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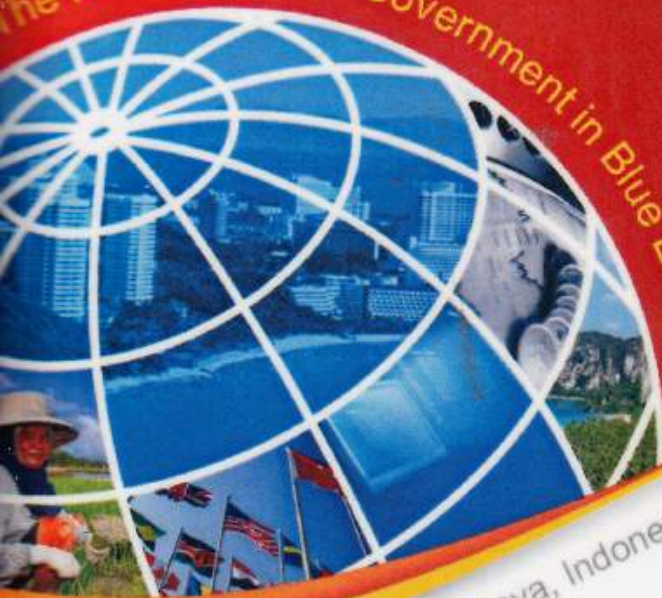


ISBN 978-602-9077-37-7

# ICLG2013

*The Fourth International Conference  
on Local Government*

*The Roles of Local Government in Blue Economy*



angri-La Hotel, Surabaya, East Java, Indonesia, September 19th - 20th, 2013

ORGANIZED BY :



College of Political and Social Science (FISIP),  
University of 17 Agustus 1945, Surabaya, Indonesia



College of Local Administration (COLA),  
Khon Kaen University, Thailand

THE 4<sup>TH</sup> INTERNATIONAL  
CONFERENCE ON LOCAL

*The Roles of Local  
Government on Blue  
Economy*



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**ISBN 978-602-9077-37-7**

**Printed and Bound by**



**Faculty of Political and Social Science  
The University of 17 Agustus 1945 Surabaya, Indonesia  
Telp. +6231 5925982  
Email. [fisip@untag-sby.ac.id](mailto:fisip@untag-sby.ac.id)  
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## Message from the Chairperson of the 4<sup>th</sup> International Conference of Local Government (The 4<sup>th</sup> ICLG)

Dear Colleagues,

On behalf of the 4<sup>th</sup> International Conference of Local Government (The 4<sup>th</sup> ICLG), please allow me to extend my warmest regards and welcome to all of you, distinguished colleagues. It is a great pleasure and honor for us to host and organize the very prestigious and important International Conference at the Sanghrila Hotel, Surabaya from 19 until 20 September 2013. So far, based on the last updated information prior to this welcoming remark being made, was that there are 400 participants from 11 countries that have registered from around the world. We are pleased and very happy to facilitate and provide any services for all of you in order for your paper can be established during the conference.

I also extend my heartfelt thanks to International Association of Local Government which has trusted University of 17 Agustus 1945 (UNTAG) Surabaya to host the prestigious International Conference event. As one of the best Universities in Indonesia, University of 17 Agustus 1945 Surabaya intends to be one of leading innovative university. It is implemented through a mission to conduct education, research and dedication to the societies.

The 4<sup>th</sup> ICLG was held in Surabaya, Indonesia. The main theme of that Conference is **"The Roles of Local Government on Blue Economy"**. The concept of institutional environmental friendly was developed in the many countries. However, now, a concept known as the green economy was changed to a new phase as the blue economy. In the last decade the economic conception of blue are increasingly being discussed as an alternative policy in achieving improvement of public welfare, blue economy offers economic activities that promote environmental sustainability, drive the low-carbon economy (low carbon economy) to abandon the practice of economics that emphasizes short-term gains, which exploit natural resources and the environment.

The concept of Blue Economy was initiated by Gunter Pauli. He is the founder and head of Zero Emissions Research Institute in Belgium. The main principle of the blue economy is utilizing natural capital and nature conservation-oriented technology for the reduction of production costs and consumption; to improve the quality of life of human beings and nature; minimize environmental risk reduction for the sake of existence, and build the harmony of nature and human life.

In a green economy, institutions still focus on policies that aimed to avoid adverse impacts on the surrounding environment. In the blue economy, institutions are challenged to utilize something that was either a new value-added. In shortly, blue economy was not only to process waste into pro-environment, but how to utilize waste into something with a new added values.

I would also like to seize the opportunity of thanking the steering and organizing committees for making this International Conference happens, especially to all member of faculty and students of Faculty of Political and Social Sciences, University of 17 Agustus 1945 Surabaya.

By this special occasion, I wish all of you a pleasant stay in Surabaya. Enjoy the knowledge, enjoy the culture and enjoy the nature.

Thank you  
Surabaya, 19 September 2013

**Prof. Dr. drg. Hj. Ida Aju Brahmasari, Dipl.DHE, MPA**  
Chairperson

## **THE ROLES OF LOCAL GOVERNMENT IN BLUE ECONOMY**

### **Remark Governor of East Java**

- His Excellency Mr. Le Luong Minh, Secretary General of South East Asia
- His Excellency Minister of Home Affairs Republic Indonesia
- Honorable Rektor UNTAG Surabaya, Ms Prof. DR. Ida Ayu Brahmasari
- Honorable Prof DR. Hayono Soejono
- Distinguish Guests
- Ladies & Gentleman

First of all may I welcome all of you to Surabaya, the capital of East Java province. I hope all the participants enjoy

Allow me to convey deeply pardon from the Governor of East Java, Bapak Dr. H. Soekarwo, SH., M. Hum, which currently can not be present at an international conference this because there is a national event with the President of the Republic of Indonesia in Banjarmasin South Kalimantan. While, Vice Governor, Mr. Syaifullah Yusuf is compulsory tied on a formal political meeting schedule with East Java Parliament. So I represent them in this occasion, and transmitting their apology as well as warm greetings to all the participants of this conference. Provincial Government of East Java highly appreciates the organization of the fourth international conference on local government that takes the theme of the role of local government in the blue economy, which most all of us believe that blue economy is becoming a futuristic concept and spirit to build a better world.

