



Research Paper

## The Effect of Regional Financial Performance on Poverty Through Economic Growth in Regencies and Cities in East Nusa Tenggara Province for the 2017-2019 Period

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**ABSTRACT:** This study aims to analyze the effect of financial performance as measured by the ratio of regional independence, effectiveness of PAD, efficiency of PAD, and compatibility of capital expenditures on poverty through economic growth in districts and cities in East Nusa Tenggara Province for the period 2017 - 2019. The type of data used in this research is quantitative data and the source of the data used in this research is secondary data. The samples used in this study were 21 districts and 1 city in the province of East Nusa Tenggara. Data collection techniques in research by means of documentation, namely looking at the realization report and budget at the East Nusa Tenggara Central Statistics Agency (BPS) and the Director General of Fiscal Balance (DJPK) for the 2017-2019 period. The analytical method used in this research is path analysis. The results of this study indicate that in the sub-structural equation I together the ratio of regional independence, effectiveness of PAD, efficiency of PAD, and compatibility of capital spending have an effect on economic growth. Whereas in the sub-structural equation II the ratio of regional independence, effectiveness of PAD, efficiency of PAD, compatibility of capital expenditures, and economic growth together have an effect on poverty. In the substructural partial test I, the ratio of independence and efficiency has a positive and significant effect on economic growth. The ratio of effectiveness and compatibility of capital expenditures has no effect on economic growth. In the sub-structural equation II, the independence ratio has a negative and significant effect on poverty, the balance ratio of capital expenditures and economic growth has a positive and significant effect on poverty. Meanwhile, the ratio of effectiveness and efficiency has no effect on poverty. The ratio of independence, effectiveness, efficiency does not affect poverty through economic growth. Meanwhile, the ratio of harmony bel capital anja indirectly no effect on poverty through economic growth.

**KEYWORDS:** Independence, Effectiveness, Efficiency, Equality of Capital Expenditures, Economic Growth, Poverty

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### I. INTRODUCTION

The formation of an autonomous system due to the management of regional expenditures and budgets to be more independent in managing all existing potential so as to make a large contribution to the interests of public services. Geographical conditions, resources, and potentials that exist in each region in Indonesia are different from other regions causing each region to have dependence in the form of funds and assistance from the central government. Economic growth is one of the benchmarks as a success of the government in improving people's welfare and as a level of mastery of technology as a quality to advance the economy (Harahap, 2018).

An area with good economic development shows a positive value because basically the community is able to produce their basic needs such as food, clothing, and housing. The improvement of the economy is an achievement of the government's performance in providing adequate services for the needs of the community. Financial performance can be defined in the form of an achievement that is measured using the parameters of financial ratios. Financial performance is analyzed in order to evaluate the ability of local governments in the

previous period so that financial conditions are known that reflect the reality of financial position and capacity that will be sustainable (Suwandi&Tahar, 2015). The performance and good management of regional finances that have been carried out by local governments will also have an impact on reducing poverty levels.

One of the government's priority programs is to overcome the poverty rate which is increasing every time. Poverty is seen as an inability of the community to meet the needs of food, clothing, housing, low income, education and health insurance. Poverty is a multidimensional problem. The approach taken with one particular field of science is not sufficient to explain the meaning and the accompanying phenomena. Another definition of poverty is the inability of the community to meet a standard of living above the average seen from the economic side of a region or region. The inability of the community is marked by the low income of the community in meeting basic needs and has an impact on health and education insurance.

The purpose of this study is to analyze the financial performance of local governments that affect economic growth in districts and cities in the province of East Nusa Tenggara for the 2017-2019 period, analyze the financial performance of local governments that affect poverty in the province of East Nusa Tenggara for the period 2017-2019, and analyze financial performance of local governments that affect poverty through economic growth in East Nusa Tenggara Province for the 2017-2019 period.

## **II. LITERATURE REVIEW**

### **2.1. Theory of Fiscal Federalism (Fiscal Federalism)**

In principle, the decentralization system is a granting of authority given by the central government to each region with the aim that each regional government is independent in managing wealth and resources that can increase income which is a source to finance all activities and programs carried out for the benefit of services to the community. In the theory of fiscal federalism (Fiscal Federalism) which was first coined by Oates (1972) with the existence of a decentralized financial system can improve the economy with the aim of public welfare. According to Sari & Supadmi (2016) defines the theory of fiscal federalism as an effort given to the public to understand the impact of the formation of autonomy carried out by the government in order to know the economic conditions and all services to the community in improving people's welfare. Decentralization as described in Law No. 32 of 2004 Article 7 in the framework of the Unitary State of the Republic of Indonesia as the authority of the central government for autonomous regions. The explanation in the law above concludes that the decentralization system implemented will have an impact on the independence of local governments in carrying out their duties to regulate and multiply all potentials in their regions, such as managing natural resources and improving the quality of human resources. 32 of 2004 Article 7 within the framework of the Unitary State of the Republic of Indonesia as the authority of the central government for autonomous regions. The explanation in the law above concludes that the decentralization system implemented will have an impact on the independence of local governments in carrying out their duties to regulate and multiply all potentials in their regions, such as managing natural resources and improving the quality of human resources. 32 of 2004 Article 7 within the framework of the Unitary State of the Republic of Indonesia as the authority of the central government for autonomous regions. The explanation in the law above concludes that the decentralization system implemented will have an impact on the independence of local governments in carrying out their duties to regulate and multiply all potentials in their regions, such as managing natural resources and improving the quality of human resources.

