Spending quality and development performance: Evidence from less development regions

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Abstract

Indonesia still has less developed districts. In Indonesia, districts are administrative areas after provinces. The number of underdeveloped regencies in Indonesia is 122 or 29% of the total 415 regencies established during 2015-2019 by the central government. Underdeveloped regencies are regencies whose regions and communities are less developed, as seen from five aspects: the community's economy, human resources, facilities and infrastructure, regional financial capacity, accessibility, and regional characteristics. Lagging districts occur due to spending that has not supported the development, both physical and non-physical development. District spending that does not support development indicates poor quality of spending. This study aims to examine the indicators of the quality of spending in underdeveloped regions and relate them to development performance. Expenditure quality indicators include spending priorities, timeliness, spending allocations, accountability and transparency, and effectiveness. Structural Equation Modeling (SEM) is applied to measure the quality of spending and development performance of underdeveloped regions. This study found the quality of district spending not only can reduce poverty levels, but also increase the level of Human Development Index (HDI). This study also found a new model of the quality of regional spending, namely making indicators (poverty and HDI) into variables of development performance.

Keywords: Development Performance, Less Development Regions, Spending Quality

JEL Classification: G38, H72, H75

Abstrak

Indonesia masih memiliki kabupaten yang kurang berkembang. Di Indonesia, kabupaten merupakan wilayah administrasi setelah provinsi. Jumlah kabupaten tertinggal di Indonesia sebanyak 122 kabupaten atau 29% dari total 415 kabupaten yang ditetapkan sepanjang tahun 2015–2019 oleh pemerintah pusat. Kabupaten tertinggal adalah kebupaten yang wilayah dan masyarakatnya kurang berkembang yang dilihat dari lima aspek, yaitu perekonomian masyarakat, sumber daya manusia, sarana dan prasarana, kemampuan keuangan daerah, aksesibilitas, dan karakteristik daerah. Kabupaten tertinggal terjadi akibat dari belanja yang telah dilakukan tidak mendukung pembangunan, baik pembangunan fisik maupun non-fisik. Belanja kabupaten yang tidak mendukung pembangunan mengisyaratkan kualitas belanja yang buruk. Penelitian ini bertujuan untuk menguji indikator kualitas belanja daerah tertinggal dan menghubungkannya dengan kinerja pembangunan. Indikator kualitas belanja meliputi prioritas belanja, ketepatan waktu belanja, alokasi belanja, akuntabilitas dan transparansi, serta efektivitas. Structural Equation Modeling (SEM) diterapkan untuk mengukur kualitas belanja dan kinerja pembangunan daerah tertinggal. Penelitian ini meyimpulkan kualitas belanja kabupaten tidak hanya dapat mengurangi tingkat kemiskinan, namun juga meningkatkan Indeks Pembangunan Manusia (IPM).

Kata Kunci: Daerah Tertinggal, Kinerja Pembangunan, Kualitas Belanja

***Klasifikasi JEL:** G38, H72, H75*

INTRODUCTION

Since 2001, Indonesia has implemented a decentralized system, there are still many undeveloped (lagging) regions. In 2015, there were 122 district classified as less development regions in Indonesia (based on the Presidential Regulation Number 131 of 2015 concerning the Determination of Underdeveloped Regions in 2015-2019). However, Sasana (2009) and Yang (2019) stated that fiscal decentralization empowers local governments to efficiently

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allocate resources for growth and encourage cross-sector competition and region.

The main problems that often arise include the issue of fiscal decentralization, both in terms of income and expenditure. Where the source of regional income is still dependent on central government transfers through equalization funds (Enceng et al., 2012; Poyoh et al., 2017; and Chandra et al., 2017). Based on the 2019 Ministry of Finance report, more than 60 percent of regional income is supported by the central government through balancing funds (*dana perimbangan*). There are still many district that depend on the balance funds. This indicates a low level of regional financial capacity (fiscal decentralization) and a high dependency on regional income from the center. The proportion of income should be supported by the majority of local revenue, not balancing funds.

Apart from the income side, many regions in Indonesia also have problems in the aspect of spending. Based on the Bappenas's report (2011), these problems result from the low quality of planning in the regions. In addition, another problem faced is the low portion of the budget for direct spending compared to indirect spending. Based on the Central Statistics Agency (BPS) records in 2019, direct expenditures (including capital expenditures) were only 40% of total expenditures. This direct spending is smaller than indirect spending, which should be the other way around. Because spending is directly related to development programs and activities, so it has more impact on development.

