

The Effect of Fiscal Decentralization, Balancing Funds, Budget Surplus, and Regional Investments on the Financial Performance of Regency/City Governments in Sumatra

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ABSTRACT

This study aims to examine and analyze the effect of fiscal decentralization, balancing funds, budget surplus, and regional investment on the Financial Performance of Regency/City Governments throughout Sumatra. This study uses secondary data obtained from Sumatra's Regency/city budgets. The total population of this study is 154 Regency and cities throughout Sumatra. Sample identification using Cluster Random Sampling. Hypothesis testing using multiple linear regression analysis methods.

This study indicates that only the remaining budget surplus has a negative and significant effect on the financial performance of Regency/city governments throughout Sumatra. While other variables, namely fiscal decentralization, balancing funds, and regional investment, have a positive and significant impact on the financial performance of Regency/city governments throughout Sumatra. Simultaneously, fiscal decentralization, balancing funds, budget surplus, and regional investment have a positive and significant impact on the Financial Performance of Regency/City Governments throughout Sumatra.

Keywords: Fiscal Decentralization, Balancing Funds, Budget Surplus, Regional Investment, Regional Government Financial Performance

INTRODUCTION

The implementation of regional autonomy essentially provides an excellent

opportunity for regions to increase further their regional potential, both human resources, funds, and other regional assets. Including areas on the island of Sumatra should be more capable of managing their respective regions to improve the community's welfare. It is reflected in the excellent performance and the increased service to the community because local governments are at the forefront of developing the regional economy to grow every year. In addition, the implementation of regional autonomy must be directly related to good governance, transparency, and accountability.

Regional government development is constantly faced with the lack of optimization of local governments in using existing sources of income. Local governments will become more advanced, independent, prosperous, and competitive if they have adequate funding sources (Panjaitan, 2019). Of course, apart from having adequate funding sources, the government must also have good funding sources. The phenomenon that often occurs local governments experiences budget deficits indicates a lack of income and financing or poor management of the regional financial resources. Moreover, the government will face new challenges in 2020. Indonesia is experiencing a severe challenge, namely the Covid-19 pandemic,

which is ongoing, affecting economic activities and local government policies in implementing the Regional Revenue and Expenditure Budget. It causes the community's need for public services to increase, encouraging local governments to increase government spending. The realization of Regency/city government spending throughout Sumatra during 2019 rose 8.21 percent, while in 2020, the Regency/city government targets spending growth to slow down from the 2019 realization to 5.71 percent. The slowdown in local government spending was caused by negative revenue growth in 2020 of 1.08

percent and growth in Regional Original Revenue in 2020, which slowed to 6.64 percent (www.bps.go.id).

Performance appraisal of a local government can be assessed from the surplus/deficit between regional revenues and expenditures or the ratio between revenues and expenditures in the Regional Revenue and Expenditure Budget (Mead: 2001). The following researchers will present the Realization of the Surplus/Deficit of the Regency/City Regional Revenue and Expenditure Budgets throughout Sumatra:

Table 1. List of Surplus/Deficit Government Budget Realization Report in Regency/Cities in Sumatera (in billion rupiahs)

Province	Surplus/Deficit of APBD in District/City of Sumatera 2016 – 2020				
	2016	2017	2018	2019	2020
Aceh	-321,18	518,14	1.750,09	-235,84	18,30
North Sumatera	923,77	-284,03	139,67	-360,73	-61,43
West Sumatera	-544,18	334,83	-284,26	-160,94	-44,23
Riau	-1.789,01	-1.427,93	9,43	12,84	-91,06
Jambi	450,44	178,85	214,21	-249,17	-29,77
South Sumatera	1.620,21	1.786,59	1.200,23	-337,33	-239,24
Bengkulu	361,09	-18,89	-110,92	-227,89	-277,58
Lampung	111,80	-135,08	-440,01	208,28	51,96

Source: processed from <https://djpk.kemenkeu.go.id/>

Based on the tabulated display shown in Table 1 above, it is concluded that the level of surplus/deficit for regencies/cities throughout Sumatra fluctuates from year to year. In 2016 only 3 out of 8 provinces experienced a deficit of 37.5% of the total regencies/cities experienced a deficit. Then in 2017-2020, there was an increase in regions experiencing a deficit. In 2020, as many as 72% of Regency/cities in the provinces of Sumatra experienced a deficit, and two provinces that did not experience a deficit were only able to increase the surplus-value, which was still low. The number of surpluses and deficits that fluctuate indicates that the financial performance of the Regency/City Governments in the Provinces of Sumatra has not been outstanding in optimizing revenues and allocating expenditures.

