Efficiency

Mardiasmo [12] explains that efficiency is the relationship between the output (goods and services) resulting from an activity and the resources (input) used for that activity.

$$\text{Efficiency Ratio: } \frac{\text{Expenditure Realization} \times 100}{\text{Revenue Realization}}$$

Effectiveness

The level of achievement of program results with the set targets is referred to as effectiveness. Simply put, effectiveness is a comparison of outcomes and outputs. The definition of effectiveness is generally related to a measure of the ability to achieve certain goals or objectives. The size of the ability in question can vary, depending on the goals or objectives that have been set (Manopo, 2015).

$$\text{Effectiveness Ratio : } \frac{\text{PAD Receipt Realization} \times 100}{\text{PAD revenue target}}$$

Analysis Method

The Regional Financial Effectiveness Ratio, as shown in Table 4, was used as the analysis technique. The criteria for the regional financial effectiveness ratio are obtained from the assessment criteria determined by the Ministry of Home Affairs through Kepmendagri No. 690,900,327 of 1996 concerning Guidelines for Financial Performance Evaluation, with the following provisions:

Table 4 Effectiveness Ratio Criteria

No	Percentage of Financial Performance	Criteria
1	More than 100 %	Very Effective
2	90 – 100 %	Effective
3	80 – 90 %	Sufficiently Effective
4	60 – 80 %	Less Effective
5	Less than 60%	Not Effective

(Source: Depdagri Kepmendagri No. 690.900.327 tahun 1996)

Analysis of the efficiency of regional financial management comes from the Regional Financial Efficiency Ratio Criteria, also taken from Kepmendagri No. 690,900,327 of 1996 concerning Guidelines for Financial Performance Evaluation. As shown in Table 5, the following:

Table 5 Efficiency Ratio Criteria

No	Percentage of Financial Performance	Criteria
1	More than 100 %	Not efficient
2	90 – 100 %	Less Efficient
3	80 – 90 %	Sufficiently Efficient
4	60 – 80 %	Efficient
5	Less than 60 %	Very Efficient

(Source: Depdagri Kepmendagri No. 690.900.327 tahun 1996)

3. RESULT AND DISCUSSION EFFECTIVITY

Effectiveness is calculated using the comparison ratio between the realization of regional original revenue and the target PAD specified in the APBD. This effectiveness ratio aims to show a region's ability to set PAD budget targets and realize them. The higher the comparison ratio of PAD realization compared to the budget target, the more effective regional financial management will be.

Table 5 The Effectiveness Level of Regional Original Income for the City of Bima 2016-2020

TA	PAD Targets (Rp)	PAD Realization (Rp)	Effectiveness Ratio	Description
2016	35,175,416,593	30,524,799,755	87%	Sufficiently Effective
2017	49,530,899,104	52,465,170,257	106%	Very Effective
2018	44,309,136,205	46,115,436,512	104%	Very Effective
2019	58,212,213,108	50,422,855,052	87%	Sufficiently Effective
2020	53,995,874,355	47,323,115,263	88%	Sufficiently Effective

Table 5 shows the calculation results of the effectiveness ratio. It can be seen that the effectiveness ratio has fluctuated every year. The average level of effectiveness in regional financial management at the Bima City Regional Revenue Service during the 2016–2020 fiscal years was a percentage of 104% and was stated to be very effective. This shows that the government's performance in realizing regional original income based on the real potential of the region in the 2016–2020 fiscal year has been very good.

Figure 1 below illustrates the level of effectiveness from 2016 to 2020 resulting from the calculation of the effectiveness ratio. This graphic trend shows the level of effectiveness in regional financial management for the City of Bima in 2017, which was the best year where the level of effectiveness reached 106%, until then it decreased in 2018 by 104% and decreased again in 2019 with a ratio rate of 87%, which was quite effective.



Figure 1 Trend Effectiveness graphic

Figure 1 below aims to illustrate the level of effectiveness from 2010 to 2014 resulting from the calculation of the effectiveness ratio. This graph shows the level of effectiveness of regional financial management at the Regional Revenue Service in 2010, which was the best year where the level of effectiveness reached 134.27%, then decreased to 83.22% in 2012, increased to 102.26% in 2013, and then fell back to 94.92% in 2013.

Efficiency

Efficiency is a ratio that calculates the percentage comparison of the realization of regional spending to the realization of total regional income. Table 4 below describes the development of the regional financial efficiency level for the City of Bima for the 2016-2020 period.

Table 7 Bima City Regional Financial Management Efficiency Ratio 2016-2020

Budget Year	Expenditure Realization	Acceptance Realization	Efficiency Ratio	Description
2016	788,330,723	781,084,159	101%	Not Efficient
2017	1,146,290,753	973,336,326	118%	Not Efficient
2018	861,099,958	768,070,688	112%	Not Efficient
2019	792,905,944	771,081,185	103%	Not Efficient
2020	782,163,085	713,367,557	110%	Not Efficient

In Table 7, the results of calculating the efficiency ratio in five years budget are presented. Overall, the average efficiency level of regional financial management at the Bima City Regional Revenue Service during the 2016–2020 fiscal year was 101% and is said to be inefficient. This is due to the lack of local revenue compared to expenditures.



Figure 2 Trend Efficiency Graphic

Figure 2 illustrates the level of efficiency from 2016 to 2020 resulting from the calculation of the efficiency ratio. The numbers on the vertical line show percentages, and the horizontal line describes the five budget years studied, namely 2016 to 2020. The graph shows the progress of the efficiency level from the 2016 to 2020 budget years.

Discussion

The level of regional financial ratios provides an illustration of how the regional government's financial performance is in realizing Regional Original Revenue from the target value set from its budget. This ratio shows the percentage of actual Regional Original Revenue compared to the budget target. It can be seen, this ratio provides information to what extent the preparation of the local government budget maximizes the potential of Regional Original Revenue so that it is optimally absorbed through regional taxes and levies. The results of the study can be seen that the level of effectiveness of regional finance at the Bima City Regional Revenue Service from 2016 to 2020 is going well. This is due to the high effectiveness ratio which is determined from the comparison between the realization and the target of Regional Original Revenue. The Regional Financial Efficiency Ratio of the City of Bima during the 2016-2020 period exceeded 100% in 2016, 2017, 2018, 2019 and 2020 of the realized regional income values of 101%, 118%, 112%, 103% and 110%. It can be concluded that regional spending exceeds the available budget.

4. CONCLUSION

Based on the results and discussion, it can be concluded that the average value of the financial effectiveness ratio for the city of Bima for the period of 2016 to 2020 has reached the effective level, given the high average value of the 2016-2020 ratio. Bima City Regional Original Revenue (PAD) has succeeded in achieving the target set. Then, the regional financial efficiency level for the City of Bima during the 2016-2020 period was on average at a less efficient and inefficient level. The ratio is stable and consistent because it exceeds the set ratio. Spending usage has been in excess of the set ratio compared to income. In the financial economy, it is inefficient in 2016-17, 2018-19, and 2019-2020, but it is efficient in all other periods.

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