



REGIONAL FINANCIAL EFFICIENCY RATIO AND SUITABILITY IN IMPROVING REGIONAL DEVELOPMENT OF WEST ACEH REGENCY

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Abstract

In the analysis of the financial condition of Aceh Barat Regency, it was revealed that significant dependence on Central Transfers, especially through the General Allocation Fund (DAU) and the Special Allocation Fund (DAK), creates challenges in achieving stable financial independence. Although Locally Generated Revenue (PAD), such as regional taxes and levies, contributes to the revenue, the fluctuations indicate the complexity and risk in achieving financial balance. Diversifying revenue sources has become a primary focus to address dependence on natural resources and the fisheries sector, as well as external fluctuations. Optimizing regional taxes, levies, and developing the tourism sector are key strategies to strengthen Locally Generated Revenue. Moreover, the analysis of the Regional Financial Efficiency Ratio (REKD) indicates characteristics of inefficiency or inefficiency during the 2011-2022 period, highlighting the need for improvements in budget management and revenue collection. The Compatibility Ratio, which shows an increase in Operating Expenditure and a tendency to decrease Capital Expenditure, underscores the need to achieve a better balance between long-term investment and operational activities. Therefore, Aceh Barat Regency needs to take

proactive steps in enhancing financial efficiency, diversifying income, and allocating funds wisely to achieve sustainable economic growth and financial stability.

Keywords: *Regional Finance, Central Transfer, Revenue Diversification, Efficiency Ratio.*

A. Introduction

The structure of regional revenue (PAD) in Aceh Barat Regency reflects a significant dependence on Central Transfers, with the majority of income coming from the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) (Widjajakoesoema, 2011). Although Locally Generated Revenue (PAD), such as regional taxes and levies, also contributes, fluctuations in this income indicate challenges in achieving stable financial independence. Dependence on natural resources and the fisheries sector also plays an important role in the region's revenue structure. The substantial variability in the revenue structure indicates a need for diversifying revenue sources to make the region more resilient to changes in central policies or market fluctuations (Nusa & Panggalo, 2022).

According to Soritua (2015), strengthening Locally Generated Revenue (PAD) as a main component of the regional financial structure is crucial to increasing the financial independence of Aceh Barat Regency. Improvements in the management of regional taxes and levies, as well as the development of local economic sectors such as tourism, can help diversify income. In addition, optimizing the use of natural resources and fisheries, while considering environmental sustainability, can be a strategy to strengthen Locally Generated Revenue. By implementing proactive and sustainable policies, Aceh Barat Regency can enhance its financial independence, mitigate external risks, and promote local economic growth (Marie & Widodo, 2020).

According to Marie & Widodo (2020), Central Transfers, as a key component of the regional financial system, play an important role in supporting the operational and development budgets of local governments. Fiscal Balance Funds are a form of financial transfer provided directly by the central government to regional governments, aiming to provide significant financial support. In this context, the General Allocation Fund (DAU) is a vital element, representing a regular part of the balance funds routinely provided to finance the operational activities of regional governments (Nusa & Panggalo, 2022; Saputri, 2019).

Additionally, according to Berwulo et al. (2017) and Nurhajizah & Tipa (2021), there is the Special Allocation Fund (DAK), which is designated for specific programs or

projects. DAK provides targeted and focused fund transfers for certain sectors or development initiatives, giving the central government greater control over the use of these funds. While Central Transfers provide financial benefits to local governments, significant dependence on these external revenue sources also creates challenges related to the flexibility and financial independence of the regions. Therefore, it is important for local governments to ensure revenue diversification and effective use of Central Transfers to achieve sustainable development and financial stability (Arni Asari & Suardana, 2018).

Regional revenue is not only sourced from Central Transfers but also from various other sources that enrich the region's financial structure. Grants and Donations, whether from private institutions, NGOs, or other third parties, contribute significantly in the form of funds or goods. Income from Investments, derived from financial gains or assets owned by local governments, becomes another important source of revenue to support regional finances (Maita, 2020).

Dependence on Natural Resources also plays a key role in the structure of regional income. If a region has natural resources such as mines, forests, or other natural yields, revenue from this sector becomes an integral part of the region's income. Additionally, revenue from Public Services, including fees for health and education services charged to the community, as well as receipts from public institutions such as hospitals or universities, complements the diversification of income sources (Amalia & Purbadharmaja, 2014; Andriani & Wahid, 2019; Sugiyanto & Musfirati, 2021).