Local governments that monitor the running of government, construction, and public services must submit their regional financial accountability reports to assess

whether the local government has succeeded in carrying out its duties properly or not. In addition, the use of financial ratio analysis to Regional Revenue and Expenditure Budget, which provides detailed information on the interpretation of regional finances, has been verified and validated as a tool to assess regional financial performance in managing regional finances.

Analyzing financial ratios as a source of financial information is very useful when comparing estimates from year to year with several periods to determine whether or not regional financial management is more efficient.

Regional government financial performance is the achievement of an implementation of regional financial transactions, which includes regional revenues and expenditures using financial indicators set out in presentations or statutory provisions for one budget period. Performance appraisal is a budget estimate that contains elements of a report on the role of local governments in budget appraisal.

In Indonesia, the regional financial management index measurement has been regulated in PERMENDAGRI No. 19 of 2020. The dimension index of the financial condition of the regional government is seen from 6 (six) indicators. The indicators forming the financial condition of local governments are financial independence, financial flexibility, operational solvency, short-and-long-term solvency, service solvency. Financial condition is defined in the context of fiscal health, namely the ability of local governments to fulfill financial obligations and services to the community (Hendrick, 2004). Meanwhile, Zafra-Gómez et al. (2009) define the financial condition in the context of financial health, namely the ability of local governments to meet debts and provide services at a level that is acceptable to the community. Wang et al. (2007) distinguish between the financial condition of local governments and the financial performance of local governments. They argue that financial performance is a short-term concept of the difference between local government revenues and expenditures. On the other hand, financial conditions cover both the short and long term.

Carmeli (2002) argues that performance measurement refers to the activity of evaluating and reporting data related to the quality, efficiency, and effectiveness of an organization. This study uses an efficiency ratio which is the ratio between revenues and expenditures in the Regional Revenue and Expenditure Budget, such as research conducted by Kumalasari (2015), Nasution (2010), Aziz (2016), Simanullang (2013), and Muryawan and Sukarsa (2014). The importance of measuring efficiency performance in good public sector organizations is due to the lack of realization of local revenue as an illustration of the current financial performance of local governments. If the work is carried out with low input costs or achieves maximum output, the work is said to be effective (Hamzah, 2008). determined (Julitawati, 2012).

Mardiasmo (2009) argues that measuring financial performance is essential in evaluating an organization's ability to provide better public services. Good financial performance is an indicator of the success of a sector in the economy to prosper the community and improve services to the community. In line with the implementation of regional autonomy in the form of fiscal decentralization carried out in Indonesia based on Law no. 33 of 2004 concerning Central and Regional Financial Balance which regulates financial relations between the Central Government and Regional Governments.

According to Khusaini (2006), fiscal decentralization is the transfer of power over the previously centralized budget or tax revenues, the use of which is controlled or regulated by the state. Therefore, fiscal decentralization is an essential factor in implementing regional autonomy. Fiscal decentralization is distributing the budget from higher levels of government to lower levels of government to carry out government functions or tasks effectively and get the freedom of decision-making in the provision of public services by the many delegated government authorities. Law Number 23 of 2014 concerning Regional Government stipulates that government is carried out based on decentralization, deconcentration, and co-administration. So with the transfer of authority, the provincial and municipal governments are formed as autonomous regions.

Implementing regional autonomy will improve public services and help the regional economy. One way to improve public services is to make expenditures for investment purposes realized through capital expenditures (Solikan, 2010). The financial performance of local governments is the ability of local governments to develop and explore sources of regional funds. After implementing monetary policy, local government financial activity increased due to increased local revenue. It follows PP No. 12 of 2019, which states that the Regional Revenue And Expenditure Budget is

prepared under the needs of government administration and the ability of local governments to generate revenue.

