ISRG Journal of Economics, Business & Management (ISRGJEBM)

ISRG PUBLISHERS
Abbreviated Key Title: Isrg J Econ Bus Manag
ISSN: 2584-0916 (Online)
Journal homepage: https://isrgpublishers.com/isrgjebm/
Volume – II Issue - V (September - October) 2024
Frequency: Bimonthly

THE INFLUENCE OF REGIONAL FINANCIAL CAPACITY AND INDEPENDENCE ON ECONOMIC GROWTH IN THE LOWEST REGION OF WEST NUSA TENGGARA PROVINCE IN 2013-2022

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| **Received:** 25.08.2024 | **Accepted:** 31.08.2024 | **Published:** 03.09.2024

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Abstract

This study aims to analyze the effect of regional financial capability and independence on economic growth in regencies/cities of West Nusa Tenggara Province partially and simultaneously in 2013-2022. This type of research is descriptive quantitative. The data used is secondary data taken from the Central Bureau of Statistics (BPS) of West Nusa Tenggara Province and the Directorate General of Fiscal Balance (DJPK). Panel data in this study is a combination of cross section and time series data, namely 2 districts (Dompu Regency and North Lombok Regency) and 1 city (Bima City) and time series data (data from 2013-2022). The results of the analysis show that regional financial capacity and regional financial independence partially have a positive and significant effect on economic growth in three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province. While simultaneously showing that regional financial capacity and regional financial independence have a positive and significant effect on economic growth in three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province.

Keywords: *Regional Financial Capability, Regional Financial Independence, Economic Growth*

1. INTRODUCTION

Regional autonomy in Indonesia aims to improve responsiveness, accountability, transparency, and efficiency in local government management. With this autonomy, local governments have the authority to manage their finances and resources independently, according to local needs and potential. This is expected to increase the efficiency and effectiveness of financial resource management and improve public welfare and services (Gousario & Dharmastuti, 2015; Paul et al., 2012). Regional financial independence, which is

DOI: 10.5281/zenodo.13637186

characterized by the ability of regions to maximize local own-source revenue (locally-generated revenue), is an important indicator of the successful implementation of regional autonomy (Santoso, 2021).

The ability and independence of regional finances can be seen from the posture of the Regional Budget which reflects how much the region is dependent on external assistance, such as the central and provincial governments (Halim, 2007). Regions that are able to fund government and development by optimizing locally-generated revenue show a high level of independence. In addition, good financial governance will encourage regional economic development and community welfare more optimally (Makalikis, 2022).

The economic growth of a region can be measured through Gross Regional Domestic Product (GRDP), which reflects the total value added of all economic activities in the region (Handayani, 2022). High economic growth is characterized by a decrease in unemployment and poverty, reflecting the performance of local governments in improving people's welfare. In West Nusa Tenggara Province, GRDP data from 2013 to 2022 shows significant economic variation between districts/cities, illustrating the dynamics and different levels of progress in each region. The following graph presents the average gross regional domestic product of the ten districts/municipalities in West Nusa Tenggara Province for the period:

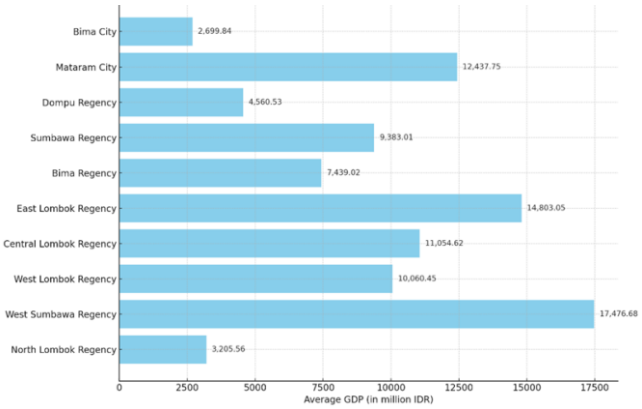

Figure 1.1 Average Gross Regional Domestic Product Per City/Regency in Nusa Tenggara Province (2013-2022)

Figure 1.1 shows the average Gross Regional Domestic Product (GRDP) per district/city in West Nusa Tenggara Province during 2013-2022. West Sumbawa Regency has the highest average GRDP of 17,476.6833 billion rupiah, reflecting its significant economic contribution. In contrast, Bima City has the lowest average GRDP of IDR 2,699.8420 billion, followed by North Lombok and Dompu districts. These three regions may face challenges in increasing their economic contribution, which could be due to limited infrastructure or unoptimized economic potential. The significant disparity between the highest and lowest GRDPs indicates the existence of economic differences between regions that require special attention in regional development planning.

