

THE EFFECT OF REGIONAL FINANCIAL PERFORMANCE ON QUALITY OF LIFE OF PEOPLE IN EAST JAVA IN 2020-2022

Liana *

Faculty of Economics and Business, Nusantara PGRI University, Kediri, Indonesia
E-mail: lianaaa784@gmail.com

Faisol

Faculty of Economics and Business, Nusantara PGRI University, Kediri, Indonesia
E-mail: faisol@unpkdr.ac.id

Amin Tohari

Faculty of Economics and Business, Nusantara PGRI University, Kediri, Indonesia
E-mail: amin.tohari@unpkediri.ac.id

ABSTRACT

This study aims to analyze the financial performance of local governments in East Java and its impact on the quality of life of communities, measured by effectiveness, efficiency, and autonomy, from 2020 to 2022. The research uses a saturated sampling technique, analyzing data from all regencies/cities in East Java Province. Data is analyzed using panel data regression with the Random Effect Model method. The results show that financial performance, measured through efficiency, effectiveness, and autonomy, has a significant impact on per capita income, a proxy for quality of life. Partial test results indicate that the effectiveness and efficiency of financial performance have a significant impact on the quality of life of communities, while financial autonomy does not have a significant impact on the quality of life.

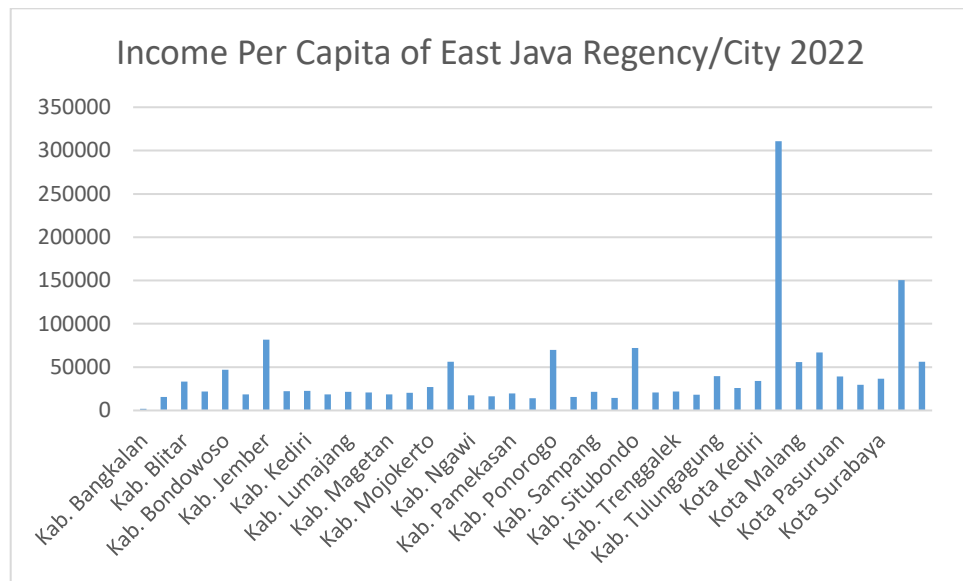
Keywords: Regional Financial Performance, Effectiveness, Efficiency, Independence, Quality of Life.

INTRODUCTION

Local governments have a great responsibility to provide good public services and carry out regional development effectively. Good regional financial management is key to achieving this goal (Januarta et al., 2024). The quality of life of the community, which reflects the level of welfare which includes economic, health, educational, and environmental aspects, is the main indicator of the success of the development of a region (Santosa et al., 2021). With effective and efficient budget management, local governments can improve infrastructure, health services, education, and various other public services that directly affect the quality of life of the community (Mufaqqih et al., 2024). In theory Musgrave (1984) developed by Richard A. Musgrave, explains the role of the government in the economy to achieve economic prosperity which will ultimately contribute to the quality of life of the community as a whole. This theory emphasizes that the government has an

important responsibility in allocating resources, distributing revenue, and stabilizing the economy to achieve these goals through three main functions, namely allocation, distribution, and stabilization.

East Java, as one of the largest provinces in Indonesia, has great potential to improve the quality of life of its people through optimal regional financial management. Variation in per capita income between districts/cities in East Java shows a significant economic gap, which reflects differences in regional financial performance.