Distinguished guests  
Ladies and Gentlemen

From a long trip and after the Indonesian nation-building beyond the ebb and tide, up and down, we reap a number of lessons that true development is a cultural journey. A journey to make today better than yesterday, and tomorrow better than today.

In the long journey, we have little faith in the paradigm and put the conception of development as solely the issue of capital. With that conception, we in East Java province has recorded a number of achievements. Economic growth in East Java in the last five years continue to be above the national average; and in the last three years East Java performs in average above 7% of economic growth, and passing 15% in contributing to Indonesia's GDP. The number of poor people continues to decline significantly, and so is the unemployment rate in East Java decreases to 4%.

However, there are still challenging issues. First, whether its track record has made the social, economic, cultural and environmental quality of life also

significantly improved? Second, is that achievement has been able to create a happier society as a whole of East Java?

The honestly answer was not entirely. Behind the high achievement of economic growth, we still have to face the problem of inter-regional disparities. Behind the poverty reduction, we still found malnourished children. Behind decline in the unemployment rate, some of which turned out to be absorbed by the informal sector. Beyond that, we also noted that declining environmental quality that also have to deal with global climate change are increasingly concerned.

The Blue economy concept initiated by Gunter Pauli 30 years ago has been delivering many inspirations and triggered blue economy thinking that is broken down into things every individual can do every day to live a happier, healthier and more sustainable life.

As Wendy Luhabe, from Johannesburg University noted: "Our current economic crisis is also a crisis of ethics and values which has led to the enrichment of a few, and the disempowerment of many. The blue economy advocates for new economy, one led by innovation and creativity to cultivate the next generation of social entrepreneurship."

I also quote statement of Phaedra Ellis Lamkins (CEO of Green For All): "The blue economy is exactly the kind of tool we need to help us repair our broken economy and create a more sustainable model. The new ideas and innovative thinking compiled give us exciting new options about how to transform our economy so that it can generate new jobs and sustain healthy, happy communities far into the future."

Distinguished guests

Ladies and Gentlemen

All that of course should be noted that we improve on these days and fore later. In line with that, we would also need to shifting the paradigm of development, especially economic development, from the exclusive and only capital oriented to a more inclusive society allows the quality of life for the better in the economic, social and cultural, as well as without having to sacrifice the quality of the environment and the fate of future generations.

Economic development should be directed to humanity, to embody social life, economy and culture better, and not to destroy everything that God has given. The blue economy concept would lead us to respect both Earth's ecosystem and humankind in a sincerely meanings.

Blue economy in fact addresses on prosperity of humankind in original meanings. It also stands to respond basic needs of all with what we have. It leads us on a path of blue living, making use of the resources and capabilities each one of us holds within.

Now days, blue economy provoking an urgency of either individual and people participation within a nation-state.

To that end, local governments as an government's institution in front line of services, could take a major role to perform initiation, facilitating, and also empower all stakeholders to take on their respective roles in order to achieve the economic, social, and culture better, and without prejudice to the interests of the

fate of future generations and the limited carrying capacity environment. The local government should focus on the long vision about sustainable prosperity for all. Therefore, again Provincial Government of East Java highly appreciated the organization of the fourth international conference on local government that takes the theme of the role of local government in the blue economy, which enabling us to develop and adopting the futuristic concept to build a better world. I do hope that the conference will be successful and setting a momentum in accelerating the awareness of blue economy, as well as the adoption by local government.

Have a successful conference!  
Thank you

Surabaya, 19 September 2013

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## **THE ANALYSIS OF FINANCIAL PERFORMANCE LOCAL GOVERNMENT IN EAST JAVA**

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### **Abstract**

Analysis of the financial performance of local government in managing local financial use of financial ratio analysis against realization of , Budget Revenue and local Expenditure. This study uses analytical techniques descriptive. This study uses secondary data, the report realization of the, Budget Revenue and Expenditure districts/cities in East Java which comprises 38 districts/cities (9 cities and 29 counties, year period 2009, 2010 and 2012. The results showed financial performance of local government Districts/cities in East Java already well seen from independence ratio analysis, effectiveness ratio analysis, the contribution of local taxes, and the ratio of revenue growth. Financial performance of local government Districts/cities in East Java has not shown good results seen from the analysis of the efficiency ratio, the ratio of financial activity, and the ratio of contribution levies.

**Keywords:** Financial Performance, Budget Revenue and Local Expenditure, local Government in East Java

### **INTRODUCTION**

Local Government as the party entrusted with task of running the wheels of government, development, and community service shall submit accountability reports financial areas to be assessed successful local government doing a good job or not. One of the tools to analyze the performance of local government in managing local financial by doing financial ratio analysis against Budget Revenue and Expenditure. Results of analysis of financial ratios then used as a measure in assessing local financial independence in finance implementation of regional autonomy, measure the effectiveness and efficiency in the realization of local revenue, measure the extent to which activities of local government in revenue spending, Measuring the contribution of each source of income in the formation of regional income, measure the amount of expenditure is not greater than the reception area, and see the growth or development of revenue and expenditure conducted during a certain period (Halim, 2008: 230).

Financial performance local government require a tool to analyze local government performance in managing local financial by doing financial ratio analysis, Which use is still very limited. Expected to be done financial ratio analysis, the result can be as benchmarks for assess the independence local financial to finance the implementation of local autonomy, measure the effectiveness of in realizing local revenue, measure the efficiency in spending spent according to their distribution and meet rom what was planned, measure the extent to which government activity in spending revenue for capital expend'ture, To know how big contribution receipts components in local revenue of local taxes and levies, to know stability expenditure is not greater from the reception area, and see the growth or development of revenue and expenditure made during a certain period.