### **2.2. Regional Financial Performance**

Performance is a work achievement obtained by an agency/organization/institution/company in carrying out an activity or program in accordance with the objectives, vision, mission and responsibilities given. To assist and assess government performance, it can be measured by public sector performance indicators which aim to make the government focus more on achieving the set program unit targets so as to increase effectiveness and efficiency in the provision of public services (Ningtyas, 2015).

Regional financial performance can be interpreted as an achievement of local government activities and programs such as the use of regional budgets with measurable quality and quantity. One way to determine the efficiency of services provided to the community can be seen in the capabilities and responsibilities of local governments (Sumarjo, 2010). While the definition of financial performance according to Agustina (2013) is the level of achievement obtained by local governments in the field of local government finance. To assess government financial management, several instruments can be used which in this study use the ratio of regional independence, effectiveness, efficiency and compatibility of capital expenditures.

### **2.3. Regional Independence Ratio**

Regional independence can be defined as government expertise to manage all activities in government, both infrastructure and assistance for every level of society whose income comes from taxes, levies, and profits of state-owned enterprises (BUMD) as a source of income for the region (Halim, 2004). In another sense,

Nurhayati (2016) defines the independence of a region as an indicator and success of the region by comparing the realization of PAD to total income. Regional independence describes the state of a region in optimizing every regional revenue sourced from user fees and not too dependent on central government assistance. According to Suawandi &

#### **2.4. PAD Effectiveness**

According to Mahmudi (2010:143) PAD effectiveness describes the government's expertise to mobilize the realization of local revenue (PAD) according to budget targets. The effectiveness ratio is defined as the level of government expertise so that income is in accordance with the target. To assess the effectiveness by comparing PAD revenue and PAD revenue targets (Halim, 2012). The level of effectiveness of an area is the main indicator of local government financial performance which has an impact on increasing planned regional investment so that it will improve people's welfare (Suryatini et al. 2018).

#### **2.5. PAD Efficiency**

According to Ardila (2015) efficiency is defined as the relationship between output and input in the form of goods and services which are the result of the activities carried out. An activity carried out by the local government is said to be good if the costs incurred by the local government are very low or as minimal as possible compared to that obtained by the region (Mardiasmo, 2004). According to Astuti (2015) states that local government financial efficiency is calculated using a comparison between output and input. The activity is said to be efficient if its implementation uses low costs (inputs) and good results (outputs) or in accordance with local government targets.

#### **2.6. Capital Expenditure Harmony**

Shopping compatibility has the benefit of being able to find out the balance in spending by local governments. This is because there is a link with a budget as an allocation of funds, a retribution tool and a balance tool. A budget goes according to plan, the government needs to harmonize regional costs. The compatibility of the cost of capital is the total cost of capital compared to all regional expenditures.

Based on capital expenditure, each party with an interest in the budget realization report can find out the portion of capital expenditure in a certain period. Capital expenditures can have a dynamic short-term or long-term impact. At present, because there are no precise parameters to assess the cost of capital for a good APBD, this is based on development activities in an area. Therefore, it is necessary to increase the cost of capital which so far is still small for development which is increasing every time.

#### **2.7. Economic growth**

According to Boediono (1998) economic growth is defined as the process of growth in goods and services and has a benefit of more than one year and occurs due to factors from the temporary economic process. Regional economic growth is a supporting aspect in expanding economic growth in an area (Aswar, 2013).

Economic growth can be used as an indicator in assessing the level of community prosperity, mastery and technological development and is a feature of successful development in an area (Peterseon, 2017). Good economic growth in a country can open up and provide jobs for the community if all sectors develop and grow. On the other hand, if the growth is low, it will absorb less labor so that it will have an impact on unemployment and poverty. the positive impact of a high economy is to provide justice for all levels of society.

#### **2.8. Poverty**

according to *World Bank*(1990) defines poverty as the inability of the community to achieve a life above the minimum standard. Poverty is defined in the form of examples such as lack of nutrition, clean water, healthy housing, lack of health insurance, and poor quality education. Kuncoro (2016) defines poverty based on the level of public consumption as measured by the ability to live above the minimum standard. The basic need approach concept is one of the parameters in assessing poverty proposed by BPS. This methodology views poverty as a failure from a financial point of view such as the primary need for food as seen from public expenditure. So, everyone whose per capita expenditure is below the poverty line is defined as poor.

#### **2.9. The Relationship Between Financial Performance, Economic Growth on Poverty**

Financial management of an area as measured by financial ratios will have an impact on improving the economy. Furthermore, increased economic growth has an impact on people's welfare. The relationship between financial management and economic development that has an impact on poverty is assumed to be with a level of independence and economic, effective and efficient financial management will increase economic growth. This is due to the lack of government intervention in terms of procedures issued related to regional management.

According to Kuncoro (2003) increasing economic growth and reducing poverty are influenced by optimal management of PAD so that budget allocations must be increased again as a strategy in generating income. Therefore, optimal budget management has an impact on economic growth by increasing sectors that are supporting in increasing growth.