As stated by Udoka & Anyingang (2015), capital expenditure provides the largest portion of the economic growth of developing countries. Moreover, Ishak (2017) states that direct spending has more impact on poverty reduction than indirect spending. Large capital expenditure is expected to positively impact economic growth in the regions, which will then increase the potential for new regional revenues (Hasan, et al., 2015).

The problem of regional spending is significant to be addressed immediately because it is closely related to the acceleration of development in the region. that is why the quality of regional spending is so important., That is, spending is allocated based on development priorities. According to Juanda et al. (2013), the quality of regional spending is the expenditure carried out efficiently and effectively, on time and in allocation, transparency, and accountability.

The pattern of priorities and allocation of regional expenditures is currently considered not to meet the quality of regional expenditures in improving public services and regional competitiveness because regional spending is still concentrated on indirect spending (Heriwibowo et al., 2016). The importance of the quality of regional spending in the context of increasing regional development is an interesting and important theme to do to reduce underdeveloped regions in Indonesia. Because Java Island is an area with the highest growth rate compared to other areas on Java Island (BPS, 2020), under these conditions, there should be no more disadvantaged areas in Java due to the spread of effects from other more developed areas.

This study aims to analyze the race for disadvantaged regions in Java and development performance as done by Wahyuni et al., (2018) and Listiana et al., (2016). The difference with this study is in less developed regions on the island of Java. Based on several indicators of the quality of spending, regional spending lags behind in Java, such as direct spending, which is lower than indirect spending. In Banten Province, for example, namely Pandeglang Regency and Lebak Regency, the expenditure of the two regions is still dominated by indirect spending. In contrast to the developed districts in Banten Province, which provide a more significant portion of direct spending (based on BPS 2019). Ideally, the portion of direct expenditure is more dominant than indirect expenditure so that regional development can be more optimal. Because Java is a relatively more developed area than other islands; the number of less developed regions will rapidly decrease. Less developed regions in Java can have better economic performance than the same status of provinces in others island due to better position in terms of human capital, infrastructure, and governance. For this reason, it is essential to conduct research in less developed regions on the island of Java for the aspect of spending to increase the development of these underdeveloped areas, significantly reduce poverty, and increase the Human Development Index (HDI).

LITERATURE REVIEW

Underdeveloped areas are closely related to development performance. Regions with low development performance, such as high unemployment and poverty, low rates of economic growth, and low HDI, will cause regions to be left behind. Development performance is also closely related to regional spending. Expenditures determine development performance. It is not only a matter of quantity or amount of regional income, but spending must also be targeted, effective, and efficient, reflecting quality spending. Because development performance, quality of spending, and underdeveloped areas are related, this section will elaborate on these three variables.

Development Performance

Economic development is always identified with growth characterized by an increase in output or an increase in per capita population income over a long period of time (Sukirno, 1985). The notion of growth cannot be separated into three things, namely process, output per capita, and long term (Wijono, 2005). Rapanna and Sukarno (2017) explains that economic growth is a process of increasing output per capita in the long term. Economic development will be sustainable with high economic growth in a sustainable or continuous manner (Tambunan, 2001). Therefore, economic development is often associated with economic growth. Economic growth itself occurs with the existence of economic activities that cause goods and services produced by the community to increase (Sukirno, 2011). So that it can increase people's income, along with that, it will also reduce poverty and improve the Human Development Index (HDI).

Economic development can be measured by other variables such as education (Hanushek & Kimko, 2000), employment, income distribution (Seneviratne & Sun, 2021), development assistance (Minoiu & Reddy, 2010), the number of poor people, foreign direct investment (Lee, 2013), and other indicators. Thus, economic development can be influenced by the level of education and the level of poverty.

Synergy between the government and the community [including private] is the key in efforts to increase regional economic development. These efforts can increase equitable economic growth so as to reduce income disparities in the region. (Arsyad, 1999). According to Raswita & Utama (2013) and Suryani, (2013) regional success in synergizing government and society can be used as a benchmark or indicator of the success of regional economic development. Prasetyoningrum and Sukmawati (2018), pointed out that high economic growth does not provide great benefits in reducing poverty. Because the fast economic growth does not automatically increase the people's standard of living. This is due to the assumption that the trickle-down effect does not highlight the lower class society.

Economic growth plays an important role in development. Because in addition to being directly felt by the community, economic growth is also alleged to impact changes and reforms in other fields (Subandi, 2011). Even economic growth plays a role in reducing poverty and income inequality (Bonito et al., 2017). Economic growth also affects the Human Development Index (HDI), as Hakim et al., (2021) explained. That is why development theories always emphasize theories of economic growth. Rostow's growth theory, Harrod-Domar's Growth Theory (Growth Model), Arthur Lewis's Development Theory, and other development theories are adopted by many countries, especially developing countries.