Source: BPS, 2024

Graph 1.
Income per capita

In 2022, there was a significant variation in per capita income in various districts and cities in East Java. Kediri City has the highest per capita income of IDR 310,631,000 per year, followed by Surabaya City with IDR 150,410,000 per year, and Gresik Regency with IDR 81,639,000 per year. On the other hand, several regions such as Sampang Regency and Pamekasan Regency have the lowest per capita income, only Rp14,538,000 per year and Rp14,025,000 per year, respectively. This large nominal difference shows that high-income areas, such as Kediri City and Surabaya City, have better regional financial performance, which allows them to provide high-quality public services, infrastructure, and public facilities. Financial performance analysis is important to understand how the management of public budgets and financial resources can affect people's quality of life. This performance measurement can be done through financial ratio analysis which provides an overview of effectiveness, efficiency, and independence in the use of the budget (Ernawati, 2024).

In previous research studies on financial performance that affects the quality of life, it still shows variability and inconsistency in research results. This is reflected in the variety of research results that have been carried out, as well as the research conducted by (Ernawati, 2024) about the influence of financial performance and capital expenditure on economic growth in the city government of Medan shows that fiscal independence and financial effectiveness have a significant effect on economic growth in the city of Medan. Then the research conducted by Gunarta & Utama (2022) about the influence of economic growth, regional financial independence on the economic structure and welfare of the people of Bali Province both show that economic growth and also regional financial independence have a positive and significant effect on the welfare of people in Bali Province.

However, some other studies have different results, such as the Rosita & Muzdalifah (2023) which analyzed the influence of regional financial independence ratio and economic growth on HDI in Tanah Bumbu, Kotabaru and Tanah Laut Regencies showed different results, where the regional financial independence ratio partially had a significant negative effect on HDI. As well as research conducted by Digdowiseiso & Satrio (2022) Regarding the effect of the regional financial independence ratio and the ratio of fiscal dependence on HDI in the Regencies and Cities of South Kalimantan Province, the results show that the regional financial independence ratio has a negative and significant effect on HDI. The fiscal dependency ratio also has a negative and insignificant effect on HDI. Thus, the variation of the results of the study shows the need for further research to understand the influence of regional financial performance on the quality of life of the community. The purpose of this study is to determine the effect of the effectiveness of regional financial performance on the quality of life of the community, the influence of the efficiency of regional financial performance on the quality of life of the community, and the independence of regional financial performance on the quality of life of the community

RESEARCH METHODS

This study uses a quantitative approach that emphasizes the analysis of numerical data processed by statistical methods to test hypotheses about the influence of regional financial performance on the quality of life of the community. This study uses comparative causal techniques to investigate causal relationships through observation of existing data. This research was conducted in Regencies/Cities in East Java Province, the data taken covers the 2020-2022 period. All 38 regencies/cities in East Java Province became the population in this study, and the census technique was used so that all members of the population became the research sample. Thus, there are 114 observations in this study.

Secondary data is used as a data source in this study, which is obtained from government reports such as from the Central Statistics Agency of East Java (<https://jatim.bps.go.id/>) and the Ministry of Finance (<https://djpk.kemenkeu.go.id/>). Data analysis was carried out using panel data regression that combined time series and cross section data. The data was processed using the Stata 14.2 program. Panel data regression analysis was used to understand the influence of independent variables (effectiveness, efficiency, and independence of financial performance) on dependent variables (people's quality of life as measured by per capita income (Faisol et al., 2020)).

There are model tests carried out in this study, namely the Chow Test, Hausman Test, and Lagrange Multiplier Test (Faisol & Sujianto, 2020). This test is used to determine the best model among the Common Effect Model, Fixed Effect Model, and Random Effect Model. Basically in the three model tests, it was found that the selected model was the Random Effect Model. Therefore, the classical assumption test that will be applied in the Random Effect Model is the multicollinearity test (Septianingsih, 2022). This test was carried out to detect correlations between independent variables. Hypothesis testing was carried out through statistical tests, to assess the significance of the influence of each independent variable individually on the dependent variables. Based on this, the following is the operational definition of the research variables:

Table 1. Operational Definition

No.	Research Variables	Definition	Source
a.	Effectiveness	This variable is calculated using the effectiveness ratio with the formula: $(\text{Revenue Realization}) / (\text{Revenue Budget}) \times 100\%$	(Widodo, 2022)
b.	Efficiency	In this variable, the efficiency ratio is used with the formula: $(\text{Realization of Regional Expenditure}) / (\text{Realization of Regional Revenue}) \times 100\%$	(Widodo, 2022)
c.	Independence	This variable is measured by the independence ratio with the formula: $(\text{Regional Original Income}) / (\text{Transfer Income}) \times 100\%$	(Runjung et al., 2022)
d.	Quality of Life	The quality of life variable is measured using per capita income (Incp), with the formula: $\text{Incp} = \text{total of RGDP} / \text{population}$	(Faisol et al., 2020)

The panel data regression model describes the influence of one or more other variables using the following equation:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it}$$

Information:

Y = Quality of Life

α = Konstanta

$\beta_1, \beta_2, \beta_3$ = Variable regression coefficient

X1 = effectiveness

X2 = efficiency

X3 = independence

i = Cross section (Regency/City)

t = Time Series (2020-2022)

ε = error

Based on the operational definition and research equation, the following research hypotheses can be prepared:

H1 : It is suspected that the effectiveness of regional financial performance affects the quality of life community

H2 : It is suspected that the efficiency of regional financial performance affects the quality of life community

H3 : It is suspected that the independence of regional financial performance affects the quality of Community Life

RESULTS AND DISCUSSION

To determine the most appropriate model to use, several model selection tests were carried out. There are three types of tests used to determine the panel data estimation model, namely the Chow Test, the Hausman Test, and the Lagrange Multiple Test. The following are the results of the three model options accompanied by the following explanation:

a. Chow Test

The chow test aims to determine the best model between the Common Effect Model (CEM) and the Fixed Effect Model (FEM) in estimating panel data. Here are the results of the chow test:

Table 2. Chow Test Results

```
| F test that all u_i=0: F(37, 73) = 1226.95   Prob > F = 0.0000
```

Data processed, 2024

The results of the chow test showed that Prob>chi2 was 0.0000. The value is less than 0.05, which means that H0 = CEM is rejected and H1 = FEM is accepted. So from the results of the chow test, the selected panel data estimation model is the Fixed Effect Model (FEM).

Based on the results of the Lagrange Multiple test, it can be seen that the result of Prob>chibar2 is 0.0000, less than 0.05 which means that $H_0 = \text{CEM}$ is rejected and $H_1 = \text{REM}$ is accepted. So that the result of the Lagrange Multiple test carried out is the Random Effect Model (REM).

Model Test Results

The results of the chow test show that the Prob>chibar2 is 0.0000, smaller than 0.05, which means that the selected model is a Fixed Effect Model (FEM). Furthermore, the hausman test showed a Prob>chi2 result of 0.4072, greater than 0.05 which means that the selected model leads to the Random Effect Model (REM). Then for the multiple lagrange test, it produces a Prob>chibar2 of 0.0000, smaller than 0.05 so that the selected model leads to a Random Effect Model (REM). So it can be concluded that the model used in the hypothesis test is the Random Effect Model (REM), with the basis of the results of the hausman test and the multiple lagrange test which both lead to the Random Effect Model (REM).

At the stage of selecting the best model in this study is the Random Effect Model, so the classic assumption test that needs to be met is the multicollinearity test (Septianingsih, 2022). The multicollinearity test is a test that is carried out to determine whether there is an intercorrelation or collinearity between independent variables in a regression model. Here are the results of the multicollinearity test:

Table 5. Multicollinearity Test

Variable	VIF	1/VIF
intercept	16.85	0.059345
Efisiensi	7.16	0.139655
Efektivitas	6.42	0.155681
Kemandirian	3.21	0.311689
Mean VIF	8.41	

Data processed, 2024

Based on the results of the multicollinearity test, it can be seen that the VIF value of each variable ≤ 10 , so multicollinearity does not occur.