### III. RESEARCH METHODS

#### 3.1. Operational Definition and Measurement of Variables

##### 1) Regional Financial Independence Ratio (X1)

The independence ratio is defined as the expertise of a region in collecting income sourced from taxes, levies, and legitimate income. The independence ratio is a comparison between PAD and total revenue. The independence ratio can be formulated as follows:

$$\text{Independence ratio} = \frac{\text{Locally-generated revenue}}{\text{Total regional income}}$$

##### 2) PAD Effectiveness Ratio (X2)

The PAD effectiveness ratio describes the ability of a region to realize regional original income compared to the specified budget. The greater the value of effectiveness means the better the performance of the local government. The effectiveness ratio can be measured by the following formula:

$$\text{Effectiveness ratio} = \frac{\text{Realization of PAD}}{\text{Target of PAD Revenue}}$$

##### 3) PAD Efficiency Ratio (X3)

Efficiency ratio describes the comparison between each cost incurred to generate revenue. Efficiency is an activity if the implementation of the work achieved has the desired results with low costs or minimal costs. The efficiency ratio is formulated as follows:

$$\text{Efficiency ratio} = \frac{\text{Realization of regional expenditure}}{\text{Realization of regional revenues}}$$

##### 4) Capital Expenditure Harmony Ratio (X4)

The capital expenditure compatibility ratio describes the ability of local governments to prioritize capital expenditures compared to all regional expenditures. A larger share of the cost of capital may reflect that local governments are increasingly prioritizing budgets for direct physical spending. The capital expenditure compatibility ratio can be formulated as follows:

$$\text{Capital expenditure ratio} = \frac{\text{Total capital expenditure}}{\text{Total regional expenditure}}$$

##### 5) Economic Growth (Y1)

Economic growth is the development of an economic activity and the ability of a region to provide and cause goods and services to increase and increase. Economic growth is measured by looking at the level of GRDP at a constant value. The formula used to see the rate of economic growth is as follows:

$$\text{Economic growth } (\Delta Y) = \frac{Y_{rt} - Y_{rt-1}}{Y_{rt-1}}$$

Information:

$\Delta Y$  = economic growth

$Y_{rt}$  = GRDP in a certain period at constant prices

$Y_{rt-1}$  = PDRB tahun sebelumnya

##### 6) Poverty (Y2)

Poverty is a condition of the inability of a person or group of people to meet food and non-food needs. This inability is caused by the low income that a person generates in meeting their daily needs. In this study, poverty can be measured by looking at the percentage of poor people in districts and cities in East Nusa Tenggara Province for the 2017-2019 period. The Head Count Index (HCI) is an indicator to find out the percentage of poverty and the number of poor people.

#### 3.2. Sample and Research Population

In this study, the population taken was 21 regencies and 1 city in East Nusa Tenggara Province for the 2017-2019 period. Sampling using judgment sampling technique, namely the data needed in the study is already available in accordance with the indicators of the research variables.

Sample Criteria	Sample
Financial report Revenue, expenditure, realization and budget of Regency & City in East Nusa Tenggara (NTT) Province for the 2017-2019 period	20
Research Period	3
Number of Samples	66
Outlier data	-6
Final Sample Total	<b>60</b>

### 3.3. Data Types and Sources

This type of research is quantitative research. Processed data sourced from secondary data obtained by documentation. These data are in the form of budget realization and regional income, economic growth rate and poverty rate. This data is obtained from the official website of the Directorate General of Fiscal Balance (DJPK) which is accessed through the website, namely: [www.djpk.kemenkeu.go.id](http://www.djpk.kemenkeu.go.id) and the official website of the Central Statistics Agency (BPS) of East Nusa Tenggara Province, namely <https://ntt.bps.go.id>.

### 3.4. Data analysis method

In this study to analyze the impact of regional financial performance on poverty through economic growth using descriptive statistical analysis tools, classical assumptions and hypothesis testing which aims to see the impact of each variable included in the study. And the last one is to analyze the data with path analysis model to find out any indirect effect between variable X on variable Y through the mediating variable. This study uses SPSS 24 software. The structural regression equation models in this study are:

a. Economic growth (Y1)

$$Y1 = \alpha + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + \epsilon$$

b. Poverty (Y2)

$$Y2 = \alpha + \beta_1 X1 + \beta_2 X2 + \beta_3 X3 + \beta_4 X4 + \beta_5 Y1 + \epsilon$$

Information:

Y1 = economic growth

Y2 = poverty

$\beta$  = path coefficient

X1 = PAD independence

X2 = PAD effectiveness

X3 = PAD efficiency

X4 = capital expenditure compatibility

$\epsilon$  = error

## IV. RESULTS AND DISCUSSION

### 4.1. Results Descriptive Statistical Analysis

Table 1 Descriptive Statistical Analysis.

	N	Minimum	Maximum	mean	Std. Deviation
Independence	60	2.08	13.74	6.4435	2,34479
Effectiveness	60	39.93	200.78	108.0618	32.37261
Efficiency	60	51.93	114.61	93.8107	10.32018
Harmony	60	11.92	32.33	20.6800	4.77073
Growth	60	4.27	5.77	5.0947	,24440
Poverty	60	10.75	36.01	22,3610	6.84518

Source: SPSS Processed Data (2021)

The level of independence seen from the results of descriptive statistical analysis shows that the mean and standard deviation values are 6.4435 and 2.34479 and the minimum value is 2.08 and the maximum is 23.74. This shows that the level of independence of each district and city in NTT is still relatively small and highly dependent on assistance and loans from the central government and other provinces.

The effectiveness level of PAD in regencies and cities in the province of NTT for the 2017-2019 period with an average value of 108.0618, a standard deviation of 32.37261, a minimum of 39.93, and a maximum value of 200.78. The higher the effectiveness ratio indicates that each district and city has been effective in realizing PAD.