Fiscal decentralization is proxied by the ratio of the degree of fiscal decentralization, namely the comparison between the realization of Regional Original Revenue and the total regional income. Based on the research results of Sitompul (2011), Ednawan (2018), Rahayu, and Badrudin (2017), in their research stated that the fiscal decentralization policy has a positive influence on the financial performance of the North Sumatra regional government. Likewise, Harteti & Darwanis's (2014) research results explain that fiscal decentralization influences regional financial performance in Regency/cities in Aceh province. Meanwhile, in his research, Nasution (2010) shows that fiscal decentralization does not affect the financial performance of local governments.

Since 2001, in line with the implementation of regional autonomy and fiscal decentralization, transfers of funds from APBN to regions have been allocated in balancing funds. It makes balance funds an essential source of funds for local governments. The balancing fund is intended to reduce the fiscal gap between the central and local governments. The financial balance between the central

government and regional governments is a fiscal distribution system that is fair, proportional, democratic, transparent, and efficient. In the framework of funding, the implementation of decentralization by taking into account the region's potential, conditions, and needs and the amount of funding for the implementation (Law No. 33/2004).

The Balancing Fund aims to assist the state in providing local government funds in carrying out their authority and aims to reduce the gap in government funding sources between the center and the regions and reduce the inter-regional government funding gap. The three components of the Balancing Fund are a system of transfer of funds from the government and form a unified whole. Since 2001, in line with the implementation of regional autonomy and fiscal decentralization, transfers of funds from APBN to regions have been allocated in balancing funds. It makes balancing funds an essential source of funds for local governments.

The following researchers will present a table of the realization of the Balancing Fund in the Regency/City Regional Revenue and Expenditure Budget on the island of Sumatra:

Table 2. Realization of Balancing Funds in the Regional Government Budgets of Sumatra for 2016-2020 (in billion rupiahs)

Year	Province							
	Aceh	North Sumatera	West Sumatera	Riau	Jambi	South Sumatera	Bengkulu	Lampung
2016	20.338	34.377	18.022	18.395	11.402	21.710	8.693	18.692
2017	21.188	35.663	18.647	18.995	12.257	23.495	8.782	17.879
2018	21.066	36.220	18.917	20.790	12.572	26.202	8.220	18.078
2019	22.372	37.171	19.958	22.844	13.551	28.300	9.384	17.971
2020	22.372	36.088	8.184	23.225	13.807	28.140	9.735	20.705

Source: processed from <https://djpk.kemenkeu.go.id/>

From table 2 above, it can be seen that the realization of balancing funds in regencies/cities throughout Sumatra on average has increased every year from 2016 to 2020, only for regional governments in Bengkulu and Lampung provinces have

been fluctuations. It shows that the government has not been able to reduce the dependence on the balance fund contribution.

In Wulandari's research (2019), the balancing fund as a proxy for financial

performance has positive and significant results. Balance funds on the financial performance show that the local government is still dependent on the central government. The balancing funds provided by the central government are expected to improve the financial performance of local governments. Husni (2020) carried out another study that tested the balancing fund variable on regional financial performance (2020), Andirfa et al. (2016), Khairunisa (2019), Jalaluddin et al. (2012), which states that balancing funds have a positive effect on regional financial performance. Meanwhile, Ariwibowo's (2015) and Ihsan's (2013) research states that the balancing fund does not affect regional financial performance. According to the results of research by Silitonga et al. (2021), balance funds have a negative effect on financial performance.

Another source of funding for the allocation of capital expenditures is internal funds from the budget surplus for the previous fiscal year. According to the Minister of Home Affairs Regulation (Permendagri) Number 19 of 2020, the Budget surplus is the remaining funds obtained from regional budget revenues and expenditures for one period. The Budget surplus of the previous fiscal year includes exceeding Regional Original Revenue receipts, exceeding balance fund receipts, exceeding other legitimate regional revenues, exceeding financing receipts, spending savings, obligations to third parties until the end of the year have not been resolved, and the remaining funds for follow-up activities.

According to Mahmudi (2010), the remaining budget originating from Budget

surplus will then be used by the regional government as a source of regional financing, as for the description as follows: (1). Closing the budget deficit, (2). Paying principal and debt installments, (3). Establishment of reserve funds, (4). Equity participation, (5). Loans.

Furthermore, the management of budget surplus by the regional government was not entirely used to fulfill the instrument. It was only left as remaining cash in the regional treasury account and became an idle fund that will not have a multiplier effect if not used carefully. For the regional economy (Maulina et al. 2017).