These differences in GRDP between regions are closely related to regional financial capability and independence. Regions with low GRDP often have limited financial capacity, which results in limited investment in infrastructure and local economic development (Rori, 2016). Regional financial independence also plays an important role; less independent regions tend to rely on funds from the central government, which limits flexibility in planning local economic projects (Yasin, 2020). Improving regional financial capability and independence is crucial to reducing economic inequality and promoting more equitable economic growth across the province of West Nusa Tenggara, particularly in Bima City, Dompu Regency and North Lombok Regency. Therefore, the purpose of this study is to analyze the effect of regional financial capability and independence on economic growth in the three regions with the lowest average economic growth from 2013 to 2022 in West Nusa Tenggara Province.

2. LITERATURE REVIEW

Regional Finance

In a narrow sense, regional finance is limited to matters relating to the The ability and independence of regional finances can be seen from the posture of the Regional Budget (Regional Revenue and Expenditure Budget) which reflects how much the. Therefore, regional finance is identical to the APBD. According to Mamesah in Halim (2004), Regional Finance can be defined as "All government rights and obligations that can be valued in money, as well as everything in the form of money and goods that can be used as higher regional assets and other parties in accordance with applicable laws and regulations".

Regional Financial Capability

Regional Financial Capability is a classification of a region to determine the Regional Financial Capability group determined based on a formula as the basis for calculating the amount of Intensive Communication Allowances, Recess Allowances and Operational Funds for DPRD Leaders. Regional Financial Capability is regulated in the Regulation of the Minister of Home Affairs (Permendagri) Number 62 of 2017. Regional capability means the level of how far the region is able to explore its financial resources in order to finance its activities without having to rely on financial assistance from the center.

The indicator used to measure regional financial capability is the ratio of regional own-source revenue to the state purchasing and expenditure budget (Haryono, 2022). The following is the formula for calculating regional financial capability and the pattern of the relationship level:

Regional Financial Capability Ratio: $\frac{PADt}{TPDt}$ **x 100** %

Description:

PADt: Total Local Revenue Year t

TPDt : Total Regional Revenue Year t

Table 2.1 Indicators of Regional Financial Capability Leve

Rasio Regional Financial Capability Ratio (%)	Indicator
0,00-10,00	Very less
10,01-20,00	Not enough
20,01-30,00	Enough
30,01-40,00	Currently
>50,00	Very good

Source: Anita Wulandari (2001)

DOI: 10.5281/zenodo.13637186

Regional Financial Independence

According to Wike (2020) regional financial independence is the ability of the government in the region to be able to finance its own government activities, accountability and development, as well as services provided to the public who have paid levies and taxes which are sources of income that are needed by the region. According to Mahardika (2014) to find out the ability of regional finances to finance regional expenditures is to look further at how much the contribution of each source of locally-generated revenueis to total locally-generated revenue, and how effective the planning target is against its realization. An indicator of the financial independence of a region is the ratio of Regional Original Revenue to balancing funds and loans, thus locally-generated revenue and Balancing Funds are sources of local government spending that have a positive effect on government spending in a region.