According to Nggilu et al. (2016), Puspitaningrum (2016), Soritua (2015), and Syam & Zulfikar (2022), new and potential revenue sources also become a crucial focus in designing sustainable regional finances. Income from the Tourism Sector, if the region has tourism potential, can be a significant source to support the local economy. Additionally, efforts to develop local economic sectors create new revenue opportunities that contribute to the financial independence of the region. Overall, diversity in income sources is key to reducing risk and enhancing regional financial stability.

B. Research Method

The data consists of secondary data in the form of regional financial data obtained from the authorized local government agency (Regional Finance Agency of Aceh Barat Regency). Data was collected through direct literature searches from the data source

(Regional Finance Agency of Aceh Barat Regency). The analysis of the financial condition was conducted by examining several aspects as follows:

Regional Financial Efficiency Ratio

The Regional Financial Efficiency Ratio (REKD) represents the comparison between the costs incurred to generate revenue and the actual revenue received. The financial performance of the local government in revenue collection is categorized as efficient if the achieved ratio is less than 1 (one) or below 100%. A smaller Regional Financial Efficiency Ratio indicates better financial performance by the local government.

Therefore, the local government needs to carefully calculate the expenses required to realize all the revenue it receives to determine whether its revenue collection activities are efficient. This is important because, even if the local government successfully meets its revenue targets as set, this success is less meaningful if the cost of achieving the revenue targets exceeds the actual revenue received. The formula used, according to Trianto (2016), is as follows:

$$REKD = \frac{\text{Realization of Regional Expenditures}}{\text{Realization of Regional Revenues}} \times 100\%$$

The criteria for REKD according to Halim (2017) are:

Efficiency Criteria	Persentase Efisiensi (%)
Not Eefficien	>100
Less Efficien	>90-100
Qoite Efficien	<80-90
Efficien	60-80
Very Efficien	<60

Compatibility Ratio

The Compatibility Ratio illustrates how the local government prioritizes the allocation of its funds between Operational Expenditures and Capital Expenditures optimally. A higher percentage of funds allocated to Operational Expenditures means that the percentage of Capital Expenditures used to provide public economic infrastructure tends to be smaller. There is no fixed standard for the ideal ratio of Operational Expenditures or Capital Expenditures to the Regional Budget (APBD), as it is heavily influenced by the dynamics of development activities and the amount of investment required to achieve targeted growth. However, as a region in a developing country, the role of local governments in driving development is still relatively significant.

Therefore, the relatively small capital expenditure ratio needs to be increased in accordance with regional development needs. The formulas used are as follows (Halim, 2017; Santi, 2018):

Operational Expenditure Ratio

$$= \frac{\text{Total Regional Operational Expenditures}}{\text{Total Regional Expenditures}} \times 100\%$$

$$\text{Capital Expenditure Ratio} = \frac{\text{Total Regional Capital Expenditures}}{\text{Total Regional Expenditures}} \times 100\%$$