The remaining budget is obtained from three sources: (1). Overestimate of income; a realization is greater than the target for one fiscal year (2). Spending efficiency was created because the actual expenditure was smaller than the budget (3). Budget surplus is an indicator of efficiency because the budget surplus is formed when there is a net financing surplus. Budget surplus is regional revenue formed from the remaining cash for the previous fiscal year to cover the budget deficit if the realized revenue is less than the actual expenditure. Budget surplus is another funding source for allocating capital expenditures to acquire various public facilities, namely regional revenues sourced from the remaining Budget Surplus (Budget surplus) of the previous fiscal year.

The following researchers will present a table of the realization of the budget surplus in the Regency/City Regional Revenue And Expenditure Budget throughout Sumatra:

Table 3. Realization of Budget Surplus in the Regional Governments of Sumatra for 2016-2020

Tahun	Aceh	North Sumatera	West Sumatera	Riau	Jambi	South Sumatera	Bengkulu	Lampung
2016	2.205.303	4.020.049	2.714.366	4.994.266	877.581	560.883	764.457	1.197.046
2017	1.663.924	4.335.209	1.857.560	1.905.591	872.186	423.775	937.265	976.090
2018	2.741.317	3.266.997	1.789.293	361.530	1.472.991	732.686	862.469	805.039
2019	4.388.887	3.345.686	1.540.982	6.202.050	1.934.319	2.500.505	695.831	1.062.040
2020	2.416.778	2.448.520	1.433.102	1.344.356	1.146.931	1.047.307	451.084	942.414

Source: processed from <https://djkp.kemenkeu.go.id/>

Based on table 3, it can be seen that the realization value of Budget surplus in regional governments throughout Sumatra fluctuates every year. Budget Surplus (Budget surplus) includes financial factors that affect financial performance. The high Budget surplus amount has both positive and negative impacts on the region. It follows the results of Nabila's research (2017), which shows that the remaining Budget Surplus has a positive effect on the financial performance of local governments. Meanwhile, research by Elmiza & Arza (2020), Rani (2019), and Djuniar & Zuraida (2018) suggests that Budget surplus has a negative effect on regional financial performance.

A regional development must be able to maintain the financial capacity of each. The goal is to cover the lack of funds in the region. Therefore, the central government applies full power to the regions so that the entire region increases financial efficiency in implementing development formation (Sary, 2012). Meanwhile, the limited sources of income make regions have to be more thoughtful in finding other sources of income besides existing sources of income. In addition to the sources of income above, local governments can also increase income through investment activities.

Based on the Ministry of Home Affairs No. 52 of 2012 states that local government investment is the long-term placement of funds and assets belonging to the region aimed at investing in the purchase of securities and direct investment, which can return the principal value plus economic, social, or other benefits in the long-term specific time.

Local government investment activities can include equity participation, revolving funds, and short-term investments such as deposits, state debt securities, and Bank Indonesia certificates. Investment, especially short-term investment, is an activity to take advantage of idle cash. This idle cash is used for investment to increase income to optimize existing cash, likewise

with capital participation activities. According to Halim (2012), the inclusion of local government capital into regional companies is a form of regional government activity/business to increase regional income for the community's welfare. Another form of investment is a revolving fund. This revolving fund is a loan given to MSMEs to run the wheels of economic activity in the form of a capital loan. Revolving funds can help the government achieve reasonable economic growth (Rafky & Akhirman, 2014). Higher incomes and better economic growth also lead to better financial performance.

Research on local government investment is still rarely done. According to the researcher, the investment activities carried out by the local government show a good indicator that the source of funding does not always come from income. This investment is intended for the construction of public facilities and infrastructure. According to Andardini (2019), the investment will increase economic growth so that the increasing economic growth will reflect the good financial performance of local governments. Previous research on Regional Investment was conducted by Sartika et al. (2019), Amri (2015), and Andardini (2019), which revealed that regional investment has a positive and significant influence on regional financial performance. However, it is different from the research conducted by Nurhayati (2015), which proxies local government investment on economic growth, which produces a negative and insignificant effect.