Economic growth can be influenced by many factors, including spending, the share of government capital expenditure in GDP is positively and significantly correlated with economic growth (Bose et al., 2007; Dudzevičiūtė et al., 2018). However, this does not mean that high government spending will always increase economic growth, the accuracy of allocation is much more important than the magnitude of development but does not have an impact on development performance (Adisasmita, 2011). This is where the importance of spending quality (Susetyo et al., 2014).

Spending Quality

Fiscal policy through the allocation of funds from the center to the regions often experiences distortion or deviation. Ideally, the portion of data allocation is more focused on capital expenditures, but there are still many regions that allocate more funds for personnel expenditure, because personnel expenditures are not directly related to the achievement of development performance, in contrast to capital expenditures. If this continues, development related to public facilities such as education and health will be hampered, as a result of low capital expenditure. Likewise, according to Delavallade (2006), allocating funds for education and infrastructure needs can improve the quality of teaching and people's access to economic activities to boost people's income and consumption increases.

Regional budgets have an important role in determining the level of community needs. The reflection of the community's needs in the regional budget is shown through the regional expenditure Susetyo et al., 2014). Therefore, the budget must be adjusted to the needs of regional development. In consequence, regions need to be careful in managing their regional expenditure based on the principles of regional expenditure management, which includes criteria in program selection, total expenditure, the direction of budget expenditures, implications of programs, integration of expenditure allocations, and the institutions involved (Adisasmita, 2011).

Basically, regional development can be achieved if local government expenditures are able to provide what the development needs. Both, allocation of funds and amount of expenditure are important, but an increase in government spending does not necessarily have a good effect on economic activity, so government spending efficiency is needed (Adisasmita, 2011). The efficiency of government spending or spending is one indicator in the concept of quality of spending Susetyo et al., (2014).

Thus, achieving development requires the quality of spending compared to the amount of expenditure. Thus, to achieve development, the quality of spending is needed compared to the amount of spending. Because no matter how big the amount of spending, if it is not right, the development will not be achieved. Several indicators of the quality of regional spending can be seen based on regional development priorities which are carried out efficiently and effectively (Alkin & Christie, 2012), on time (Mullins & Pagano, 2005), transparency and accountability (Juanda et al., 2013).

Meanwhile, Heriwibowo et al., (2016) has determined five variabel of spending quality, namely: [1] Spending priority (priority variable) that reflected by indicators that illustrate the suitability of the centre-provincial priority, the priority between documents conformity with the plan of the budget document, from the planning to the implementation stage. Priority indicators also reflect consistency in the area achievement minimum service standards. [2] Expenditure allocation (allocation variable), the portion of spending that is reserved for a certain needs based on the classification of functions or types of spending. The allocation construct is reflected by eight indicators (Tabel 1). [3] Timeliness (time-variable). Timeliness is a function of the quality of spending that describes the timeliness in making budget decisions. [4] Transparency and accountability (accountability variable), accountability includes aspects of information disclosure in the budgeting process (transparency) and accountability to the public for every budgeting activity carried out (accountability). [5] Effectiveness (effectiveness variable). The effectiveness of spending is the use of spending in terms of efficiency and effectiveness in achieving certain performance targets.

Less Development Region

In this study, the less development region's definition refers to the Presidential Decree No. 131 Year 2015 concerning Determination of Less Development Region in 2015–2019, namely regencies whose territories and communities are less developed than other regions on a national scale. Underdeveloped areas' criteria can be seen from 5 (five) aspects: low community economy (high poverty level), low human resources, limited facilities and infrastructure, weak regional financial capacity, accessibility to city centers and remote service centers, and characteristics areas such as disaster-prone areas. These criteria are

measured based on indicators and sub-indicators stipulated in ministerial regulations.

According to Kuncoro (2012) the main cause of less development region is more due to development policies that are based on sectoral development rather than the spatial dimension approach. So that consequently, the regional development is determined by the strength (mechanism) of the market. So that areas that offer high or attractive profits will surely be of interest to investors or other people. Thus, developed regions will be more advanced, while less developed areas will experience a slowdown in progress.

According to Syahza and Suarman (2018), less development regions occur due to gaps between rural and urban areas caused by biases and distortions of development that favor the urban economy. If that happens, there will be a lot of underdeveloped areas that are poor and underdeveloped. One of the strategies for developing underdeveloped villages is through the development of the agribusiness-based agricultural sector for areas with residents whose profession is farmers or fishermen. Furthermore, Syahza & Suarman (2018), in an effort to spur development in terms of economic and social aspects in underdeveloped areas, the rural development program must prioritize three main aspects, namely: Increasing the People's Economy (Alleviating Poverty), Increasing the Quality of Human Resources (Ignorance); Infrastructure development.