C. Result and Discussion

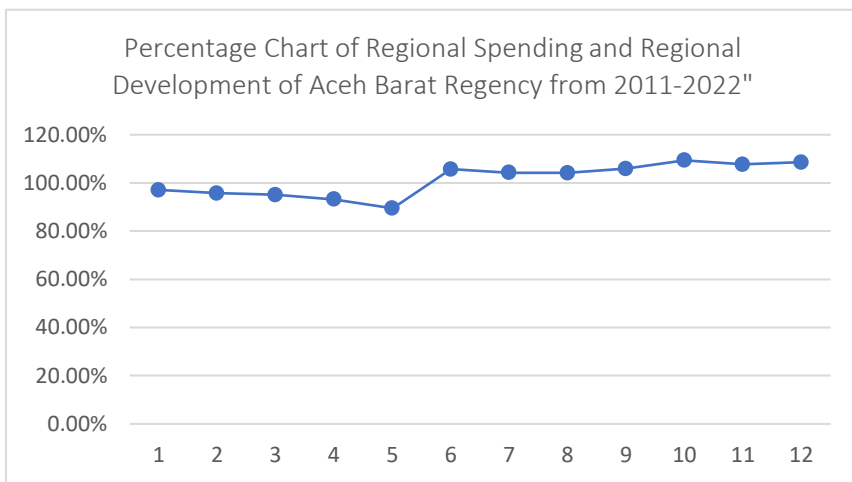
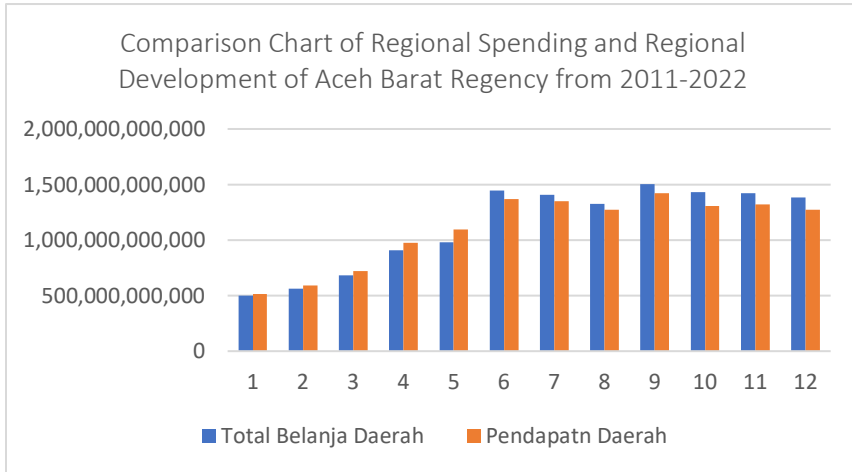
Regional Financial Effectiveness Ratio

The Regional Financial Effectiveness Ratio for Aceh Barat Regency from 2011-2022 can be seen in the table below:

Table 4. Total Regional Expenditures and Revenues of Aceh Barat Regency for the Years 2011-2022

Year	Total Regional Expenditures	Regional Revenues	Percentage	Efficient Characteristics
2011	501.184.321.859	516.630.593.402	97,01%	Less Efficient
2012	563.696.948.271	588.981.727.693	95,71%	Less Efficient
2013	684.806.015.072	720.457.769.655	95,05%	Less Efficient
2014	906.667.815.660	973.174.505.879	93,17%	Less Efficient
2015	981.036.034.108	1.096.523.414.978	89,47%	Quite Efficient
2016	1.445.109.344.552	1.366.937.786.205	105,72%	Less Efficient
2017	1.408.314.314.071	1.350.732.034.050	104,26%	Less Efficient
2018	1.325.114.624.444	1.272.036.731.260	104,17%	Less Efficient
2019	1.504.381.493.346	1.421.022.348.131	105,87%	Less Efficient
2020	1.430.956.426.997	1.308.478.789.897	109,36%	Less Efficient
2021	1.421.757.459.504	1.321.062.239.778	107,62%	Less Efficient
2022	1.381.559.675.657	1.272.590.146.832	108,56%	Less Efficient

Source: DPKAD Aceh Barat, 2011-2022



The table focuses on Total Regional Spending, Regional Income, the percentage of Regional Income relative to Regional Spending, and the efficiency characteristics of regional government management from 2011 to 2022. Total Regional Spending increased: significantly from approximately 501 billion in 2011 to over 1.38 trillion in 2022. This amount represents funds used by the regional government for operational costs, development projects, and public programs.

Regional Income: which includes Local Revenue (PAD) and transfers from the central government, also rose during this period, from around 516 billion in 2011 to over 1.27 trillion in 2022. Despite this increase, there have been challenges in balancing the budget.

The percentage of Regional Income relative to Regional Spending is a critical metric that shows how well the regional government can cover its spending with its income. For

most years, this percentage was below 100%, indicating that the regional government faced a budget deficit. This often leads to reliance on additional resources, such as loans, to meet budget needs.

Efficiency levels in managing regional funds have generally been characterized as "Less Efficient" or "Inefficient." The data suggests that spending often exceeds income, leading to financial issues and requiring additional funding sources.