The level of PAD efficiency in Regencies/Cities in NTT Province for the 2017-2019 period with an average value and standard deviation of 93.8107, 110.32018, minimum and maximum values of 51.93 and 114.61. From the above average value of 93.8%, it shows that the government's financial management in



generating revenue is still less efficient. The percentage of efficiency ratio that is small or below 100% can be concluded that the government's financial management to generate revenue is very efficient.

The mean and standard deviation of the cost of capital are 20.6800 and 4.77073, respectively. Furthermore, the minimum and maximum values are 11.92 and 32.33. This shows that the average local government capital expenditure in NTT Province in the last 3 years was 20.68%, which means that the costs incurred by the government for direct expenditures such as development spending and public services were only 20.68% of total government spending.

The GRDP growth rate in NTT Province in 2017-2019 shows mean and standard deviation values of 5.0947 and 0.24440, minimum and maximum values of 4.27 and 5.77. Data from the Central Bureau of Statistics shows that the economic development of districts and cities in NTT Province every year has increased, although not significantly.

The poverty rate in regencies and cities in NTT Province for the 2017-2019 period with an average of 22,3610, a standard deviation of 6.84518, a minimum value of 10.75 and a maximum value of 36.01. From the data, the poverty rate in districts and cities in the province of NTT has decreased every year. This shows that there are serious efforts by local governments in reducing poverty levels.

**Classic assumption test**

**Data Normality Test**

To see whether the data is normal or not in the study, the Kolmogorov-Smirnov test was carried out. The table below is the results of the normality test of models I and II, as follows:

Table 2 Data Normality Test Results Model 1

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		60
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	,20100338
Most Extreme Differences	Absolute Positive	,091
	Negative	-,088
Test Statistic		-,091
Asymp. Sig. (2-tailed)		,200 <sup>c,d</sup>

Table 3. Data Normality Test Results Model II

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		60
Normal Parameters <sup>a,b</sup>	Mean	,0000000
	Std. Deviation	6,10499024
Most Extreme Differences	Absolute	,086
	Positive	,086
	Negative	-,065
Test Statistic		,086
Asymp. Sig. (2-tailed)		,200 <sup>c,d</sup>

Source: SPSS Processed Data (2021)

The results of the Kolmogorov-Smirnov test can be seen that in the normality test of models 1 and 2 with a significance value of 0.200 and 0.200, which means it is greater than the alpha significance level of 0.05 (5%) it can be concluded that the data used in this study is normally distributed so that it can be continued on other classical assumption tests.

**Multicollinearity Test**

Tolerance and VIF values which are the benchmarks in determining the presence or absence of multicollinearity can be seen in table 4 for the first regression model with economic growth as the dependent variable. To test the second multicollinearity model with the dependent variable being poverty and dependent variable poverty, see table 5 below:

Table 4. Model I. Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	Independence	,771	1,297
	Effectiveness	,862	1,160
	Efficiency	,909	1,100
	Harmony	,838	1,193

Source: SPSS Processed Data (2021)

Table 5. Model II Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	Independence	,618	1,619
	Effectiveness	,862	1,160
	Efficiency	,862	1,160
	Harmony	,838	1,194
	Growth	,676	1,478

Source: SPSS Processed Data (2021)

**Autocorrelation Test**

This test is used to determine the absence of a correlation between nuisance errors in a certain period compared to errors in the previous period. The run test is one of the tests to determine autocorrelation in research. If the p value <0.05 (Alpha 5%) it is concluded that there is an autocorrelation. Conversely, if the p value > 0.05 (alpha 5%) then there is no autocorrelation. The autocorrelation test in the first table with the dependent variable of economic growth and dependent variable poverty are as follows:

Table 6. Autocorrelation Test Results Model I

	Unstandardized Residual
Test Value <sup>a</sup>	,01122
Cases < Test Value	30
Cases >= Test Value	30
Total Cases	60
Number of Runs	32
Z	,260
<b>Asymp. Sig. (2-tailed)</b>	<b>,795</b>

Source: SPSS Processed Data (2021)

Table 7. Results of Model II Autocorrelation Test

Runs Test	
	Unstandardized Residual
Test Value <sup>a</sup>	,79434
Caases< Test Value	30
Cases >= Test Value	30
Total Cases	60
Number of Runs	32
Z	,260
Asymp. Sig. (2-tailed)	,795

Source: SPSS Processed Data (2021)

In the autocorrelation test of models I and II, the p value > 0.05 is 0.795. Which means that there is no autocorrelation in this study because the significant value generated is more than 0.05.

**Heteroscedasticity Test**

to test the presence or absence of heteroscedasticity in this study by conducting the glejer test with the criteria if the p value > 0.05 then there is no heteroscedasticity and vice versa if the p value <0.05 it is concluded that heteroscedasticity occurs. The second heteroscedasticity model test is:

Table 8. Model I .Heteroscedasticity Test Results

Model		Sig.
1	(Constant)	,181
	Independence	,487
	Effectiv eness	,141
	Efficiency	,423
	Harmony	,889

Source: SPSS Processed Data (2021)

Table 9. Heteroscedasticity Test Results Model II

Model		Sig.
1	(Constant)	,913
	Independence	,402
	Effectiv eness	,099
	Efficiency	,731
	Harmony	,214

Source: SPSS Processed Data (2021)

From the results of the analysis on models I and II for the heteroscedasticity test, the significant value of each variable is more than 0.05, which means that there is no heteroscedasticity.