Several financial ratios can be used to measure local government accountability (Halim, 2001), namely the ratio of financial independence (fiscal autonomy), the ratio of effectiveness to local revenue, the ratio of regional financial efficiency, the ratio of compatibility, the growth ratio (shift analysis), the ratio of the proportion of revenue and regional expenditure (share analysis). The ratio of regional financial independence is calculated with the following formula:

$$\textbf{Regional Financial Independence} = \frac{\textit{Pendapatan asli daerah (PAD)}}{\textit{Bantuan Pemerintah Pusat/Provinsi}} \textbf{ x 100 \%}$$

As a guideline in seeing the pattern of the relationship with the ability of the region (from the financial side), the following table can be presented:

Table 2.3 Indicators of the Level of Regional Financial Independence

Level of Independence	Percentage	Indicator
Very low	0,00% - 25,00%	Educative
Low	25,01% - 50,00%	Consultative
Currently	50,01% - 75,00%	Participative
Tall	75,01% - 100%	Delegative

Source: Halim (2007)

Economic Growth

According to Boediono (2012), economic growth is the process of increasing output per capita in the long term. The emphasis is on three aspects, namely the process, output per capita and the long term. Here we see the dynamic aspects of an economy. So, economic growth measures the performance of an economy's development. From one period to another the ability of a country to produce goods and services will increase. According to Sukirno (2012) economic growth is the process of increasing the production capacity in the long term of a country to provide economic goods to its population. Economic growth can be measured using gross regional domestic product (GRDP) at constant prices (based on constant prices). The formula for calculating economic growth is:

$$\mathbf{r} = \frac{(\mathbf{GRDPt - GRDPt{-}1})}{(\mathbf{GRDPt{-}1})} \textbf{ x 100 \%}$$

Description:

r = economic growth rate

GRDPt = national income in 1 year (current)

GRDPt -1 = national income in 1 year (previous)

3. RESEARCH METHOD

Type of Research

The approach used in this research is quantitative descriptive research. The type of data used is quantitative data, with the data used is secondary data taken from the Central Statistics Agency of West Nusa Tenggara Province and the Directorate General of Fiscal Balance . In this study, the analysis was conducted on a number of cross section and time series data, namely as many as 2 districts (Dompu Regency and North Lombok Regency) and 1 city (Bima City) in West Nusa Tenggara Province with a research period from 2013 to 2022.

Data Analysis Technique

The data analysis method in this study is panel data regression which will be processed with the help of the Eviews 9 statistical analysis tool. According to Firmansyah (2008) in panel data regression there are at least three approaches, namely: 1. Ordinary OLS (Ordinary Least Square). 2. LSDV (Least Square Dummy Variable). 3. GLS (Generalize Least Square). The panel data regression equation is as follows:

$$\mathbf{Y_{it} = \beta_0 + \beta_1 X1_{it} + \beta_2 X2_{it} + e_{it}}$$

Description:

Y_{it} = Economic Growth

B_0 = Constant

X1 = Regional Financial Capability

X2 = Regional Financial Independence

β = Regression coefficient

e = Error term (nuisance or error variable)

i = Cross section unit (Regency / City)

t = Time series unit (Year 2013-2022)

According to Awaludin (2023) in panel data regression analysis, it is necessary to determine the best model used among the Common Effect model, Fixed Effect Model, and Random Effect Model, then determine the estimation method using the chow test, Hausman test. After determining the best model among the three panel data regression analysis models, one model will be selected which will then be used for the classical assumption test, hypothesis test, and coefficient of determination (R^2) test.

4. RESULTS AND DISCUSSION

Model Selection Specification Test

In panel data analysis, there are three types of approaches that can be used, namely the Common Effect model, the fixed effect approach and the random effect to determine the most appropriate model used in panel data regression analysis. The results of the model selection specification test are as follows:

a. Chow Test

The Chow test is a test to choose between the Common Effect model or the fixed effect model to be used in panel data regression. The results of model specification testing with the chow test can be seen in table 4.1 as follows:

DOI: 10.5281/zenodo.13637186

Table 4.1 Chow Test

Test Model Specifications	Statistics	Results	Conclusion
Uji Chow	• Probabilitas > 0.05 = *common effect model* • Probabilitas < 0.05 = *fixed effect model*	0,00 < 0,05	Model yang dipilih adalah *fixed effect model*