Hypothesis Testing with Panel Data Regression Analysis

Based on the results of the tests that have been carried out, the selected model is a panel data regression analysis with the Random Effect Model approach. The following are the results of hypothesis testing with the Random Effect Model approach:

Table 6. Regression Results of the Random Effect Model

Random-effects GLS regression	Number of obs =	114
Group variable: kabupatenk~a	Number of groups =	38
R-sq:	Obs per group:	
within = 0.2713	min =	3
between = 0.2593	avg =	3.0
overall = 0.2008	max =	3
corr(u_i, X) = 0 (assumed)	Wald chi2(3) =	25.26
	Prob > chi2 =	0.0000

kualitas_h~p	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
Efektivitas	.1830411	.0462171	3.96	0.000	.0924572 .273625
Efisiensi	.1373741	.0421212	3.26	0.001	.0548181 .2199301
Kemandirian	.183534	.1313412	1.40	0.162	-.07389 .4409579
_cons	33.89371	7.448046	4.55	0.000	19.29581 48.49161
sigma_u	40.843885				
sigma_e	2.0615197				
rho	.99745893	(fraction of variance due to u_i)			

Data processed, 2024

The R-squared value in this model is as follows: R-squared within is 0.2713, which indicates that 27.13% of the variation in quality of life can be explained by the variation in independent variables in the same group unit. An R-squared between of 0.2593 indicates that 25.93% of the variation in quality of life between groups (districts/cities) is explained by the model, while the overall R-squared is 0.2008, indicating that 20.08% of the overall variation in quality of life is explained by the independent variables in the model.

The results of the Wald chi2 test of 25.26 with a p-value of 0.0000 show that this model is significant overall at a significance level of 1%, meaning that the independent variables together have a significant influence on quality of life. Specifically, effectiveness (with a coefficient of 0.1830411 and a p-value of 0.000) has a positive and significant influence on quality of life, where every increase in effectiveness is expected to increase quality of life by 0.183 units. Efficiency (coefficient 0.1373741 and p-value 0.001) also showed a positive and significant influence, with an increase of one unit in efficiency expected to improve quality of life by 0.137 units. In contrast, independence, despite having a positive coefficient of 0.183534, was not statistically significant (p-value 0.162), suggesting that in this model independence had no significant effect on quality of life.

The constant (_cons) of 33.89371 is significant (p-value 0.000), which indicates the basic value of quality of life when all independent variables are equal to zero. The component variance between groups (sigma_u) was 40.843885, and the residue within groups (sigma_e) was 2.0615197, with a rho of 0.99745893, indicating that most of the total variation in quality of life was due to differences between groups (districts/cities).

DISCUSSION

Based on the results of the regression calculation of the random effect model, it is possible to evaluate the research hypothesis as follows:

1. The Effect of the Effectiveness of Regional Financial Performance on the Quality of Life of the People

The results of regression analysis showed that effectiveness had a positive and significant influence on quality of life with a coefficient of 0.1830411 and a p-value of 0.000. This supports the hypothesis that the more effective the financial performance of a region, the higher the quality of life of its people. These findings are consistent with Musgrave's theory, which emphasizes the importance of the allocation function in fiscal policy, where effectiveness in the management of public finances contributes to improving people's welfare through the provision of better public services. This means that the variable of regional financial performance effectiveness is a significant explanation of the quality of life of the community. This means that every increase in the effectiveness of regional financial performance will have an impact on improving the quality of life of the community. This is in line with research conducted by Siregar (2023b) which states that the effectiveness of regional financial performance affects HDI where the use of regional finance is aimed at financing development aspects in basic sectors such as education and health so that it can show an increasing level of welfare. Other research conducted by Adipura et al., (2022) also stated that effectiveness affects HDI, a high effectiveness ratio has a significant impact on the ability to provide community services that have been previously determined, so that community welfare can be achieved.

2. The Effect of Regional Financial Performance Efficiency on the Quality of Life of the Community

The results of the second hypothesis, which states that the efficiency of regional financial performance affects the quality of life of the community, is also supported by data. With a coefficient of 0.1373741 and a p-value of 0.001, efficiency is proven to have a positive and significant influence on quality of life. These results are in accordance with Musgrave's theory related to the distribution function, where efficiency in the use of resources allows local governments to provide public services at lower costs, thereby improving people's welfare. This shows that the efficiency of regional financial performance is a significant factor in explaining the variation in people's quality of life. In other words, increasing efficiency in regional financial management will contribute to improving the quality of life of the community. This is not in line with previous research conducted by Ernawati (2024) which explains that regional financial efficiency does not affect economic growth significantly. Sustainable economic growth can increase per capita income, reduce poverty, and provide resources

for further investment in public services and infrastructure, all of which contribute to improving people's quality of life. The research conducted by Siregar (2023a) It also shows that government financial efficiency has no effect on people's welfare, which is measured by HDI and health level.