The existence of a research gap in the form of inconsistencies in some of the components above as well as the phenomena that occur in the financial performance of Regency/City Governments throughout Sumatra makes researchers interested in reexamining the factors that affect financial performance, in this case, are Fiscal Decentralization, Balance Funds, Budget Surplus (Budget surplus), and Regional Investment. Based on the description above, the researcher is

interested in conducting research with "The Effect of Fiscal Decentralization, Balance Funds, Budget Surplus, and Regional Investment on the Financial Performance of Regency/City Governments in Sumatra."

Framework

Following the description of the background of the problem, literature review, and previous research, a conceptual research framework is prepared as follows:

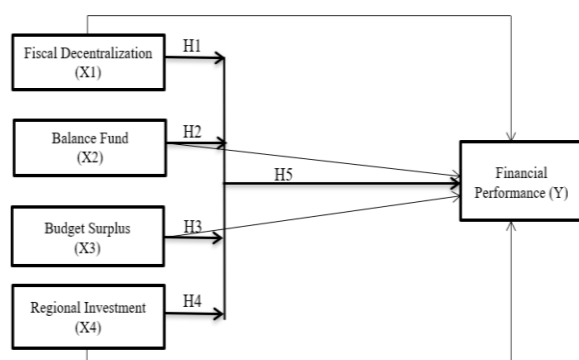


Figure 1. Conceptual Framework

H1: Fiscal decentralization has a positive and significant effect on the financial performance of local governments in Regency/City Governments throughout Sumatra

H2: Balance funds have a positive and significant effect on the financial performance of local governments in Regency/City Governments throughout Sumatra

H3: Budget surplus has a positive and significant effect on the financial performance of local governments in Regency/City Governments throughout Sumatra

H4: Regional investment has a positive and significant effect on the financial performance of local governments in Regency/City Governments throughout Sumatra

H5: Fiscal decentralization, balance funds, budget surplus, and regional investment have a positive and significant simultaneous effect on the financial performance of local governments in Regency/City Governments throughout Sumatra.

RESEARCH METHODS

This type of research is a type of quantitative research. According to Daulay (2010), quantitative research emphasizes testing theories by measuring research variables with numbers and analyzing data with statistical procedures. This research is associative research with a causal relationship. According to Sugiyono (2019), a causal relationship is. This study aims to analyze. This study examines the effect of fiscal decentralization, balance funds, budget surplus, and regional investment as independent variables on financial performance as dependent variables in Regency/City Governments throughout Sumatra.

The type of data used in this research is secondary data obtained from the report of the Regency/City Regional Revenue and Expenditure Budget in Sumatra, the website of the Directorate General of Fiscal Balance (<https://djpk.kemenkeu.go.id>), from the library of the Central Statistics Agency of North Sumatra, which is located at Jl. Dormitory No. 179 Medan and also through the website of the Central Statistics Agency of each Regional Government. This study uses the Eviews9 application to process the data.

The population in this study were all 154 Regency/city local governments throughout Sumatra. The sampling technique used in this study was cluster random sampling. According to Sugiyono (2019), Cluster Random Sampling is a regional sampling technique used to determine the sample if the object to be studied or the data source is comprehensive, for example, the population of a country, province, or Regency. This research used the descriptive analysis technique with the multiple linear regression method.

RESULT AND DISCUSSION

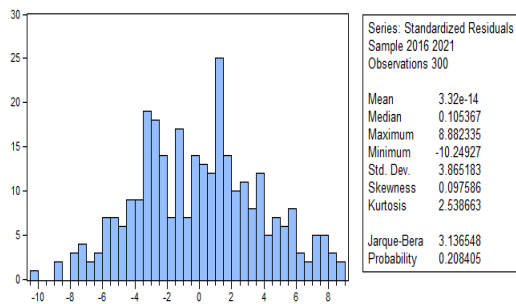
Classic Assumption Test

Normality Test

The normality test for the residuals in this study used the Jarque-Bera test (J-B)

with a significance level of $\alpha = 0.05$. The basis for making decisions is to look at the probability numbers from the J-B statistics, with the following conditions:

- If the probability value of $P < 0.05$, then the assumption of normality is met.
- If the probability value of $P > 0.05$, then the assumption of normality is not met.



Source: Eviews 9 Software Results
Figure 2. Normality Test Result

Based on Figure 2, it is known that the probability value of the J-B statistic is 0.208405. Because the probability value of p , 0.208405, is greater than the significance level, which is 0.05. It means that the assumption of normality is met.