Results of analysis of financial ratios used as benchmark government to assess the ability of in finance own needs and determining policies or programs to reduce dependency local government and maintain kestabilan local economy. This study will analyze financial performance Local government in East Java.

## **FRAMEWORK**

### **Local Finance**

Law Number 58 Year 2005 on management local Finance declared local financial should be managed in an orderly, obedient the legislation, efficient, economical, effective, transparent, and accountable with regard to the principle of justice, fairness, and the benefits to society. Local financial management implemented in a system integrated are embodied in, Budget Revenue and local Expenditure. Budget Revenue and local Expenditure according to government regulations of the Republic of Indonesia Number 58 of 2005 about management local financial a plan annual financial local government were discussed and agreed upon by the local government and local Legislative Assembly and specified by local regulations Decision of the minister of interior Number 29/2002 suggests reparation of the substance and scope of the public policy Budget Revenue and Local Expenditure adapted to the conditions / achievement which was achieved in the previous year, Current year estimates and achievement the next financial year.

Different conditions will produce targets /objectives are different. Local government budgeting there are four principles:

1. Principles of independence, which is the effort to improve the original income and efforts precision use of funds provided that reduce dependence on a higher institution.
2. The principle of priority, namely budgeting that sought to sharpen priorities in the use of funds.
3. Principles of efficiency and effectiveness of budget ie controlling financing and savings thorough in priority areas.
4. The principle of budgetary discipline, ie each department/agency/unit area were obtained budget must use efficient, effective and timely accountability, as well as not carry out activities or projects are not available or not available credit budget in Budget Revenue and Local Expenditure.

Local government as party assigned to run the wheels of government, development and public social services shall submit accountability reports local financial to assess local government the successful doing a good job or not (Suprpto, 2006:151). Local governments are required order management local financial well conducted made in realizing destination good governance.

Mardiasmo (2002: 9-10) suggested elements of local financial management necessary to control local finance policies include accountability, value for money, transparency and oversight.

#### **1. Accountability**

In general, in each management Budget Revenue and Local Expenditure always associate with public accountability. Accountability includes the existence of a mechanism to convince politicians and government officials the action act in the use of public resources and performance behavior. Accountability is closely related to

accountability of the effectiveness of activities the achievement of targets or targets of wisdom.

2. Transparency

Transparency is one of the principles of good governance(Mardiasmo, 2002:30).Transparency is built on the basis of the information flow free, The whole process of government,institutions and information needs accessed by interested parties, and the information available should be sufficient in order to understand and monitored.

3. Supervision

Supervision by the Presidential Decree. 74 of 2001 on the Procedures for Supervision of Local Government. Article 1 (6) states that the Local Government Supervision a process of activities aimed at ensuring that local government goes according to plan provisions of the laws and regulations applicable.

**Value For Money**

Basically budget performance is drafting system and management of local budgets oriented on achieving results or performance. This means that the management local financial should reflect the three main pillars, namely economic, efficient, effective. 1) Economical, is a measure of the use of public funds as required true(2) Efficient, is a measure of the use of public funds that can produce the output maximum(3) Effectiveness, is a measure of how far the level of output, policies and procedures to achieve goals the public interest.

**Local Financial Statements**

Government Regulation no. 24 of 2005 on Government Accounting Standards ie the components contained in the basic financial statements are:

1. Actual Budget report reveals financial activities central government / local show compliance Budget Revenue and Local Expenditure/ Budget Revenue and country Expenditure. Actual Budget report presents an overview of sources, application and use of economic resources that are managed by the central government / local in the reporting period. In Permendagri Number 13 Year 2006 on Regional Financial Management Guidelines, mentioned elements are included in the Statement of Budget Realization consists of:
  - a. Revenue is all the cash receipts area which adds to equity funds in the period budget is concerned that the right of local governments, and does not need to be paid back by the local government.
  - b. Shopping is all cash expenditures that reduce the area of equity funds in the fiscal year period concerned and no payment will be recovered by the local government.
  - c. Financing is any revenue that needs to be paid back or expenses that would be welcome back, good in the relevant fiscal year and next fiscal years, which is the local government budgeting is mainly intended to cover deficit or budget surplus utilize
2. Balance sheet the financial position of an entity's reporting of assets, liabilities, and equity funds on a specific date.
3. Cash flow statement presents information related to cash operating, investing, financing, and describes the transitory opening balance, receipts, expenditures, and ending cash balance of the central government/area during a certain period.

4. Notes to the financial statements include an explanation or a list or a detailed analysis of the value of an item or presented in the Budget Realization Statement, Balance Sheet, and Cash Flow Statements.

#### **Financial Performance of Local Government**

The financial performance of the local government is the ability of an area to explore and manage the financial resources of the original area to meet their needs in order to support the passage of the system of government, public services and regional development by not completely dependent on the central government and have the flexibility in the use of funds for the benefit of local communities in limits prescribed legislation (Halim, 2008: 229).

Public sector organizations an organization that aims to provide public services to the community as well as possible, for example in the fields of education, health, security, law enforcement, transportation and so on Public services provided for the community is one of the stakeholders of public sector organizations. Delivering the government so that not only the accountability report to the central government alone, but to the wider community.

Hence the necessary performance measurement system that aims to help public managers to assess the achievement of a strategy through measuring financial instruments and non-financial. Performance measurement system can be used as a means of controlling the organization.

Measurement of financial performance local government to meet three objectives, namely (Mardiasmo, 2002: 121)

2. Improve government performance.
3. Help allocate resources and decision-making.
4. Realizing public accountability and improve institutional communication.

Increasing development activities in the region, the greater the need for funds to be collected by local governments, the funding needs can not be fully provided by funds sourced from the local governments themselves (Hirawan, 1990: 26).

To organize and manage his own household, then we should know the state fiscal capacity. There are several criteria that can be used as benchmarks to determine the ability of local governments to manage their own household (Mardiasmo, 2002: 121).

1. Ability of structural organization.

Organizational structure of local government should be able to accommodate all the activities and tasks that become a burden and responsibility, along with the number of units that staff fairly reflect the needs, the division of duties, authority and responsibilities are quite clear.