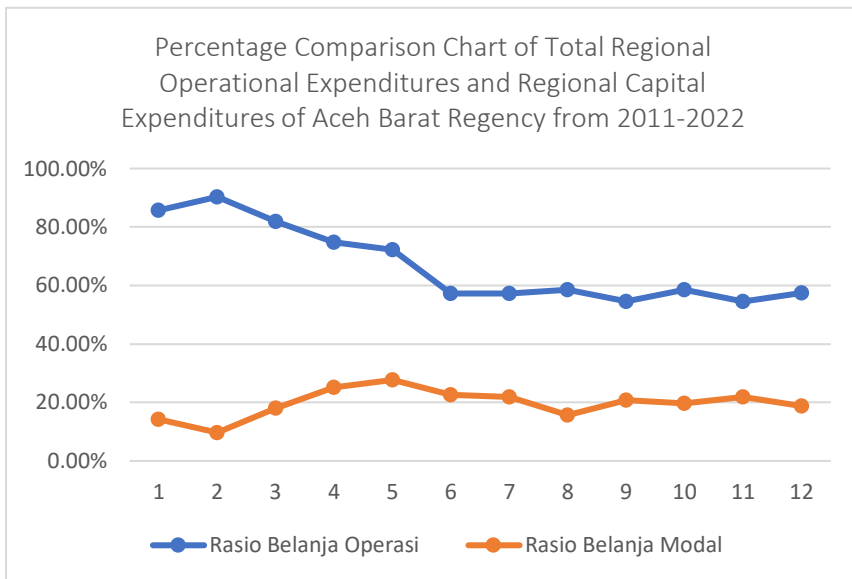
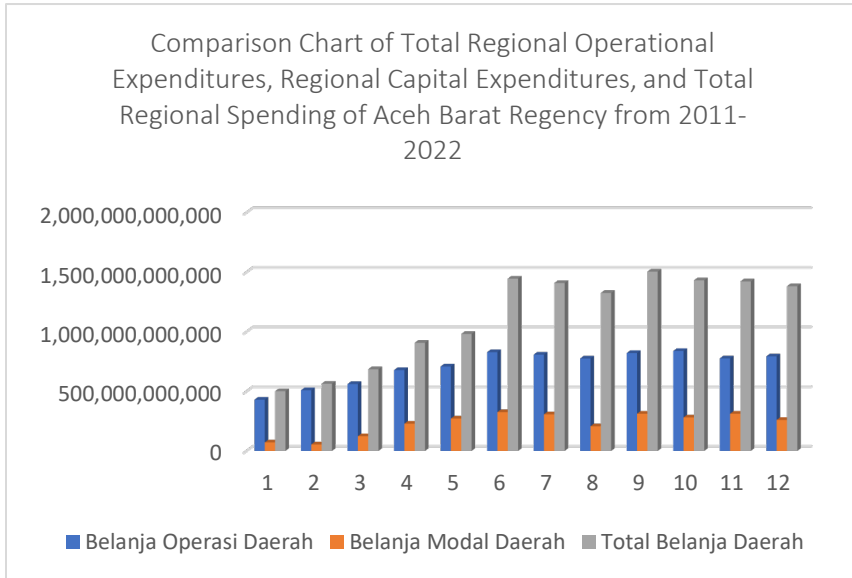
To address these challenges, the regional government needs to consider more prudent budget management strategies. These could include cutting unnecessary expenditures, improving operational efficiency, and diversifying income sources. Such measures are essential to ensure financial stability, prevent ongoing budget deficits, and support beneficial programs and projects for the community.

Suitability Ratio

Below is the result of the financial data analysis obtained from the APBK Aceh Barat for the years 2011-2022:

Table 5: Total Regional Operational Spending, Regional Capital Expenditure, and Total Regional Spending of Aceh Barat Regency from 2011-2022

Year	Regional Operational Expenditures	Regional Capital Expenditures	Total Regional Expenditures	Operating	Capital
				Expenditure Ratio	
2011	429.670.579.884	71.513.741.975	501.184.321.859	85,73%	14,27%
2012	509.083.977.748	54.587.910.547	563.696.948.271	90,31%	9,68%
2013	561.135.600.155	123.324.501.917	684.806.015.072	81,94%	18,01%
2014	678.000.166.354	228.645.364.406	906.667.815.660	74,78%	25,22%
2015	708.250.581.834	271.820.964.773	981.036.034.108	72,19%	27,71%
2016	828.450.061.433	325.724.880.535	1.445.109.344.552	57,33%	22,54%
2017	807.676.751.487	307.030.807.645	1.408.314.314.071	57,35%	21,80%
2018	775.273.442.890	206.924.209.322	1.325.114.624.444	58,51%	15,62%
2019	821.071.037.198	312.349.177.895	1.504.381.493.346	54,58%	20,76%
2020	838.290.478.328	281.114.711.935	1.430.956.426.997	58,58%	19,65%
2021	775.996.944.825	312.064.656.847	1.421.757.459.504	54,58%	21,95%
2022	793.247.800.211	259.962.277.836	1.381.559.675.657	57,42%	18,82%