Source: Eviews 9 Output Results

Based on Table 4.1 above shows a probability value of 0.00, it can be concluded that the probability value of 0.00 < 0.05 so that H0 is rejected and Ha is accepted, which means that the most appropriate model to use is the fixed effect model so that the next test must be carried out, namely the Hausman test.

a. Hausman Test

The Hausman test is used to determine whether the better panel data regression model is the random effect model or the fixed effect model. The results of testing model specifications using the Hausman test can be seen in Table 4.2 below;

Table 4.2 Hausman Test

Test Model Specifications	Statistics	Results	Conclusion
Uji Hausmen	• Probabilitas > 0.05 = *random effect model* • Probabilitas < 0.05 = *fixed effect model*	0,00 < 0,05	Model yang dipilih adalah *fixed effect model*

Source: Eviews 9 Output Results

Based on Table 4.2 shows that the results of the Hausman test obtained from the probability value of 0.00 < 0.05, then H0 is rejected and Ha is accepted. So there is no need to do the Langrange Multiplier (LM) Test. Because the good panel data model used in this study is the fixed effect model.

Classical Assumption Test

The classic assumption test consists of normality, autocorrelation, heteroscedasticity, and multicollinearity tests. According to Basuki (2015) in panel data it is not mandatory to use the autocorrelation test because the panel data is cross section, while autocorrelation only occurs in time series data. So the classic assumption tests carried out in this study are normality test, multicollinearity test, and heteroscedasticity test using the fixed effect model. The test can be seen as follows:

1. Normality Test

The normality test is carried out to test whether the independent and dependent variables in the regression model have a normal distribution or not. In normality testing can be done using the Jarque-Bera method (JB test), which is provided that if the JB probability has a value of 0.05 (5%) then the data has a normal distribution, while if the JB probability is below 5% or 0.05 then it does not have a normal distribution (Ghozali, 2016). Normality test results can be seen in table 4.3 below:

Table 4.3 Normality Test

Method	Statistics	Results	Conclusion
Jarque-Bera (JB test)	*p-value* > 0.05	0,656 > 0,05	Normally Distributed Residuals

Source: Eviews 9 Output Results

Based on Table 4.7, it shows that the jarque bera normality test p-value is 0.656> 0.05. Then the data is normally distributed. Based on the normality test, regression analysis is feasible to use.

2. Multicollinearity Test

Multicollinearity is carried out to determine whether there is a relationship (correlation) between independent variables in the regression model. Multicollinearity can be seen from the tolerance value and its opposite variance inflation factor (VIF). To determine the absence of multicollinearity between independent variables in the regression model, the method is the Variance Inflation Factor (VIF) value <10. The results of the Multicollinearity test are as follows:

Table 4.4 Multicollinearity Test

Method	Statistics	Results	Conclusion
Variance Inflation Factor	Mean VIF= 7,5888	mean VIF< 10	There are no multicollinearity problems

Source: Eviews 9 Output Results

Based on the output results in table 4.4 above, it can be concluded that there are no symptoms of multicollinearity because the tolerance value of the independent variables, namely regional financial capacity and regional financial independence with a Variance Inflation Factor (VIF) value of 7.5888 < 10. Therefore, it can be concluded that the independent variables used in the regression model of this study are free from multicollinearity or there is no correlation between the independent variables.

3. Heteroscedasticity Test

The heteroscedasticity test is conducted to test whether in the regression model there is an inequality of residual variances from one observation to another. One method to detect heteroscedasticity is to use the Glejser test. If the significance between the independent variables with a probability value> 0.05, then there is no heteroscedasticity problem. However, if the probability value <0.05, then there is a heteroscedasticity problem (Ghozali, 2016). The results of the heteroscedasticity test can be seen in table 4.5 below:

Table 4.5 Heteroscedasticity Test

Method	Statistics	Results	Conclusion
Glejser	*p-value*= 0,6908 (X1) and 0,7829 (X2)	*p-value* > α 5%	there are no symptoms of heteroscedasticity

Source: Eviews 9 Output Results

Based on Table 4.9, it can be concluded that in this study there are no symptoms of heteroscedasticity. The heteroscedasticity test results show that the probability value for the regional financial capability variable is 0.6908 and for the regional financial

DOI: 10.5281/zenodo.13637186

independence variable is 0.7829. These results clearly show that none of the independent variables statistically significantly affect the dependent variable, because the significance probability value is above 0.05. Therefore, it can be interpreted that in the regression analysis in this study there are no symptoms of heteroscedasticity.