2. Ability local government officials

Local government officials should be able to carry out their duties in managing the household and taking care of the area. Skill, morale, discipline and support the achievement of mutual honesty coveted by area

3. Ability encourage community participation

Local governments should be able to encourage the people willing to participate in development activities.

4. Ability local financial

Local governments should be able to finance all government activities, and social development as the implementation and management arrangements of his own household. For the fiscal capacity should be able to support the financing of government activities, and community development.

**Local Financial Ratio Analysis** One of the tools to analyze the performance of local governments in managing local finances is by conducting financial ratio analysis of the budget that has been established and implemented (Halim, 2008: 231). The use of financial ratio analysis as a tool of financial performance analysis has been widely applied to a commercial enterprise institution, while the public institutions especially the local government is very limited so theoretically there is no unanimous agreement on the name and measurement rules. In the framework of financial management transparent, honest, democratic, effective, efficient, and accountable, then the analysis of financial ratios to revenue expenditure areas need to be implemented (Mardiasmo, 2002: 169).

Financial ratios that can be used to measure the accountability of local governments (Halim, 2008:233) namely independence ratio, the ratio of effectiveness, financial efficiency ratios and the ratio of harmony shopping area. As for the parties with an interest in local government financial ratios (Halim, 2008: 233) is:

1. The executive as a basis in preparing the next budget.
2. Central or provincial government as an input in fostering the implementation of financial management.
3. Communities and creditors, as the party will also hold shares local government, are willing to give loans or buy bonds.

## **Research Methods**

### **Techniques of data analysis research**

using descriptive. The data analyzed in this study, using secondary data, which is sourced from the document Budget realization report all districts and cities in East Java, which gained Finance and Asset Management Agency Regions (BPKAD) of East Java Province. Methods of data collection in this study is the method of documentation. The data in this study come from the government budget realization report districts / cities in East Java periods of 2009, 2010, and 2011.

### **Parameter Local Government Financial Ratios**

Financial ratio analysis on Budget Revenue and Local Expenditure Financial ratio analysis on the budget is done by comparing the results achieved from one period compared to the previous period. Another way to compare the financial ratios that are owned by a particular local government areas as well as the other nearest relative potential of each area to see how the local government's financial ratios against other local governments Halim (2004:150) states, there are some ratios that can be developed based on financial data are sourced from the budget:

1. Ratio of Regional Financial Independence

Independence ratio describes the regional dependency on external funding sources. The higher the ratio of local independence, the degree of dependence on external assistance (especially the central and provincial governments) the lower, and vice versa. Formulations independence ratio as follows:

$$\text{The independence ratio} = \frac{(\text{Regional Revenue})_i}{(\text{Total Local Revenue})_i}$$

The higher the self-sufficiency ratio, the higher the participation in paying taxes and levies as well as describing the welfare level higher.

Hersey and Kenneth (in Halim, 2001:168) suggests the relationship between central and local governments in the implementation of regional autonomy, particularly the implementation of the law on fiscal balance between central and local governments, which are as follows.

1. Pattern is instructive relationship, namely the role of the central government is more dominant than the independence of local government.
2. Patterns is consultative relationship, namely central government intervention has begun to diminish and more on providing consultation.
3. Pattern is participatory relationship, the pattern in which the role of the central government wane given the level of independence of the autonomous region concerned is able to carry out the affairs of autonomy approach.
4. Pattern is discretionary relationship, namely central government intervention is no longer there because the area has completely capable and independent in carrying out the affairs of regional autonomy.

Pattern of central and local government relations and level of independence and fiscal capacity can be presented in a matrix as shown in **Table 1** below (Mahsun, 2006: 187).

Table 1  
 Pattern Relationships, Independence Level,  
 and the Regional Financial

| Financial capability | The independence ratio (%) | pattern       | Relations |
|----------------------|----------------------------|---------------|-----------|
| Once low             | 0 – 25                     | Instructive   |           |
| Low                  | > 25 – 50                  | Consultative  |           |
| Moderate             | > 50 – 75                  | Participatory |           |
| High                 | > 75 – 100                 | Discretionary |           |

Source : Mahsun, 2006

#### 1. Local Financial Effectiveness Ratios

Effectiveness ratio describes the ability of local governments in realizing the planned PAD compared to the target set by the real potential of the area. Regional capabilities in carrying out duties considered effective if the ratio reached a minimum of 1 (one) or 100 percent.

The higher effectiveness ratio describes the ability of the better areas.

$$\text{Effectiveness Ratios} = \frac{(\text{Actual Receipts local revenue})}{(\text{Target local revenue})}$$

Effectiveness values obtained from the comparison, as mentioned above, measured by financial performance criteria (Mahsun, 2006:187).

Table 2  
Effectiveness of Local Financial

| Effectiveness of Local Financial Autonomy and local financial capacity | Effectiveness ratio (%) |
|------------------------------------------------------------------------|-------------------------|
| Highly Effective                                                       | >100                    |
| Effective                                                              | >90 – 100               |
| Quite Effective                                                        | >80 – 90                |
| Less Effective                                                         | >60 – 80                |
| No Effective                                                           | ≤60                     |

Source : Mahsun, 2006

2. Regions Financial Efficiency Ratios

Efficiency ratio is a ratio that describes the ratio between the total actual expenditures with actual local earned income (Halim, 2007:234). The smaller this ratio, the more efficient. The efficiency ratio is measured as follows:

Realization of local revenues expenditure, local revenues revenue realization

$$\text{Efficiency ratio} = \frac{\text{Expenditure realization of local revenues}}{\text{Revenue realization of local revenues}}$$

The comparison between actual expenditures and revenue realization of using efficiency measures, the assessment of financial performance can be determined.