Data on Regional Operational Expenditures, Regional Capital Expenditures, Total Regional Spending, Operational Spending Ratio, and Capital Spending Ratio provides a comprehensive insight into the regional government's budgetary policies from 2011 to 2022. Let's discuss this data in more detail.

Regional Operational Expenditures include expenses for the day-to-day operations and maintenance of the regional government, such as employee salaries, operational costs, and maintenance of existing infrastructure. Data shows a significant upward trend in Regional Operational Expenditures throughout this period, increasing from

approximately 429 billion in 2011 to over 793 billion in 2022. This increase may reflect the growing operational costs required to provide government services and maintain existing infrastructure.

On the other hand, Regional Capital Expenditures encompass spending on new infrastructure projects, long-term development projects, and investments in capital assets. There is variation in Regional Capital Expenditures during this period, with peaks occurring in 2014 and 2015, reaching over 228 billion and 271 billion, respectively. This may reflect a focus on infrastructure development during these specific years, which was considered important for regional growth and development.

Total Regional Spending is the sum of operational and capital expenditures. Data shows that Total Regional Spending tends to increase year by year, reaching over 1.38 trillion in 2022. This increase reflects the growing budgetary needs of the regional government over time.

Operational Spending Ratio measures the extent to which Operational Expenditures contribute to Total Regional Spending. This ratio indicates that in some years, such as 2014 and 2015, Operational Expenditures constituted a smaller portion of the total budget, possibly indicating a focus on infrastructure development and capital projects. In other years, the Operational Spending Ratio tends to be higher, reflecting a greater focus on operational expenditures.

Capital Spending Ratio measures the extent to which Capital Expenditures contribute to Total Regional Spending. Data shows that the Capital Spending Ratio was lower in 2014 and 2015, when there was a significant increase in capital spending. However, in other years, the Capital Spending Ratio tends to be higher, reflecting a greater emphasis on long-term investments and infrastructure development.

It is important to remember that decisions regarding budget allocation should consider both short-term and long-term priorities and needs. Achieving the right balance between Operational and Capital Expenditures is crucial for supporting sustainable growth, efficient public services, and the maintenance and development of infrastructure needed by the regional community. Trends and changes in budget allocation should be carefully considered to ensure optimal resource utilization.

Limitations in Infrastructure Development: A reduction in capital spending can result in limitations on developing the infrastructure needed for economic growth and the quality of life of the community. Projects such as road construction, bridges, housing,

and other public facilities may be delayed or hindered, which can affect residents' quality of life and the region's ability to compete economically.

Inability to Address Critical Issues: In some cases, capital spending is necessary to address critical issues such as natural disasters, repairing damaged infrastructure, or economic recovery after a crisis. When capital spending decreases, the ability to respond to and manage such issues also diminishes.

Impact on Economic Growth: Investment in capital expenditures has the potential to stimulate economic growth. When capital spending is reduced, regional or national economic growth may also slow down due to the lack of economic stimulus from new investment projects.

Future Uncertainty: A decrease in capital spending can create uncertainty about the future because the infrastructure needed for economic and social development may not be available or yet built. This can affect business and investor decisions about investing in the region.

Increased Long-Term Costs: Delays in development or investment projects can lead to increased long-term costs. Projects that are postponed tend to be more expensive to complete in the future due to construction costs and inflation.

However, it is also important to note that excessive capital spending without proper planning can lead to an unhealthy budget deficit. Therefore, a good balance between operational and capital spending in budget planning is necessary to ensure efficiency and financial sustainability in the long term.

D. Conclusion

The main conclusion from this discussion is that managing the regional government budget is a crucial element in maintaining financial stability and sustainable development. Key factors to consider include expenditure priorities, budget management efficiency, regional autonomy in generating revenue, public participation, economic growth, and evaluation of budget policy impacts. By addressing these factors and taking appropriate measures, regional governments can achieve efficient and sustainable budget management, which will support regional growth and well-being.

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