Panel Data Regression Model Estimation

From the results of panel data regression calculations by testing model specifications, the best model is the fixed effect model. The results of data processing using the fixed effect model in this study are in table 4.6 as follows:

Table 4.6 Panel Data Regression

Information	Koefficient	Std. Error	t-Statistic	Prob.
Constant	3,3825	0,0298	113,2558	0,0000
Regional Financial Capability	0,0285	0,0054	5,2289	0,0000
Regional Financial Independence	0,0100	0,0100	5,3980	0,0000

Source: Eviews 9 Output Results

The results of this study using the fixed effect model can be made a panel data regression model equation as follows:

Yit = 3.3825 + 0.0285 X1it + 0.0100 X2it + ε

From the model above, the following interpretations are made:

1. With a constant value of 3.382, it means that if the regional financial capacity and regional financial independence are 0 or do not change, then economic growth in the three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province is 3.3825 percent.
2. The coefficient value of the regional financial capacity variable (X1) is 0.0285 and has a positive sign. This shows that every increase in regional financial capacity by 1 percent, economic growth in the three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province will increase by 0.0285 percent.
3. The coefficient value of the regional financial independence variable (X2) is 0.0100 and has a positive sign. This shows that every increase in regional financial independence by 1 percent, economic growth in the three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province will increase by 0.0100 percent.

Hypothesis Test

The tests carried out in this study include the F test (simultaneous) and the t test (partial). The following are the results of panel data regression estimation using the best model in this study, namely the fixed effect model:

1. F Test (Simultaneous)

The F (simultaneous) test is used to measure the joint influence of the independent variables in influencing the dependent variable. The following is an F (simultaneous) test table to see the effect of regional financial capacity and regional financial independence on economic growth from three regions in West Nusa Tenggara Province, namely Bima City, Dompu Regency and North Lombok Regency. The results of the F (Simultaneous) test can be seen in table 4.7 as follows:

Table 4.7 F Test (Simultaneous)

Fstatistik	Probabilitas	Conclusion
72,7865 > 4,210	0,000 < 0,05	Significant Influence

Source: Eviews 9 Output Results

From the results of the F (Simultaneous) test in Table 4.11, the calculated F value is 72.7865, which means it is greater than the F table value of 3.09 (Fcount 72.7865 > Ftable 4.210) and a significance value of 0.000 sig 0.000 < 0.05, so Ho is rejected and Ha is accepted. This shows that all independent variables, namely regional financial capacity (X1) and regional financial independence (X2) together have a significant effect on economic growth (Y) in three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province.

2. Test t (Partial)

This t (partial) test is used to test the individual effect of each independent variable on the dependent variable. If the probability value t <0.05, then the result is significant, it means that there is an influence of the independent variable individually on the dependent variable. Partial hypothesis testing can be seen in table 4.8 below:

Table 4.8 Test t (Partial)

No	Variable	Results	Conclusion
1	Regional Financial Capability	0,000 < 0,05	Significant Influence
2	Regional Financial Independence	0,000 < 0,05	Significant Influence

Source: Eviews 9 Output Results

The results of the t test analysis (partial) in Table 4.8 above which is the result of regression can be explained as follows:

1. Based on the table above, it can be seen that the significance test results show that there is a probability value of 0.000 which means 0.000 <0.05. So Ho is rejected and Ha is accepted so it can be concluded that the regional financial capability variable (X1) has a significant effect on economic growth (Y).
2. Based on the table above, it can be seen that the results of the significance test show that there is a probability value of 0.000, which means 0.000 <0.05. So Ho is rejected and Ha is accepted so it can be concluded that the variable regional financial independence (X2) has a significant effect on economic growth (Y).