RESEARCH METHOD

The data used in this study are secondary data, namely Regional Government Implementation Evaluation (EPPD), regional revenue and expenditure budget (APBD) and their realization, National Audit Board (BPK) Opinion, Poverty, Unemployment, Gini Index, Economic Growth Rate, GRDP Per Capita, and Human Development Index (HDI) during the period 2010-2018, this period is taken based on data availability. Sources of data were obtained from the Directorate General of Regional Autonomy of the Ministry of the Interior, the Directorate General of Fiscal Balance of the Ministry of Finance, the National Audit Board (BPK), and the Central Statistics Agency. The object of research is all disadvantaged district in Java base on Presidential Decree No. 131/2015 concerning Determination of Less Development Region in 2015–2019, namely Pandeglang Regency and Lebak Regency, Bangkalan Regency, Bondowoso Regency, Sampang Regency, and Situbondo Regency.

The variables in this study consisted of exogenous variables and endogenous variables. Exogenous variables consist of spending priority (PRIORITY), spending allocation (ALLOCATION), Timeliness (TIME), transparency and accountability of spending (ACCOUNTABILITY), and active spending (EFFECTIVENESS). In testing and identifying the quality of regional spending, the endogenous variable is the quality of spending, namely spending based on spending priorities, spending allocations, timeliness, transparency and responsibility, and being carried out effectively.

The indicators in the quality of spending variable are all indicators of exogenous variables. Meanwhile, when it is connected with the quality of spending with development performance, the exogenous variable is the quality of spending, and the endogenous variable is development performance, as measured by the level of poverty, unemployment, Gini index, economic growth, per capita income, and the human development index..

This research's analytical method is quantitative analysis with the Structural Equation Modeling (SEM) approach with the Partial Least Square (PLS) method with the SmartPLS analysis tool. Model measurement in SEM is carried out through two stages of evaluation, namely evaluation of measurement models and evaluation of structural models. The use of SEM in this study consists of two methodological disciplines, namely an econometric perspective that focuses on predictions, and psychometrics which is able to describe the concept of a model with latent variables (variables that cannot be measured directly) but is measured using indicators (Ghozali et al., 2015). In addition, the objective of SEM-PLS is to evaluate data quality based on a measurement model. Therefore SEM-PLS can be viewed as a combination of regression and factor analysis. SEM-PLS can handle both reflective

Table 1. Variables and Indicators of Spending Quality and Development Performance

Latent Variables	Indicator (Symbol)	Data Type
PRIORITY (A)	1. Corresponding priority (A1)	Ordinal
	2. Implementation of SPM1 (A2)	
	3. Priority synchronization in Renja SKPD* (A3)	Interval
	4. Synchronize priorities in RKA SKPD* (A4)	
	5. Implementation of priorities in DPA SKPD* (A5)	
ALLOCATION (B)	1. The proportion of employee expenditure allocations (B1)	Interval
	2. The proportion of expenditure for goods and services (B2)	
	3. The proportion of capital expenditure allocation (B3)	
	4. The proportion of subsidies, grants, and social assistance allocations (B4)	
	5. Uptake of education function expenditure allocation (B5)	
	6. Absorption of health function expenditure allocation (B6)	
	7. Uptake of expenditure allocation for public works and housing functions (B7)	
	8. Absorption of economic function expenditure allocation (B8)	
TIME (C)	1. Timeliness of Regional Budget Regulation (C1)	Ordinal
	2. Timeliness of Lap delivery. Finance (C2)	
	3. Timeliness of Submission of LPPD (C3)	
	4. The existence of Perda Public Service Standards (C4)	
	5. The existence of SOP (C5)	
ACCOUNT-ABILITY (D)	1. Availability of budgeting information media (D1)	Ordinal
	2. BPK's Opinion on Regional Financial Statements (D2)	
	3. The ratio of BPK RI findings that is followed up (D3)	
	4. Availability of electronic procurement of goods (e-procurement) system (D4)	Interval
	5. Existence of community satisfaction surveys (D5)	
EFFECTIVITY (E)	1. Performance of education affairs (E1)	Interval
	2. Performance of health affairs (E2)	
	3. Performance of public works affairs (E3)	
	4. Performance of environmental affairs (E4)	
	5. Performance of development planning affairs (E5)	
DEVELOPMENT PERFO-RMANCE (F)	1. Poverty (F1), Poverty $t + 1$ (F1a) data from BPS/SCA	Interval
	2. Unemployment (F2), Unemployment $t + 1$ (F2a)	
	3. Gini Index (F3), Gini Index $t + 1$ (F3a)	
	4. LPE (F4), LPE $t + 1$ (F4a)	
	5. GRDP per capita (F5), GRDP per capita $t + 1$ (F5a)	
	6. HDI (F6), HDI $t + 1$ (F6a)	