**Determinant Coefficient Analysis (R2)**

The determinant coefficient (R2) is a proportion in measuring the ability of each independent variable used in the study and how much influence it has on the dependent variable.

Table 10. Determinant Coefficient of Model I

Model Summary <sup>a</sup>			
Model	R	Adjusted R Square	Std. Error of the Estimate
1	,569 <sup>a</sup>	,324	,20818

Table 11. Determinant Coefficient Model II

Model Summary <sup>a</sup>			
Model	R	Adjusted R Square	Std. Error of the Estimate
1	,452 <sup>a</sup>	,205	,131

Source: SPSS Processed Data (2021) Source: SPSS Processed Data (2021).

From the results of the table of the determinant coefficient of model I with an R Square value of 0.324 or 32.4%. The results of this determinant coefficient test show the effect of all independent variables which in this study are independence, effectiveness, efficiency, and compatibility of capital expenditures on economic growth which has an effect of 32.4% and the remaining 67.6% which is influenced by other variables that are not included. in research. As for the determinant coefficient test in model II, namely the overall effect of

independent variables as measured by the ratio of independence, effectiveness, efficiency, compatibility of capital expenditures, and economic growth on poverty, the effect of 0.205 or 20.5% and the remaining 79.5% which influenced by other variables outside the variables used in this study.

**Model Accuracy Test (F Test) Equations I and II**

Based on the model accuracy test in equation I, the following results are obtained:

Table 12. F test of Equation I

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1,140	4	,285	6,578	,000 <sup>b</sup>
	Residual	2,384	55	,043		
	Total	3,524	59			

Source: SPSS Processed Data (2021)

In the F test in equation I, the significance value of 0.000 is greater than 0.05 (5%) which means that together the regional financial performance as measured by the ratio of independence, effectiveness, efficiency, and compatibility of capital expenditures has an effect on economic growth.

Table 13.F Test Results Equation II

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	565,552	5	113,110	2,778	,026 <sup>b</sup>
	Residual	2198,983	54	40,722		
	Total	2764,536	59			

Source: SPSS Data Processed (2021)

For the results of the F test in equation II of  $0.026 < 0.05$ , it can be concluded that the regional financial performance as measured by the ratio of independence, effectiveness, efficiency, compatibility of capital expenditures, and economic growth has an effect on poverty.

**Variable Significance Test (t Test)**

The following table presents the results of the partial hypothesis testing analysis of financial performance on economic growth for the first model:

Table 14.Model I .T-test results

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.295	0.281		15.283	0.000
	Independence	0.049	0.013	0.467	3.697	0.001*
	Effectiveness	7.197E-5	0.001	0.010	0.080	0.937
	Efficiency	0.005	0.003	0.202	1.740	0.088**
	Harmony	0.001	0.006	0.027	0.224	0.824

Source : SPSS Processed Data (2021)

\*statistical significance at the alpha level of 0.05 (5%)

\*\*statistical significance at alpha level 0.10 (10%)

The results of the regression analysis for the first error value is 0.822. This result is obtained from the root of R square 0.324 ( $e1=\sqrt{1-0.324}$ ). The following shows an image of the path diagram for the first model:



Based on the results of the regression analysis in the model I equation, the path coefficient equation is as follows:

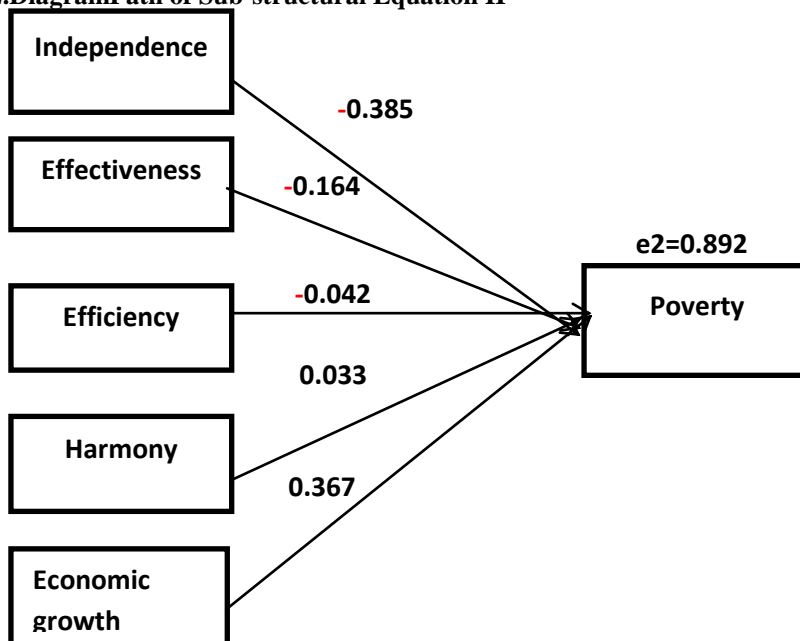
$$Y1 = 4.295 + 0.467X1 + 0.010X2 + 0.202X3 - 0.027X4 + 0.822$$

Table 15. Results of Model II t-test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-25.327	19.732		-1.284	0.205
	Independence	-1.125	0.451	-0.385	-2.495	0.016
	Effectiveness	-0.035	0.028	-0.164	-1.257	0.214
	Efficiency	-0.028	0.087	-0.042	-0.324	0.747
	Harmony	0.435	0.190	0.303	2.288	0.026
	Growth	10.270	4.133	0.367	2.485	0.016