Table 3  
Efficiency of Local Financial

| Efficiency of Local Financial Autonomy and financial capacity | Efficiency ratio (%) |
|---------------------------------------------------------------|----------------------|
| Highly efficiency                                             | ≤60                  |
| Efficiency                                                    | >60 – 80             |
| Quite Efficiency                                              | >80 – 90             |
| Less Efficiency                                               | >90 – 100            |
| No Efficiency                                                 | ≥100                 |

Source : Mahsun, 2006

3. Regions Financial Activity Ratios

Areas of financial activity is the performance of local governments to obtain local income and spending (Susantih, 2009). To measure the area of financial activity can be used ratio of capital expenditure Harmony ratio describes how local governments to prioritize the allocation of funds on capital expenditure optimally.

$$\text{Capital Expenditure Ratio}_i = \frac{\text{Capital Expenditure}_i}{\text{Number Capital Expenditure}_i}$$

The higher the self-sufficiency ratio, the higher the participation in paying taxes and levies as well as describing the welfare level higher.

Hersey and Kenneth (in Halim, 2001:168) suggests the relationship between central and local governments in the implementation of regional autonomy, particularly the implementation of the law on fiscal balance between central and local governments, which are as follows.

1. Pattern is instructive relationship, namely the role of the central government is more dominant than the independence of local government.
2. Patterns is consultative relationship, namely central government intervention has begun to diminish and more on providing consultation.
3. Pattern is participatory relationship, the pattern in which the role of the central government wane given the level of independence of the autonomous region concerned is able to carry out the affairs of autonomy approach.
4. Pattern is discretionary relationship, namely central government intervention is no longer there because the area has completely capable and independent in carrying out the affairs of regional autonomy.

Pattern of central and local government relations and level of independence and fiscal capacity can be presented in a matrix as shown in Table 1 below (Mahsun, 2006: 187).

Table 1  
Pattern Relationships, Independence Level,  
and the Regional Financial

| Financial capability | The independence ratio (%) | pattern       | Relations |
|----------------------|----------------------------|---------------|-----------|
| Once low             | 0 – 25                     | Instructive   |           |
| Low                  | > 25 – 50                  | Consultative  |           |
| Moderate             | > 50 – 75                  | Participatory |           |
| High                 | > 75 – 100                 | Discretionary |           |

Source : Mahsun, 2006

#### 1. Local Financial Effectiveness Ratios

Effectiveness ratio describes the ability of local governments in realizing the planned PAD compared to the target set by the real potential of the area. Regional capabilities in carrying out duties considered effective if the ratio reached a minimum of 1 (one) or 100 percent.

The higher effectiveness ratio describes the ability of the better areas.

$$\text{Effectiveness Ratios} = \frac{(\text{Actual Receipts local revenue})_i}{(\text{Target local revenue})_i}$$

Effectiveness values obtained from the comparison, as mentioned above, measured by financial performance criteria (Mahsun, 2006:187).

Table 2  
Effectiveness of Local Financial

| Effectiveness of Local Financial Autonomy and local financial capacity | Effectiveness ratio (%) |
|------------------------------------------------------------------------|-------------------------|
| Highly Effective                                                       | >100                    |
| Effective                                                              | >90 – 100               |
| Quite Effective                                                        | >80 – 90                |
| Less Effective                                                         | >60 – 80                |
| No Effective                                                           | ≤60                     |

Source : Mahsun, 2006

## 2. Regions Financial Efficiency Ratios

Efficiency ratio is a ratio that describes the ratio between the total actual expenditures with actual local earned income (Halim, 2007:234). The smaller this ratio, the more efficient. The efficiency ratio is measured as follows:

Realization of local revenues expenditure, local revenues revenue realization

$$\text{Efficiency ratio} = \frac{\text{Expenditure realization of local revenues}}{\text{Revenue realization of local revenues}}$$

The comparison between actual expenditures and revenue realization of using efficiency measures, the assessment of financial performance can be determined.

Table 3  
Efficiency of Local Financial

| Efficiency of Local Financial Autonomy and financial capacity | Efficiency ratio (%) |
|---------------------------------------------------------------|----------------------|
| Highly efficiency                                             | ≤60                  |
| Efficiency                                                    | >60 – 80             |
| Quite Efficiency                                              | >80 – 90             |
| Less Efficiency                                               | >90 – 100            |
| No Efficiency                                                 | ≥100                 |

Source : Mahsun, 2006

## 3. Regions Financial Activity Ratios

Areas of financial activity is the performance of local governments to obtain local income and spending (Susantih, 2009). To measure the area of financial activity can be used ratio of capital expenditure Harmony ratio describes how local governments to prioritize the allocation of funds on capital expenditure optimally.

$$\text{Capital Expenditure Ratio}_i = \frac{\text{Capital Expenditure}_i}{\text{Number Capital Expenditure}_i}$$

By knowing the results of the comparison between capital expenditure and total expenditure areas by using the ratio of capital expenditure, the financial performance of the research can be defined as follows (Mahsun, 2006)

Table 4  
Expenditure Harmony Regional Finance

| Keserasian Belanja Daerah Otonom | Rasio Keserasian Belanja (%) |
|----------------------------------|------------------------------|
| not well matched                 | 0 – 20                       |
| Less matched                     | > 20 – 40                    |
| Enough matched                   | > 40 – 60                    |
| Matched                          | > 60 – 80                    |
| very harmonious                  | > 80 – 100                   |

Source : Mahsun, 2006

#### 4. Local Tax Contribution Ratio

Local tax contribution ratio is used to determine how much tax revenue contribution in revenue component against region income each year as a percentage, can be calculated from the actual amount compared to the amount of local tax revenue in the same fiscal year. Later in this study is simple, the ratio of local tax contribution as the largest component of local revenue (Sari, 2010).

$$\text{Local Tax Contribution Ratio} = \frac{\text{Number of Local Taxes}}{\text{the amount of local revenues}}$$

The larger component of the local tax local revenues, meaning the better the performance of local governments in tapping the potential of the region (Sari, 2010). The higher they pay local taxes will describe the level of welfare that the higher the (Suprpto, 2006). Financial ratios results will then be used to benchmark in measuring the contribution of each source of income in the formation of regional income.