Source: Heriwibowo et al. (2016)

measurement models and formative measurement models (Hair et al., 2011). Nonetheless, SEM-PLS has limitations. Among them is the SEM-PLS technique cannot be applied when the structural model contains interrelationships between latent variables, which contains a reciprocal relationship between latent variables. In addition, SEM-PLS also does not have a good measure globally with limited use for theory testing and confirmation (Hair et al., 2011).

The spending quality variables used in this research are spending priority, spending allocation, timeliness, accountability and transparency, and cost effectiveness. The spending quality construct cannot be measured directly because it is still a latent variable (Listiana et al., 2016). Therefore, it requires a measurement variable indicator (the indicators can be seen in Table 1). The spending quality model was built by adopting the research of Heriwibowo et al., (2016): Spending quality is influenced by priorities, allocations, time, accountability, and effectiveness. Priorities affect allocation, timing, accountability, and effectiveness. Allocation affects time, accountability and effectiveness. Time affects accountability and effectiveness. Accountability affects effectiveness.

The evaluation of the model was carried out in two stages, namely the evaluation of the measurement model and the evaluation of the structural model (Hair et al., 2011). Evaluation of the measurement model is carried out by testing the validity and testing the reliability of the indicators. Construct validity can be known

*SPM:Minimum Service Standards; Renja SKPD: Priorities in the Regional Work Unit Work Plan; RKA SKPD: Work Plan and Regional Work Unit Budget; DPA SKP: Regional Government Work Unit Budget; LPPD: Reports on local government administration.
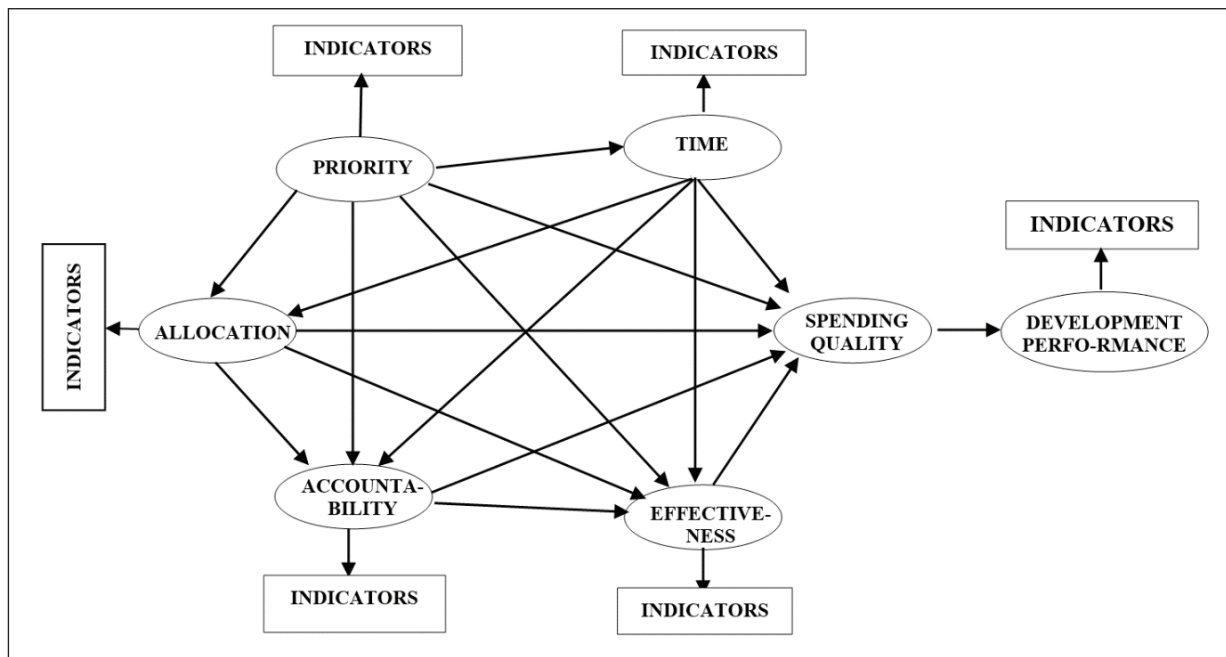
Figure 1. Expenditure Quality Structure Model

through Convergent validity and discriminant validity tests. Convergent Validity (to see the correlation/influence between indicators and construct variables). Convergent validity test can be done by looking at the loading factor value. A construct can be said to be valid if it has a minimum loading factor value of 0.4 for exploratory research (Hulland, 1999). The loading factor that has a value > 0.4 is an indicator that affects the construct variable.