Meanwhile, for the t-test in the second equation, a table is presented for the effect of the ratio of independence, effectiveness, efficiency, compatibility of capital expenditures and economic growth on poverty with a regression result of  $e2 = 0.892$  which is obtained from the R Square root value as follows:

Figure 2. Diagram Path of Sub-structural Equation II



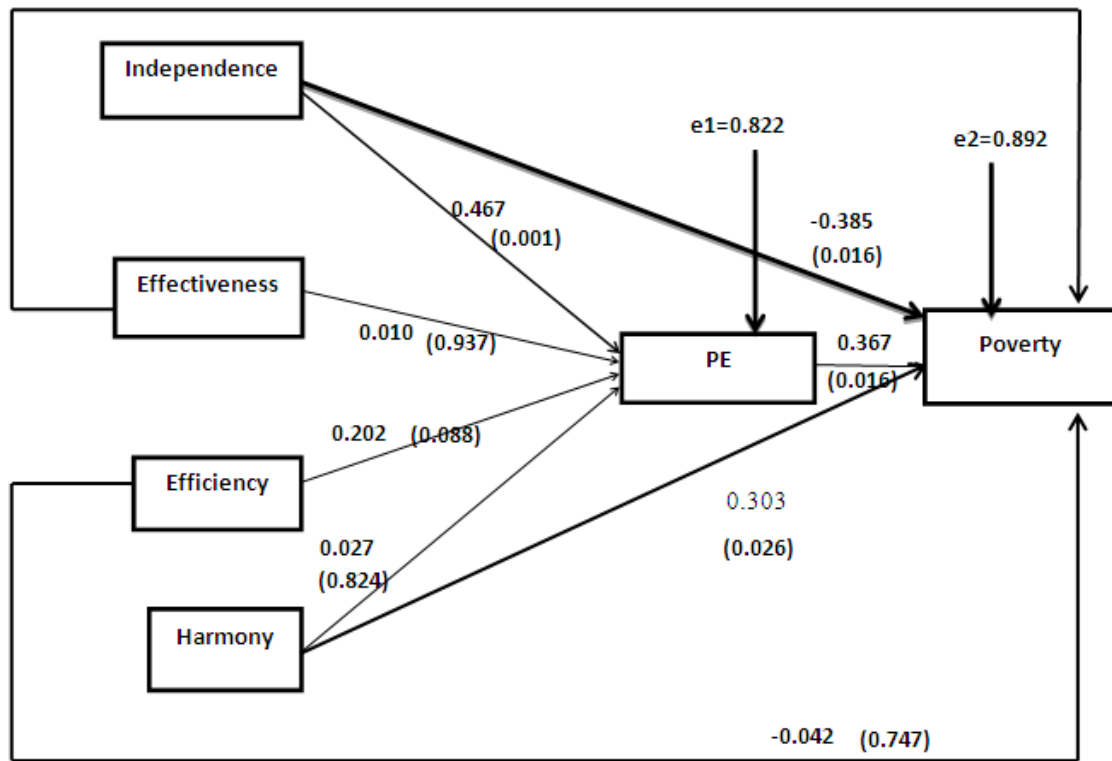
Based on the results of the regression analysis in the substructure equation II, the path coefficient equation is as follows:

$$Y2 = -0.385X1 - 0.164X2 - 0.042X3 + 0.033X4 + 0.367Y1 + 0.892$$

So, the total path diagram for equations I and II is as follows:

Figure 3

Total Path Chart



4.2. Discussion of Research Results

4.2.1. The Effect of Financial Performance Measured by Independence Ratio (X1) on Economic Growth (Y1)

The results of the analysis of the relationship between the regional independence ratio with a significant value of 0.01 below 0.05 can be said that H1 is accepted and it means that the positive influence of the independence ratio on economic growth. Increased regional independence to generate greater income, especially from taxes, levies, and BUMD. This means that the government is able to manage its area independently without being dependent on assistance from outside the region. These results are relevant to the research of Ahzari, et al (2020) & Nurhayati (2016) defining regional independence as an indicator to measure the ability of regions to manage regional finances sourced from PAD so that it will have an impact on sectors such as SMEs in the region to develop and grows and the welfare of society increases and directly the economy will grow.

4.2.2. The Effect of Financial Performance as Measured by the Effectiveness Ratio (X2) on Economic Growth (Y1)

The results of the regression analysis show that the significant value of the effectiveness ratio on economic growth is 0.937 and this value is above significant 0.05. It can be concluded that H1 is rejected, meaning that there is no effect of the effectiveness ratio on economic growth due to the less than optimal performance of local governments in generating revenue according to the budget. According to Pradiatmi&Wibowo (2015) that there is no impact on the effectiveness ratio on economic growth because the realization of PAD revenue compared to the target is not significant. It can be concluded that the local government does not meet the concept of value for money so that economic growth does not increase

4.2.3. Financial Performance Measured by Efficiency Ratio (X3) Affects Economic Growth (Y1)

The efficiency ratio is an illustration of the financial performance of the local government which explains every cost incurred by the government in obtaining revenue. Based on the results of regression analysis, the relationship between efficiency ratios and economic growth shows a significant value of 0.088, which is greater than 0.10 (10%). It is concluded that H1 is accepted, meaning that the efficiency ratio has an effect on increasing the economy. According to Fayissa&Gutema (2010) which shows a positive relationship between the efficiency ratio and economic growth due to the realization of more efficient regional expenditures

so that local governments spend more efficiently and there is no excessive investment. The more efficient local government financial management illustrates that the regions benefit from minimizing costs,