Multicollinearity Test

In this study, the symptoms of multicollinearity can be seen from the VIF value. Ghozali (2013) states that if the VIF value is > 10 , this indicates multicollinearity. The results of the multicollinearity test are presented in Table 4.

Table 4. Multicollinearity Test Results

Variable	VIF
X1	1.101163
X2	1.073435
X3	1.009203
X4	1.029057

Source: Eviews 9 Software Results

Based on Table 4, the results of the multicollinearity test, it can be concluded that there are no symptoms of multicollinearity between the independent variables. It is because the VIF value < 10 (Ghozali, 2013). It proves that there is no correlation between variables.

Autocorrelation Test

Assumptions regarding the independence of the residuals (non-autocorrelation) can be tested using the Durbin-Watson test. The statistical value of the Durbin Watson test ranged between 0 and 4. Statistical values of the Durbin-Watson test smaller than one or greater than 3 indicated an autocorrelation.

Table 5. Autocorrelation Test (Durbin-Watson Test)

Log-Likelihood	-827.4461	Hannan-Quinn criter.	5.597560
		Durbin-Watson stat	2.020432

Source: Eviews 9 Software Results

Based on Table 5, the value of the Durbin-Watson statistic is 2.020432. Since the Durbin-Watson statistical value lies between 1 and 3, i.e., $1 < 2.381908 < 3$, the non-autocorrelation assumption is fulfilled. It can be concluded that there is no high autocorrelation symptom in the residuals.

Heteroscedasticity Test

The Breusch-Pagan-Godfrey test can be used to test whether there is heteroscedasticity or not. Following are the results of heteroscedasticity testing using the Breusch-Pagan-Godfrey test.

Table 6. Heteroscedasticity Test with Breusch-Pagan-Godfrey Test

F-statistic	2.261895	Prob. F(4,295)	0.0626
Obs*R-squared	8.927136	Prob. Chi-Square (4)	0.0629

Source: Eviews 9 Software Results

Berdasarkan hasil uji Breusch-Pagan-Godfrey Regional Original Revenuea Tabel 5.6 diketahui nilai Prob. Regional Original Revenuea baris Chi-Square 0.0629 $> 0,05$. Dapat disimpulkan tidak terjadi heterokesdastisitas.

Determination of the Estimation Model

Chow Test

The Chow test determines whether the estimation model is Common Effect Model (CEM) or Fixed Effect Model (FEM) in forming a regression model. The hypothesis being tested is as follows.

- $H_0: F_{table} < F_{stat}$, then the Fixed Effect Model (FEM) is valid.
- $H_1: F_{table} > F_{stat}$, the Common Effect Model (CEM) is valid.

The following are the results based on the Chow test using Eviews9.

Table 7. Chow Test Result

Effects Test	Statistic	d.f.	Prob.
Cross-section F	0.802933	(49,246)	0.8203
Cross-section Chi-square	44.508900	49	0.6556

Source: Eviews 9 Software Results

The decision-making rules for the hypothesis are as follows:

- If the probability value of Chi-square cross-section < 0.05 , then H_0 is rejected, and H_1 is accepted.
- If the Chi-square cross-section probability value is > 0.05 , H_1 is accepted, and H_0 is rejected.

Based on the results of the Chow test in Table 7, it is known that the probability value is 0.6556. Because the probability value is $0.6556 > 0.05$, the estimation model used is the common effect model (CEM). If the CEM Model is selected, proceed to the Lagrange Multiplier Test.

Lagrange Test

In determining whether the estimation model of the random effect model (REM) or the common effect model (CEM) informs the regression model, the Lagrange Multiplier test is used. The

following results are based on the Lagrange Multiplier test using EViews 9.

Table 8. Lagrange Multiplier Test Result

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	5.508824	0.260992	5.769816
	(0.0189)	(0.6094)	(0.0163)

Source: Eviews 9 Software Results

The decision-making rules for the hypothesis are as follows:

- H_0 : the value of Both Breusch-Pagan > 0.05 , then the common effect model (CEM) is valid
- H_1 : Both Breusch-Pagan value < 0.05 , then the random effect model (REM) is valid

Based on the results of the Lagrange Multiplier in Table 8, it is known that the value of both Breusch-pagan is 0.0163. Because the value of both Breusch-Pagan is $0.0163 < 0.05$, the estimation model used is the random effect model (REM).