The discriminant validity test can be done in two ways: using the cross-loading value or looking at the average variant extracted (AVE) value. An indicator is declared to meet discriminant validity if the value of the cross loading indicator on the variable is the largest compared to other variables, or has an AVE value greater than 0.5 or another way is to compare the Square Root of Average (AVE) for each construct with a correlation between construct with other constructs in the model (Bagozzi & Yi, 1988). Meanwhile, the reliability test is carried out by looking at the composite reliability value of the indicator block that measures the construct. According to Ghozali et al. (2015) and Wong (2013), the results of composite reliability will show a satisfactory value if it is above 0.7.

RESULTS AND DISCUSSION

Results

The quality of regional spending is thought to be shaped by five variables or dimensions: expenditure priorities, expenditure allocation, timeliness, accountability and transparency, and effectiveness (Heriwibowo et al., 2016). The dimensions of expenditure quality are reflected or shaped by indicators. There are 28 (twenty-eight) indicators in the dimensions of the quality of regional expenditure: 5 (five) indicators on the dimensions / construct priorities of learning; 8 (eight) indicators on the dimensions of expenditure allocation: 5 (five) indicators on the timeliness dimension; 5 (five) indicators on the dimensions of accountability and transparency: and 5 (five) indicators on effectiveness dimension (Table 1).

Spending priorities indicate the degree of synchronization of spending priorities with development priorities. The good quality of regional expenditure is indicated by synchronizing the budgeting process with development priorities. These expenditure priorities can be seen from the following indicators: suitability of development priorities, implementation of Minimum Service

Standards (SPM), synchronization of priorities in the Regional Work Unit Work Plan (Renja SKPD), synchronization of priorities in the Work Plan and Regional Work Unit Budget (RKA SKPD), and implementing priorities in the Regional Government Work Unit Budget (DPA SKPD). Indicator values show the priority level of regional expenditure. The better the value of the indicator, the better the spending quality.

Spending allocation is closely related to the proportion or distribution of expenditure—the spending proxies allocated according to development priorities. The accuracy of expenditure allocation following development priorities reflects the quality of regional spending. Regional spending can be of quality if the regional government allocates the expenditure by following development priorities. The allocation of expenditure that reflects the quality of learning can be seen from the indicators that shape it.

The quality of regional spending is also thought to be influenced by the timeliness of spending. Timeliness can be seen from the budgeting process or making budget decisions. The sooner the budget is decided, will have implications for the realization of spending. Thus the development process will be quickly carried out.

Transparency and accountability are information disclosure, and as much as possible, the public can take part in the budgeting process. This dimension is also a form of local government responsibility in administering the government, especially in the financial aspect. The better transparency and accountability of government administration reflect the improved quality of spending.

The quality of spending can also be seen from the effectiveness of spending realization. The effectiveness of spending is the essence of spending. Expenditures are expected to play a positive role in the effectiveness of development. The effectiveness of development is thought to be influenced by the effectiveness of spending—the more effective the expenditure, the more effective development. So the effectiveness of spending is a reflection of the spending quality.

The quality of regional spending is thought to be shaped by five dimensions/constructs (priority, allocation, time, accountability, and effectiveness) with 28 indicators that reflect the construct. To find out the indicators that really reflect the construct, a calculation is done using the PLS-SEM (Partial Least Square-Structural Equation Modeling) approach with SmartPLS software. Testing or evaluating the model (the good of fit) is done by evaluating the measurement model (measurement model) or evaluating the outer model.

Outer model evaluation is done to measure or look for indicators with a strong relationship in reflecting latent variables. Evaluation of the outer model is carried out through the Convergent Validity test or the Discriminant Validity test, which tests the correlation or influence between the indicator and its construct variable or by looking at the loading factor value. The model has good validity and can reflect the latent variable if the loading factor value is more excellent or at least 0.4. or if it passes the discriminant validity test, and the cross-loading value must be higher than the other variables.

Latent indicator variable can reflect the construct if it has a reliability or loading value of not less than 0.4 and has a validity value or t-value greater than 1.6. The parameter estimation results shown in the table above show that from 28, there are 9 indicators not included in the criteria, which have a loading value of less than 0.4 and a t-statistic of less than 1.6.