#### **4.2.4. The Effect of Regional Financial Performance as measured by the Harmony Ratio of Capital Expenditure (X4) on Economic Growth (Y1)**

The cost of capital is described as the ability of local governments to prioritize development spending to provide facilities and facilities for the public or community interests. The significance value of the capital expenditure ratio is 0.824, which is greater than 0.05 (5%) so it can be concluded that H0 is accepted and H1 is rejected, which means that it has no effect on capital expenditure to improve the economy. The results of the research studied by Yunus&Amirullah (2019) stated that the capital expenditure ratio had no impact on growing the economy in districts in Aceh Province. This is because the targeted cost of capital by local governments cannot increase economic growth. In the process of realizing capital expenditures it takes a long time starting from the budget, implementation to the stage of use by the community. For example, buying land

#### **4.2.5. Financial Performance as measured by Independence Ratio (X1) Affects Poverty (Y2)**

Based on the results of the study that the independence ratio has a significance of 0.016 and this value is below 0.05, it can be interpreted that H1 is accepted, so it can be concluded that the independence ratio has an effect on poverty. According to Halim (2002), the high level of community participation in paying obligations such as taxes and levies shows the ability to increase community welfare so that local governments are expected to increase their income from. PutriAni (2014) stated that a large portion or an increase in PAD will encourage local governments to reduce poverty levels in their regions. While research by Permatasari&

#### **4.2.6. The Direct Effect of Regional Financial Performance as measured by the Effectiveness Ratio (X2) Affects Poverty**

This study shows the results that the effectiveness of poverty has no effect with a significant value of 0.214 and higher than 0.05, which means that H0 is accepted. This is because the local government has not been able to allocate any revenue derived from the realization of PAD to reduce poverty levels. Although the increase in PAD compared to the target, it has not been able to allocate more funds than PAD to overcome poverty because government spending priorities are still focused on spending that is routine and has an indirect impact on the community. So that poverty is still increasing. According to PutriAni (2014) that the effectiveness ratio has no effect on poverty because the realization of PAD is smaller than the target set by the government.

#### **4.2.7. Regional Financial Performance as measured by Efficiency Ratio (X3) Affects Poverty (Y2)**

The results of the analysis with a significant value of the efficiency ratio is 0.747 above 0.05 means that it has no impact on reducing poverty and H1 is rejected. This is due to the large amount of government spending but not proportional to the results received, causing the government to be less efficient in managing its finances. The greater the efficiency ratio indicates less efficient, on the contrary, the smaller efficiency ratio indicates the efficient management of expenditure to obtain income.

The results of this study are the same as the research that researched by Kumpangpune (2019) and explains that local government spending is less efficient due to large expenditures to obtain income so that revenues that should be greater than expenditures cannot be allocated to carry out programs in an effort to reduce poverty. According to Verawaty (2014) explaining the results of the study, namely the efficiency ratio has no impact on poverty because the total regional expenditure is greater than revenue, so there is no more funds allocated for poverty reduction.

#### **4.2.8. The Effect of Financial Performance as measured by the Ratio of Harmony of Capital Expenditure on Poverty**

The results of the study show the effect of the compatibility ratio of capital expenditures that has an impact on poverty with a significance value of 0.026 below the significance of 0.05 then H0 means that H1 is accepted. This indicates the ability of local governments to allocate funds to purchase large amounts of regional assets. With the increase in costs, it can provide infrastructure services, facilities and infrastructure that are directly used by the community such as for the procurement of road infrastructure, clean water, health insurance and also for education. According to Kaligis, et al (2017) the capital expenditure ratio has a positive effect on poverty because an increase in capital expenditure allocation can have an impact on providing adequate infrastructure and will make it easier for people to carry out economic activities.

#### **4.2.9. The Effect of Economic Growth (Y1) on Poverty (Y2)**

Based on the results of the study, it shows that economic growth has a positive effect on poverty with a significant value of 0.016 which is smaller than 0.05 (5%) so it can be concluded that H0 is rejected and H1 is

accepted. According to Cholili (2014) with increasing economic growth, poverty will also increase. This will increase because of the increasing income inequality between individuals in the community which has an impact on increasing poverty. Growth has not only been at a lower rate but is becoming more and more uneven across districts and cities. These factors are the reason why the number of poor people has not decreased significantly due to economic developments that do not have a positive impact on people who are categorized as poor. Another reason that reduces the number of poor people is due to stable economic factors and falling prices for public consumption materials.

#### **4.2.10. Indirect Effect of Independence Ratio on Poverty Through Economic Growth**

Based on the equation of substructure III, it is known that the direct effect of the ratio of independence to poverty is -0.385, while through economic growth as a mediating variable of 0.171 resulting from the multiplication of the beta value of the independence ratio variable and economic growth and the variable of economic growth to poverty, namely  $0.467 \times 0.367 = 0.171$ . So it can be concluded that the value of  $-0.385 < 0.171$  means that the direct effect is smaller than indirectly through economic growth. This shows that the ratio of independence through economic growth indirectly affects poverty. This research is relevant to the research conducted by Verawaty (2020) which shows that the results of economic growth can be used as an intervening variable in the relationship between the ratio of independence to poverty. The increase in PAD revenue is followed by increased economic growth so that large revenues from local revenue can be allocated to reduce poverty. Prakoso, et al (2019) explained that the level of independence of local governments to generate large incomes will have an impact on economic growth so that it will reduce poverty levels.