Hypothesis Test

The coefficient of determination analysis will be carried out in testing the hypothesis, simultaneous effect testing (F test), and partial effect testing (t-test). Statistical values of the coefficient of determination, F test, and t-test are presented in Table 9.

Table 9. Hypothesis Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	98.20195	0.806911	121.7011	0.0000
X1	0.167909	0.028534	2.379964	0.0179
X2	0.051884	0.000460	4.095015	0.0001
X3	-0.010143	0.003208	-3.161959	0.0017
X4	0.182663	0.022760	3.631950	0.0003
R-squared	0.422748		Mean dependent var	101.2044
Adjusted R-squared	0.166599		S.D. dependent var	4.262531
S.E. of regression	3.891300		Sum squared resid	4466.953
F-statistic	15.94268		Durbin-Watson stat	2.065401
Prob(F-statistic)	0.000000			

Source: Eviews 9 Software Results

Panel Data Regression Equation and Partial Effect Significance Test (t Test)

Based on Table 9, the panel data regression equation is obtained as follows:

$$Y = 98.20195 + 0.167909 X1 + 0.051884 X2 - 0.010143 X3 + 0.182663 X4 + e$$

Based on Table 9 and the above equation, it can be concluded that Fiscal

Decentralization (X1), Balancing Funds (X2), and Regional Investment (X4) has a positive and significant effect on Regional Government Financial Performance partially. Meanwhile, Budget surplus (X3) has a negative and significant effect on Regional Government Financial Performance.

Coefficient of Determination Analysis

Analysis of the coefficient of determination is used to see the effect of other variables in explaining the dependent variable. Other variables referred to are variables outside of Fiscal Decentralization, Balance Fund, Budget surplus, and Regional Investment. Based on Table 9, it is known that the coefficient of determination (R-squared) is $R^2 = 0.42$. This value can be interpreted as fiscal decentralization, balance funds, budget surplus, and regional investment, simultaneously or jointly affecting Financial Performance by 42%. Other factors influence the remaining 58%.

Simultaneous Effect Significance Test (F Test)

The test is used to test the effect of the independent variables together or simultaneously on the dependent variables. Based on Table 9, it is known the value of Prob. (F-statistics), which is $0.00000 < 0.05$, it can be concluded that all independent variables, namely Fiscal Decentralization, Balance Fund, budget surplus, and Regional Investment, simultaneously have a significant effect on the Financial Performance variable.

CONCLUSION

Based on the results of research and discussion, the following conclusions can be drawn:

1. Fiscal decentralization has a positive and significant impact on the Financial Performance of Regency/City Governments throughout Sumatra.
2. The Balanced Fund has a positive and significant effect on the Financial Performance of Regency/City Governments throughout Sumatra.
3. Budget Surplus has a negative and insignificant effect on the Financial Performance of Regency/City Governments throughout Sumatra.
4. Regional Investment has a positive and significant impact on the Financial Performance of Regency/City Governments throughout Sumatra.

5. Fiscal decentralization, Balance Funds, Budget Surplus (Budget surplus), and Regional Investment simultaneously significantly affect the Financial Performance of Regency/City Governments in Sumatra by 42%. The remaining 58% is influenced by the following factors: another factor.

LIMITATIONS OF THE RESEARCH

The limitations in this study are as follows:

1. This research was only conducted in regencies/cities throughout Sumatra. However, only 50 regencies/cities were the samples of this research, so it cannot explain and describe the condition of the financial performance of all regencies/cities in Indonesia.
2. This study only explains 48% of the factors that affect the Financial Performance of Regency/City Governments in Sumatra. Fifty-eight (58%) other factors could not be explained in this study.

SUGGESTION

Based on the conclusions above, the suggestion from researchers for local governments is to be more careful in managing sources from the center to productive things and can increase development evenly. Other suggestions are:

1. Further researchers are advised to add other independent variables that influence the financial performance of local governments to increase the variety of research and also increase the area of research by taking samples from other Regency/cities in order to compare whether the results of this study apply to Regency/cities outside Sumatra.
2. Local governments should be more careful and thorough in utilizing the central government's funds and those originating from the regions themselves. Moreover, to allocate regional investment funds that can be a source of income for the region. If all these uses are fulfilled, it will improve the regional

economy, especially for improving the financial performance of local governments.

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