Spending Quality Selection and Elimination Indicators

The Table 2 shows the estimated parameters as well as selecting and eliminating indicators of the quality of regional expenditure. There are 9 indicators that were eliminated because they did not meet the criteria for spending quality indicators because the loading value was less than 0.4, and the t-value was less than 1.6. Indicators eliminated are as follows: proportion of employee expenditure allocation (B1); uptake of education function expenditure allocation (B5); uptake of health function expenditure allocation (B6); uptake of expenditure allocation for public works and housing functions (B7); uptake of expenditure allocation economic function (B8); timeliness of APBD Regional Regulation (C1); timeliness of Financial Report Submission (C2); timeliness of Submission of LPPD (C3); and BPK's Opinion on Regional Financial Statements (D2).

Table 2. Loading Factors And T-Statistic Indicators For Spending Quality

Latent Variables	Indicator (Symbol)	Loading	T-Stat.	Info.
PRIORITY (A)	1. Corresponding priority (A1)	0,759	5,476	
	2. Implementation of SPM (A2)	0,550	3,703	
	3. Priority synchronization in Renja SKPD (A3)	0,893	8,353	
	4. Synchronize priorities in RKA SKPD (A4)	0,715	2,412	
	5. Implementation of priorities in DPA SKPD (A5)	0,699	2,415	
ALLOCATION (B)	1. The proportion of employee expenditure allocations (B1)	0,096	0,066	Eliminated
	2. The proportion of expenditure for goods and services (B2)	0,765	2,752	
	3. The proportion of capital expenditure allocation (B3)	0,746	3,774	
	4. The proportion of subsidies, grants, and social assistance allocations (B4)	0,577	2,003	Eliminated
	5. Uptake of education function expend. allocation (B5)	0,034	0,769	Eliminated
	6. Absorption of health function expend. allocation (B6)	0,122	0,586	Eliminated
	7. Uptake of expending. allocation for public works and housing functions (B7)	0,369	0,021	Eliminated
	8. Absorption of economic function expend. allocation (B8)	0,046	0,735	
TIME (C)	1. Timeliness of Regional Budget Regulation (C1)	0,440	1,281	Eliminated
	2. Timeliness of Lap delivery. Finance (C2)	0,408	1,018	Eliminated
	3. Timeliness of Submission of LPPD (C3)	0,321	1,274	Eliminated
	4. The existence of Perda Public Service Standards (C4)	0,921	7,233	
	5. The existence of SOP (C5)	0,425	1,686	
ACCOUN-TABILITY (D)	1. Availability of budgeting information media (D1)	0,585	2,269	
	2. BPK's Opinion on Regional Financial Statements (D2)	0,362	1,284	Eliminated
	3. The ratio of BPK RI findings that is followed up (D3)	0,646	2,552	
	4. Availability of electronic procurement of goods (e-procurement) system (D4)	0,467	1,869	
	5. Existence of community satisfaction surveys (D5)	0,680	4,527	
EFFECT-IVITY (E)	1. Performance of education affairs (E1)	0,811	3,553	
	2. Performance of health affairs (E2)	0,803	5,587	
	3. Performance of public works affairs (E3)	0,577	3,151	
	4. Performance of environmental affairs (E4)	0,665	3,942	
	5. Performance of development planning affairs (E5)	0,831	3,681	

Source: Data processed (2019)

So that the rest, which is 19 indicators included in the indicator criteria for the quality of regional spending because it has a loading value of more than 0.4 and a t-value of more than 1.6. these indicators are as follows: Priority suitability (A1); Implementation of SPM (A2); Synchronization of priorities in SKPD Working Plan (A3); Synchronization of priorities in RKA SKPD (A4); Implementation of priorities in DPA SKPD (A5); Proportion of expenditure allocation goods and services (B2): Proportion of capital expenditure allocation (B3); Proportion of subsidies, grants and social assistance (B4) allocations; Perda on Public Service Standards (C4); Existence of Standard Operations Procedure (SOP) (C5); Availability of information media budgeting (D1); BPK's Opinion on Regional Financial Statements (D2); Availability of e-procurement systems (D4); Existence of community satisfaction surveys (D5); Performance of education affairs (E1); Performance of health affairs (E2); Performance matters of public works (E3); Performance matters

of environmental affairs (E4); and Performance matters of development planning (E5).