#### 5. Ratio Contribution Regional Retribution

The ratio of contribution regional retribution are used to determine how much revenue contribution levy in local revenues component of the local revenues each year as a percentage, can be calculated from the actual regional retribution amount compared to the amount of revenue in the same fiscal year. Later in this study is simple, the ratio of contribution of regional retribution as the largest component of local revenues (Sari, 2010).

$$\text{Ratio Contribution Regional Retribution} = \frac{\text{Number of Regional Retribution;}}{\text{Number local revenues;}}$$

#### 6. Expenditure Management Ratio

Expenditure management ratios indicate that shopping activities undertaken by local governments that have positive equity purchases of not greater than the total revenues received by local governments. This ratio indicates a budget surplus or deficit. Surplus or deficit is the

difference more / less between revenues and expenditures during the reporting period. Later in this study is simple, the ratio of expenditure management can be formulated as follows (Nanik, 2007).

$$\text{Expenditure Management Ratio} = \frac{\text{Number Regional Revenues}}{\text{Number Regional Expenditure}}$$

If the ratio of expenditures to be above 100% then showed a surplus. However, if the ratio of expenditures to be less than 100% then the budget deficit.

#### 7. Ratios Revenue Growth

Growth ratio measures how much the ability of local governments to maintain and improve local revenues realization that acceptance has been achieved from period to the next. By knowing the growth of each component of income and expenditure, it can be evaluated against the potential areas that need attention. The higher the percentage growth of each component revenues and expenditure, the greater the ability of local governments to maintain and improve the success achieved from each period.

$$\text{Regional Revenues} = \frac{\text{Regional Revenues}_{11} - \text{Regional Revenues}_{10}}{\text{Regional Revenues}_{10}}$$

## RESULTS AND DISCUSSION

### Regional Financial Independence Ratio

Independence ratio describes the regional dependency on external funding sources. The higher the ratio of local independence, the degree of dependence on external assistance (especially central government and provincial) lower. The lower the ratio of the region's autonomy, degree of dependence on external assistance the higher side

Table 5  
 Descriptive Statistics Financial Independence Regional Ratio

| Year | Descriptive Statistics |         |         |                    |
|------|------------------------|---------|---------|--------------------|
|      | Minimum                | Maximum | Mean    | Standard Deviation |
| 2009 | 3,2063                 | 30,2684 | 8,7729  | 4,9278             |
| 2010 | 3,0992                 | 29,8492 | 8,5838  | 4,9106             |
| 2011 | 5,0481                 | 50,1861 | 10,4361 | 7,8187             |

Sources: Data BPKAD that has been processed

Table 5 minimum value independence ratio of 3.09 percent in Ngawi in 2010 and the maximum value of self-sufficiency ratio of 50.18 percent that occurred in the city of Surabaya in 2011. Is the average value of the ratio of self-sufficiency in 38 regencies / cities in East Java are at 8.91 percent with a standard deviation of 5.47 per cent which indicates that the diversity of data independence ratio is quite small. According to the criteria of the level of financial independence of East Java is very low with an instructive pattern, meaning that East Java is still dependent on aid from the central government and the provinces. An increase in self-sufficiency ratio is partly due to the local government is very aggressive in extracting local regulations pertaining to local revenue, particularly local taxes, where revenue largest component of East

Java province comes from local taxes. Local governments try to increase revenue through increased local tax revenue and regional levies.

#### **Regional Finance Effectiveness Ratio**

Effectiveness ratio describes the ability of local governments in realizing the planned local revenue compared to the target set by the real potential of the area. The higher effectiveness ratio describes the ability of the better areas.

**Tabel 6**  
**Statistika Deskriptif Rasio Efektivitas Keuangan Daerah**

| Tahun | Descriptive Statistics |          |          |                    |
|-------|------------------------|----------|----------|--------------------|
|       | Minimum                | Maximum  | Mean     | Standard Deviation |
| 2009  | 64,1481                | 132,1679 | 107,6536 | 15,2381            |
| 2010  | 59,1187                | 133,1247 | 103,6175 | 12,4197            |
| 2011  | 88,1703                | 140,7408 | 109,8005 | 10,8824            |

Sources: Data BPKAD that has been processed

Table 6 shows the minimum value of 59.11 percent effectiveness ratio occurred in Batu City in 2010 and a maximum value of 140.74 percent effectiveness ratios that occur in the City of Madison in 2011. Is the average value of the ratio of effectiveness in 38 regencies / cities in East Java is at 106.98 percent with a standard deviation of 18.64 which indicates that the data variability effectiveness ratio is quite small. According to the criteria of the effectiveness of local finance is very effective, meaning that East Java is able to realize the planned PAD compared with the target set. Results of this study demonstrate the ability of local governments in the East Java province to set their own household has a tendency to rise both structural organizational skills, local government capacity, the ability to encourage public participation and local financial capacity so that local governments are able to realize the local revenue than targeted.

#### **Local Financial Efficiency Ratios**

Efficiency ratio is a ratio that describes the ratio between the total actual expenditures with actual local earned income. The smaller the ratio efficiency showed the better performance of local government. The smaller the efficiency ratio, the more efficient, the higher the efficiency ratio, the more inefficient.

**Table 7**  
**Descriptive Statistics Regional Financial Efficiency Ratios**

| Tahun | Descriptive Statistics |          |          |                    |
|-------|------------------------|----------|----------|--------------------|
|       | Minimum                | Maximum  | Mean     | Standard Deviation |
| 2009  | 28,6542                | 206,1357 | 127,6248 | 120,0405           |
| 2010  | 20,8348                | 202,2540 | 108,2978 | 81,0511            |
| 2011  | 6,4475                 | 175,9813 | 89,6512  | 53,7236            |

Sources: Data BPKAD that has been processed

Table 7 shows the minimum value of the efficiency ratio is 6.44 percent which occurred in Banyuwangi in 2011 and the maximum value of the efficiency ratio after the global crisis by 206.13 percent by Sampang regency in 2009. Is the average value of the efficiency ratio in 38 regencies / cities in East Java is at 114.52 percent with a standard deviation of 98.20 which indicates that the efficiency ratio data variability is quite small. According to the criteria of regional financial efficiency levels show the results of East Java province to pay greater than the total revenues earned. Based on the average efficiency score greater than 100 indicates financial ratios inefficient East Java Province. Results of this study indicate that the inefficiency ratio of local government finance costs greater than the total revenues earned. Local governments do not make a spending plan that is tailored to the availability of revenue resulting in regional financial inefficiency. Government expenditures at a cost that is not being spent as intended.