#### **4.2.11. Indirect Effect of Effectiveness Ratio on Poverty Through Economic Growth**

Based on substructural equation III, it is known that the direct effect of the effectiveness ratio on poverty is -0.164. Meanwhile, the indirect effect of the effectiveness ratio on poverty through economic growth is 0.0037 resulting from the multiplication of the beta value of the effectiveness ratio and economic growth and the beta value of economic growth and poverty. These results indicate that the value is  $-0.164 < 0.0037$ , which means that the direct effect of the effectiveness ratio on poverty is smaller than the indirect effect of economic growth. So, it can be concluded that the effectiveness ratio affects poverty through economic growth. According to Nurulita (2018), stating that with the large effectiveness ratio, it can be concluded that the increase in the effectiveness ratio will be balanced with the development of adequate infrastructure, facilities or facilities so that economic growth will also increase community welfare and reduce poverty levels. Meanwhile, Verawaty (2020) shows that the results of economic growth have been successfully used as an intervening variable for the relationship between the effectiveness ratio and poverty. It can be concluded that by increasing the effectiveness ratio, it means that the local government can optimize the ability of the region to earn revenue. Meanwhile, Verawaty (2020) shows that the results of economic growth have been successfully used as an intervening variable for the relationship between the effectiveness ratio and poverty. It can be concluded that by increasing the effectiveness ratio, it means that the local government can optimize the ability of the region to earn revenue. Meanwhile, Verawaty (2020) shows that the results of economic growth have been successfully used as an intervening variable for the relationship between the effectiveness ratio and poverty. It can be concluded that by increasing the effectiveness ratio, it means that the local government can optimize the ability of the region to earn revenue.

#### **4.2.12. Indirect Effect of Efficiency Ratio on Poverty Through Economic Growth**

Based on the equation of substructure III, it is known that the direct effect of the efficiency ratio on poverty is -0.042, while through economic growth the value of the multiplication of beta is 0.074 from the multiplication of the beta value of the efficiency ratio on economic growth and the beta value of economic growth and poverty is  $0.202 \times 0.367 = 0.074$ . The results of the path analysis concluded that the value was  $-0.042 < 0.074$ , which means that the direct effect of the efficiency ratio on poverty is small compared to economic growth. This shows that the efficiency ratio indirectly affects poverty through economic growth. The results of this study are relevant to the research researched by Nurulita (2018) which states that the efficiency ratio describes the ability of local governments to save on every expenditure for consumptive activities and regional expenditures. The higher the efficiency ratio indicates that the local government is inefficient in financing every local government program and the existence of a weak control system. This will have an impact on economic growth because the community does not benefit from the increase in local revenue. This will have an impact on increasing poverty. This will have an impact on economic growth because the community does not benefit from the increase in local revenue. This will have an impact on increasing poverty. This will have an impact on economic growth because the community does not benefit from the increase in local revenue. This will have an impact on increasing poverty.

#### 4.2.13. Indirect Effect of Capital Expenditure Harmony Ratio on Poverty Through Economic Growth

Based on the substructural equation III, it is known that the direct impact of the capital expenditure compatibility ratio on poverty is 0.303, while the indirect impact of the cost of capital on poverty through economic growth is 0.009 which is the result of multiplying the beta value of the capital expenditure variable and economic growth on poverty ( $0.027 \times 0.367 = 0.009$ ), which means that the direct effect of capital expenditure compatibility ratio on poverty is higher, while the indirect effect through economic growth is smaller. According to research researched by Mukarramah (2020) explains that capital spending directly on poverty is greater without going through economic growth because adequate infrastructure development will guarantee productivity, facilitate the distribution of products that will grow economic activity and affect every income of the community. However, if the development of public facilities is inadequate, it will not affect poverty reduction through economic development.

## V. CONCLUSIONS AND SUGGESTIONS

### 5.1. Conclusion

From the results of the path regression coefficient analysis in the sub-structural equation I, it can be concluded that simultaneously financial management in districts and cities in NTT Province in 2017-2019 using ratio measuring tools such as the level of independence, PAD effectiveness, PAD efficiency and capital expenditure compatibility. on economic growth. While partially shows the results that there is an influence of the level of regional independence and efficiency of PAD which increases economic growth, while the effectiveness of PAD and the cost of capital have no impact on improving the economy. In equation II, it can be concluded simultaneously that regional financial management has an impact on poverty. while partially the ratio of independence, compatibility of capital expenditures and economic growth affects poverty. Broadly speaking, economic growth in this study can be used as a mediating variable between financial performance that has an impact on reducing poverty.

### 5.2. Suggestion

- 1) For local governments in regencies and cities in East Nusa Tenggara Province, it is expected to optimize local revenue (PAD), increase budget realization, and make every expenditure more efficient, especially capital expenditures that can increase regional economic growth so that it will have an impact on reducing poverty levels.
- 2) Furthermore, researchers who will conduct research related to the performance of local governments are advised to include variables outside of this study that are not included in the study in order to find out the conditions of regional financial management and economic growth that have an impact on poverty so that they can solve the formulation of the problem to be studied.

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