3. The Effect of Regional Financial Performance Independence on the Quality of Life of the Community

The results of the regression analysis of the third hypothesis, which states that the independence of regional financial performance affects the quality of life of the community, are not supported by the results of the study. Although independence showed a positive coefficient of 0.183534, a p-value of 0.162 indicated that the effect was not significant. This shows that regional fiscal independence does not play a significant role in improving the quality of life of the community. Although Musgrave's theory underscores the importance of fiscal independence in distribution functions, these results suggest that other factors may play a greater role in determining quality of life, such as effectiveness and efficiency in local financial management or reliance on aid from central governments. Thus, regional financial independence is not significantly related to changes in people's quality of life. This statement is in line with research conducted by Norsain & Rofik (2022) stated that regional financial independence has no effect on poverty, this can happen because there are still regions that still depend on the transfer of funds from the central government to carry out their important programs. This is also in line with research conducted by Syam & Zulfikar (2022) shows that regional financial independence has no effect on increasing community welfare. Regional financial independence comes from Regional Original Revenue (PAD) which is sourced from regional taxes, regional wealth management results, regional levies, and other legitimate regional revenues

CONCLUSIONS

This study examines the influence of regional financial performance, which is measured by effectiveness, efficiency, and independence on the quality of life of people in Regencies/Cities in East Java. The results show that the effectiveness and efficiency of regional financial performance have a significant influence on the quality of life of the community, with the improvement of the quality of life of the community. However, regional financial independence does not show a significant influence on the quality of life of the people. Further research can be focused on exploring more deeply why regional financial independence does not have a significant impact on the quality of life of the community, taking into account other variables such as intergovernmental transfers and the role of decentralization policies. Research can also be expanded by examining other factors that may affect

quality of life, such as social and infrastructure aspects.

REFERENCES

- Adipura, I. S., Rahayu, S., & Junaidi, J. (2022). Pengaruh Desentralisasi Fiskal, Kemandirian Keuangan Daerah, Efektivitas dan Efisiensi Terhadap Pertumbuhan Ekonomi dengan Indeks Pembangunan Manusia Sebagai Variabel Intervening (Studi Empiris Pada Pemerintahan Kabupaten Kota di Provinsi Jambi Tahun 2016). *Jurnal Akuntansi & Keuangan Unja*, 7(2), 82–92. <https://doi.org/10.22437/jaku.v7i2.16267>
- Digdowiseiso, K., & Satrio, M. B. (2022). Pengaruh Rasio Kemandiriann Keuangan Daerah dan Rasio Ketergantungan Fiskal Terhadap Indeks Pembangunan Manusia Pada Kabupaten dan Kota Provinsi Kalimantan Selatan Tahun 2014-2020. *Jurnal Ilmiah Akuntansi Dan Keuangan*, 4(3), 1170–1181. <https://journal.ikopin.ac.id/index.php/fairvalue/article/view/1167>
- Ernawati, Y. (2024). Analisis Pengaruh Kinerja Keuangan Dan Belanja Modal Terhadap Pertumbuhan Ekonomi (Studi Pada Pemerintah Kota Medan). *Jurnal Pembelajaran Dan Pengembangan Diri*, 4(1), 143–158. <https://doi.org/10.47353/bj.v4i1.293>
- Faisol, Pudjihardjo, M., Santosa, D. B., & Hoetoro, A. (2020). Does The Effectiveness of The Government Expenditure Accelerate Economic Growth? 144(Afbe 2019), 7–14. <https://doi.org/10.2991/aebmr.k.200606.002>
- Faisol, & Sujianto. (2020). *Aplikasi Penelitian Keuangan dan Ekonomi Syariah dengan Stata*.
- Gunarta, N. A., & Utama, M. S. (2022). Pengaruh Pertumbuhan Ekonomi, Kemandirian Keuangan Daerah Terhadap Struktur Ekonomi Dan Kesejahteraan Masyarakat Provinsi Bali. *E-Jurnal Ekonomi Pembangunan Universitas Udayana*, 11(3), 807. <https://doi.org/10.24843/eep.2022.v11.i03.p01>
- Januarta, V. E., David, S., Silalahi, C., & Widyanti, A. A. (2024). Analisis Pengaruh Kinerja Keuangan Daerah Terhadap Kesejahteraan Masyarakat di Indonesia. 3(5), 121–127. <https://journal-nusantara.com/index.php/EKOMA/article/view/3984/3170>
- Mufaqih, A., Fransisco, S., Ayu, R., & Apriliana, A. (2024). Analisa Value For Money Pada Kinerja Keuangan Kota Bogor 2020 – 2022. 2(3). <https://ejurnal.stie-trianandra.ac.id/index.php/jumia/article/view/3030/2371>
- Musgrave, Richard, A. & P. B. M. (1984). *Public Finance in Theory and Practice*, 5th ed., International Edition, Singapore, Mc. Graw-Hill Book Co.
- Norsain, N., & Rofik, M. (2022). Apakah Kinerja Keuangan Daerah Menggambarkan Kemiskinan Di Jawa Timur. *Media Mahardhika*, 20(2), 405–414. <https://doi.org/10.29062/mahardhika.v20i1.354>
- Rosita, R., & Muzdalifah, M. (2023). Analisis Pengaruh Rasio Kemandirian Keuangan Daerah dan Pertumbuhan Ekonomi Terhadap Indeks Pembangunan Manusia Di Kabupaten Tanah Bumbu, Kotabaru dan Tanah Laut Periode (2010-2020). *JIEP: Jurnal Ilmu Ekonomi Dan Pembangunan*, 6(2), 1167–1175. <https://doi.org/10.20527/jiep.v6i2.11096>
- Runjung, R. M. R. P. K., Anindita, P., & Riswati. (2022). Analisis Tingkat Rasio Kemandirian Keuangan Daerah Dan Pertumbuhan Keuangan Pemerintah Kota