Test Coefficient of Determination (R^2)

The coefficient of determination or R2 test is used to determine how much the independent variable affects the dependent variable. The following are the results of testing the coefficient of determination:

DOI: 10.5281/zenodo.13637186

Table 4.9 Coefficient of Determination (R^2)

Cross-section fixed (dummy variables)			
R-squared	0.920915	Mean dependent var	3.527640
Adjusted R-squared	0.908261	S.D. dependent var	0.106745
S.E. of regression	0.032331	Akaike info criterion	-3.874552
Sum squared resid	0.026133	Schwarz criterion	-3.641019
Log likelihood	63.11828	Hannan-Quinn criter.	-3.799843
F-statistic	72.77865	Durbin-Watson stat	1.196678
Prob(F-statistic)	0.000000		

Source: Eviews 9 Output Results

Based on the test results in the table above, it can be seen that the R-square value is 0.9209. This shows that 92.09% of the variation in the dependent variable in three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province can be explained by variations in the two independent variables, namely regional financial capacity and regional financial independence. The remaining 7.91% can be explained by other factors outside the model in this study, such as poverty percentage and local retribution revenue.

5. Discussion

Based on the panel data regression tests that have been carried out, it can be seen that the right model to use is the fixed effect model with the regression results obtained quite well to explain the independent variables that can affect economic growth as the dependent variable. Based on the test results conducted, it can be analyzed as follows:

1. The effect of regional financial capacity on economic growth

The results of testing with panel data regression show that regional financial capacity has a positive and significant effect on economic growth in Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province, with a probability value of 0.000 < 0.05. The coefficient of the regional financial capability variable of 0.0285 indicates that a 1 percent increase in regional financial capability will increase economic growth by 0.0285 percent.

Although regional financial capability in these three regions is low, the effective use of limited own-source revenues to support strategic sectors, such as infrastructure and public services, still succeeds in driving economic growth. This study is consistent with previous studies by Anggun (2023) in Jambi Province and Maryanti (2023) in Riau Province, which also found a positive and significant effect of regional financial capacity on economic growth. This shows that with proper management and efficient allocation, even though regional financial capacity is limited, it can still make a positive contribution to economic growth.

2. The effect of regional financial independence on economic growth

The results of panel data regression testing show that regional financial independence has a positive and significant effect on economic growth in Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province, with a probability value of 0.000 <0.05 and a coefficient of 0.0100. This means that a 1 percent increase in regional financial independence can increase economic growth by 0.0100 percent.

This finding is consistent with Woestho's (2020) research in Jeneponto Regency and Jalu Prakoso et al. (2019) in Central Java, which also found a positive and significant effect of financial independence on economic growth. Although there is still a dependence on transfers, increasing financial independence can create a more conducive environment for economic growth, attract investment, and improve people's quality of life, as well as allow local governments to respond to local economic dynamics more flexibly and effectively.

6. CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the results of the study, it can be concluded that:

1. Partial test results show that regional financial capability and regional financial independence have a positive and significant effect on economic growth in three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province.
2. Regional financial capability and regional financial independence simultaneously have a positive and significant effect on economic growth in three regions, namely Bima City, Dompu Regency, and North Lombok Regency in West Nusa Tenggara Province.

Suggestions

Based on the conclusions of the research results, here are some suggestions from the research that can be useful as follows:

1. Local governments in Bima City, Dompu Regency and North Lombok Regency are expected to focus more on optimizing financial management and increasing local own-source revenues (locally-generated revenue). This involves improving the tax and levy administration system, as well as developing local economic potential that can enlarge the regional revenue base. Improving the quality of local financial management will strengthen financial independence and support more sustainable economic growth.
2. In strengthening the positive impact of financial capability and independence on economic growth, local governments are expected to develop programs that improve managerial capacity and infrastructure. Investments in training for financial management staff, as well as the development and maintenance of infrastructure that supports economic activity, will strengthen competitiveness and boost economic growth in the region.
3. It is expected that further research can deepen the understanding of other factors that can affect economic growth such as the poverty percentage factor and regional retribution revenue.

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DOI: 10.5281/zenodo.13637186