#### **Regions Financial Activity Ratio**

The ratio is the ratio of the area of financial activity that indicate the performance of local governments to obtain local income and spending (Susantih, 2009). To measure the area of financial activities can be used ratio of capital expenditure harmony describes how local governments to prioritize the allocation of funds on capital expenditure optimally.

**Table 8**  
**Descriptive Statistics Regional Financial Activity Ratio**

| Year | Descriptive Statistics |         |         |                    |
|------|------------------------|---------|---------|--------------------|
|      | Minimum                | Maximum | Mean    | Standard Deviation |
| 2009 | 11,0928                | 36,5496 | 21,8204 | 6,5206             |
| 2010 | 5,7977                 | 28,4568 | 14,3050 | 5,8866             |
| 2011 | 6,0085                 | 30,9354 | 15,4173 | 4,7318             |

Sources: Data BPKAD that has been processed

Table 8 the minimum value of the activity ratio was 5.79 percent which occurred in Ngawi in 2010 and a maximum value of 36.54 percent ratio of the activity that occurred in the city of Surabaya in 2009. Is the average value of the ratio of activity in 38 regencies / cities in East Java is at 17.89 percent with a standard deviation of 5.93 which indicates that the activity ratio data variability is quite small .. According to the criteria of financial harmony levels showed mismatched regions, meaning before and after the global crisis in East Java has not prioritized the allocation of funds on capital expenditure optimally.

Based on the analysis of financial effectiveness ratios description area has a down trend in 2009-2011. Cause not serasinya local government finances as the government of East Java East Java in prioritizing the allocation of funds on the capital expenditure has not been optimal. Local governments in financing development expenditure is still relying on the central government, thus inhibiting the development of the area at the level of local financial harmony. East Java is still relying on the general allocation of funds to finance development spending. East Java regional government to increase regional income revenue, but revenue is still far from the expected, and can not contribute to the financing of development expenditure. Reasons that can be used to explain these things, among others, to encourage the growth of local government revenue tends to rely on taxes and levies that are based on rules defined areas. The regulation did not consider the ability of the resulting gaps in implementation. Efforts to increase revenue

revenue through taxes and levies not only mengadalkan local regulations alone, but also involves improving the quality of human resources. So that the region's financial incompatibility is caused by the low expenditure of public services that are used to provide public facilities and economic infrastructure as more revenue is used to fund personnel expenses and other direct costs rather than to finance capital expenditure.

#### **Local Tax Contribution Ratio**

Local tax contribution ratio is used to determine how much tax revenue contribution in revenue component against region income each year as a percentage.

**Table 9**  
Descriptive Statistics Local Tax Contribution Ratio

| Year | Descriptive Statistics |         |         |                    |
|------|------------------------|---------|---------|--------------------|
|      | Minimum                | Maximum | Mean    | Standard Deviation |
| 2009 | 9,8242                 | 55,1882 | 25,6931 | 12,9770            |
| 2010 | 10,1874                | 57,8226 | 28,0366 | 18,0842            |
| 2011 | 12,4207                | 78,8946 | 29,1078 | 17,3712            |

Sources: Data BPKAD that has been processed

Table 9 shows the minimum value of the ratio can contribute a tax of 9.82 percent that occurred in Sampang regency in 2009 and the maximum value of the ratio of post-tax contribution of 78.89 percent of the global crisis that occurred in the city of Surabaya in 2011. Is the average value of the ratio of local tax contribution at 38 regencies / cities in East Java is at 27.97 percent with a standard deviation of 14.92 which indicates that the diversity of the local tax contribution ratio data is quite small.

Based on the description analysis of local tax contribution ratio years 2009-2011 have rising trend, showing the good performance of local governments in tapping the potential of the region and the higher local tax paying public that describe the level of higher welfare. East Java people continue to pay its obligations to pay taxes. The largest component of the local tax levy on motor vehicles because the average East Java has a motor vehicle. The increase in the number of motor vehicle sales continue to increase thereby increasing the obligation to pay taxes. In 2009 amounted to 4.89 trillion. The increase in the number of motor vehicle tax on the people of East Java due to the increasing number of requests the public to meet the needs of its people one of which is a motor vehicle.

#### **Ratio Contribution Regional Retribution**

The ratio of contribution regional retribution are used to determine how much revenue contribution levy in component source revenue against region income each year as a percentage.

Table 10  
 Descriptive statistics, ratios Contribution Levies

| Year | Descriptive Statistics |         |         |                    |
|------|------------------------|---------|---------|--------------------|
|      | Minimum                | Maximum | Mean    | Standard Deviation |
| 2009 | 11,3138                | 71,8367 | 42,4059 | 18,6049            |
| 2010 | 10,9928                | 69,4032 | 33,7123 | 19,1014            |
| 2011 | 7,7749                 | 63,4180 | 23,9432 | 14,5253            |

Sources: Data BPKAD that has been processed

Table 10 shows the minimum value of the ratio of contribution levy of 7.77 per cent that occurred in Kediri in 2011 and the maximum value of the ratio of contribution levy after 71.83 percent of the global crisis that occurred in Tulungagung in 2009. Is the average value of the ratio of contribution regional retribution in 38 regencies / cities in East Java is at 37.40 percent with a standard deviation of 16.17 which indicates that the ratio of data variability is quite small contribution regional retribution. Decline was due to lower regional retribution and the level of demand for primary commodities exports resulting shrinkage Indonesian real sector that continues to rise in layoffs and reduced purchasing power. Based on data from the Central Bureau of Statistics of East Java, the growth of industrial sector in the district / town in East Java has decreased. in 2009 of 2.62 percent, so that the components contributing regional retribution also decreased the contribution of wholesale markets and shopping levy decreased by 11.9 percent. This of course affects the acceptance of regional retribution involving the community and the industry. So that the global crisis has affected the decline acceptance kotribusi regional retribution East Java.