- Bandung Provinsi Jawa Barat. *JEKP (Jurnal Ekonomi Dan Keuangan Publik)*, 9(2), 96–111.
- Santosa, S. A., Dinanti, D., & Sari, N. (2021). Kualitas Hidup Masyarakat Desa Wisata Adat Ngadas Kecamatan Poncokusumo Kabupaten Malang. *Tata Kota Dan Daerah*, 13(2), 73–80. <https://doi.org/10.21776/ub.takoda.2021.013.02.3>
- Septianingsih, A. (2022). Pemodelan Data Panel Menggunakan Random Effect Model Untuk Mengetahui Faktor Yang Mempengaruhi Umur Harapan Hidup Di Indonesia. *Jurnal Lebesgue : Jurnal Ilmiah Pendidikan Matematika, Matematika Dan Statistika*, 3(3), 525–536. <https://doi.org/10.46306/lb.v3i3.163>
- Siregar, H. A. (2023a). ANALISIS DAMPAK KINERJA KEUANGAN PEMERINTAH TERHADAP TINGKAT KESEJAHTERAAN MASYARAKAT KOTA PEKANBARU. *Jurnal Akuntansi, Kewirausahaan, Dan Bisnis*, 8(2), ISSN 2527-8215. <https://ejournal.pelitaindonesia.ac.id/ojs32/index.php/KURS/article/view/3865/1347>
- Siregar, H. A. (2023b). Aspek Kinerja Keuangan Daerah yang Berdampak Pada Pembangunan Manusia di Daerah Pemekaran. *Jurnal Akuntansi Dan Ekonomika*, 13(2), 157–167. <https://doi.org/10.37859/jae.v13i2.5530>
- Syam, F., & Zulfikar, A. (2022). Analisis Kemandirian Keuangan Daerah dalam Peningkatan Kesejahteraan Masyarakat di Kabupaten Kaimana. *Jurnal Terapan Pemerintahan Minangkabau*, 2(2), 98–114. <https://doi.org/10.33701/jtpm.v2i2.2666>
- Widodo, S. (2022). KINERJA KEUANGAN PEMERINTAHAN KABUPATEN/KOTA SEBELUM DAN SESUDAH PENGALOKASIAN DANA PERIMBANGAN. *Jurnal Budget*, 7(8.5.2017), 38–55.