#### **Ratio of Regional expenditures Management**

Expenditure management Ratio of indicate that shopping activities undertaken by local governments that have positive equity purchases of not greater than the total revenues received by local governments.

Table 11  
 Descriptive Statistics, Ratio of Regional expenditures Management

| Year | Descriptive Statistics |          |          |                    |
|------|------------------------|----------|----------|--------------------|
|      | Minimum                | Maximum  | Mean     | Standard Deviation |
| 2009 | 85,5475                | 105,6019 | 97,5167  | 4,3544             |
| 2010 | 83,6972                | 114,0288 | 101,1846 | 5,2104             |
| 2011 | 92,2011                | 111,0994 | 102,3698 | 3,9001             |

Sources: Data BPKAD that has been processed

Table 11 can indicate the ratio of expenditures to the minimum value of 83.69 percent that occurred in the city of Surabaya in 2010 and the maximum value of the ratio of expenditure management area after the global crisis that occurred at 114.02 percent Bangkalan in 2010. Is the average value of the ratio of expenditures to the area on 38 regencies / cities in East Java is at 104.52 percent with a standard deviation of 16.59 which indicates that the data variability ratio of expenditures to be fairly small area. Based on the analysis of descriptive statistics, the average ratio of 100.35 percent area management after the global crisis, but according to the

criteria area ratio if the ratio of expenditures to more than 100 percent ratio is experiencing a surplus, that does not affect the East Java province to the regional financial deficit .

Based on the results of the study showed the ratio of expenditures to a decline in the performance area on the ratio of the area of financial management of expenditure. The pressure on the exchange rate due to the withdrawal of foreign currency by weakening the exchange rate resulting impact on import costs are rising due to rising import prices adding to the burden of the government budget. Inflation caused by the global crisis led to increased production costs up to 25 percent especially in export-oriented industries. On the other hand, an increase in transportation costs due to depreciation of the rupiah and inflation. This has resulted in a decrease in the performance level of transport infrastructure in support of economic activity, including reduced levels of safety, smooth distribution, and inhibition of the relationship from one area to another. The circumstances causing transport costs and production costs are more expensive than they should, so the impact on increased selling prices of goods and services. Thus resulting in increased local government budgets to meet local needs.

#### **Local Revenue Growth Ratio**

Growth ratios measure the ability of local governments to maintain and improve local revenues the realization of that acceptance has been achieved from period to the next.

Table 12  
Descriptive Statistics Ratios Local Revenue Growth

| Tahun | Statistika Deskriptif |          |         |                  |
|-------|-----------------------|----------|---------|------------------|
|       | Minimum               | Maksimum | Mean    | Standart Deviasi |
| 2009  | -12,6113              | 52,6244  | 14,1490 | 12,5199          |
| 2010  | -15,0206              | 54,5746  | 13,4551 | 14,9483          |
| 2011  | 0,1433                | 123,8585 | 38,8864 | 26,4144          |

Sources: Data that has been processed BPKAD

Table 12 can be shown that the minimum value of the ratio of local revenue growth of -15.02 percent occurring in Malang in 2010 and the maximum value of the ratio of local revenue growth of 123.85 percent which occurred in Ngawi District in 2011. Is the average value of the ratio of local revenue growth in 38 regencies / cities in East Java is at 21.51 percent with a standard deviation of 19.56 which indicates that the diversity of data local revenue growth ratio is quite large.

East Java local government is able to maintain and improve the financial performance of the ratio of local revenues growth. Local government to evaluate potential areas of concern so know the growth of each component of income and expenditure. Components of local revenues derived from the largest of East Java local taxes that motor tax. Nearly 50% tax component from the East Java area of motor tax. Although the global crisis did not affect the acquisition of vehicles on the grounds that the needs of daily use. In addition, people in East Java is also aware of its obligations as a taxpayer. So that the local government is able to maintain the financial performance of the local revenues growth rate.

## CONCLUSIONS

The financial performance of the local government district / city in East Java has good views of the independence ratio analysis, ratio analysis of effectiveness, contribution of local taxes, and the ratio of local revenue growth. The financial performance of local government in the area of financial self-sufficiency ratio of Regency / City East Java showed increased because local governments are very aggressive in extracting local regulations pertaining to local revenue. The financial performance of the local government on the effectiveness of financial ratios Regency/ City East Java has the ability to manage their own household and to maintain high local revenue realization than the local revenue targets in budgeted. The financial performance of local governments in the ratio of local revenue growth in the District / City of East Java maintain and improve financial performance in local revenue growth with an evaluation of the potential areas that need attention so knowing the growth of each component of income and expenditure. The local government is able to realize local revenue higher than the budgeted local revenue, increase local tax contribution to local revenue in East Java experience significant growth.

The financial performance of local governments / municipalities of East Java has not shown good results seen from the analysis of the efficiency ratio, the ratio of financial activity, and the ratio of contribution local retribution. The financial performance of local government in the area of financial efficiency ratios District / City of East Java, local government spends greater than the amount of revenue they have. The financial performance of local government in the area of financial activity ratio Regency / City East Java there is disharmony capital expenditure, because the local government of East Java has not been optimal in prioritizing the allocation of funds on capital expenditure. The financial performance of local governments in the ratio of contribution local retribution Regency / City East Java has decreased, due to a decline in demand for primary commodities and commodity-exporting Indonesian real sector which resulted in shrinkage continues to rise in layoffs and reduced purchasing power, Thus causing a decrease in the contribution levy wholesale markets and shops. The financial performance of local governments in the ratio of expenditures to the Regency / City of East Java has decreased, due to the pressure on the exchange rate, the increase in production costs due to inflation so that increased local government budgets to meet local needs.

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