Analysis of the Path Between Latent Variables

Priority variables are assumed to affect all other latent variables, which are influential on time variables, allocation variables, accountability variables, and on expenditure quality variables directly. The time variable is thought to influence expenditure quality, accountability, and effectiveness variables directly. Because punctuality shows the accountability of government administrators so that development will be carried out effectively, thus punctuality shows the quality of spending. The allocation variable can affect the time, affective, accountability, and expenditure quality variables. At the same time, the accountability variable influences the effectiveness variable. In comparison, the

effectiveness variable is thought to influence the variable quality of spending.

Before testing the relationship between latent variables, reliability and validity (inner model goodness of fit) tests are carried out to construct or variables to ensure that latent variables have good reliability and validity. Reliability and construct validity are indicated by the value of Composite Reliability (CR) and Average Variance Extracted (AVE). Latent constructs or variables have good reliability and validity if the CR value is greater than 0.6 and the AVE value is greater than 0.5. The value of CR and AVE constructing the quality of underdeveloped regions in Java can be seen in the table below:

The table above shows the value of Composite Reliability (CR) and Average Variance Extracted (AVE) construct quality of spending used to test the reliability and validity of the construct (inner model). CR values for all latent variables are more than 0.6, even above 0.7. This shows the reliability of the construct is high or good (reliable) to meet

the criteria. AVE values indicate the construct validity. The value of the AVE latent variable or construct quality of spending is more than 0.5 except for the construct of accountability. So it can be concluded that the latent variable or construct quality of the expenditure is valid and meets the criteria.

Then the relationship between latent variables is tested. The relationship between latent variables is indicated by the coefficient value. Coefficients between latent variables are expected to be positive or not negative. The coefficients between latent variables can be seen in the table below:

The majority of the relationship between latent variables or the construct of expenditure quality has a positive relationship, except the priority variable on the accountability variable (-0.043), the time variable on the effectiveness variable (-0.061), and the allocation variable on the effectiveness variable (-0.087). The rest have positive influences or relationships. Spending priority has no effect on accountability because the

Table 3. CR and AVE Spending quality Constructs

No.	Construct	*Composite Reliability* (CR)	*Average Variance Extracted* (AVE)
1	Priority	0,850	0,537
2	Time	0,756	0,511
3	Alocation	0,708	0,575
4	Accountability	0,713	0,385
5	Effectivity	0,859	0,554

Source: Data processed (2019)

Table 4. Coefficient of Latent Variables of Spending Quality

No.	Latent Variables	Coefficient	T-Statistics
1	Priority -> Time	0,180	1,349
2	Priority -> Allocation	0,467	3,952
3	Priority -> Accountability	-0,043	0,218
4	Priority -> Effectiveness	0,559	2,996
5	Priority -> Spending quality	0,392	4,323
6	Time -> Accountability	0,540	3,301
7	Time -> Effectiveness	-0,061	0,421
8	Time -> Spending quality	0,180	4,069
9	Allocation -> Time	0,409	3,050
10	Allocation -> Accountability	0,237	1,032
11	Allocation -> Effectiveness	-0,087	0.578
12	Allocation -> Spending quality	0,117	2,739
13	Accountability -> Effectiveness	0,433	2,122
14	Accountability ->spending quality	0,170	2,623
15	Effectiveness -> Spending quality	0,432	5,101

Source: Data processed (2019)

indicators contained in each of these variables are not directly related. The indicators on the priority variable emphasize the suitability of the document, while the indicators on the accountability variable emphasize what the regions need to do. Because what should be done on the accountability variable does not depend on what should be done on the priority variable, or conversely, what is done on the priority will not affect accountability. So that the accountability variable is not influenced by the priority variable, or the priority variable does not affect the accountability variable.

Spending priority variables have a positive effect on time variables (0.180) but are not significant (t-statistic less than 1.0 or p-value less than 0.05 at 95% confidence level). The priority variable has a significant positive effect on the allocation variable (0.467) with a t statistic of 3.952 greater than 1.6 or a p-value of more than 0.05 at a 95% confidence level. Priority variables also have a significant positive effect on the effectiveness variable and on the variable quality of spending with coefficients of 0.559 and 0.392 with t statistic greater than 1.6. The results of this study are in line with Wahyuni et al. (2017), also in line with Listiana (2016) in the relationship between spending priorities with allocation and spending time. However, it is not in line with the relationship between priorities and accountability. In the results of this study, the priority of spending does not reflect accountability. Because increasing public accountability does not have to be shown by spending priorities, accountability can be achieved through disclosure of information, public involvement in the procurement of goods, BPK's opinion, and the level of public satisfaction. This means that accountability does not depend on spending priorities.

The time variable influences the accountability variable and the expenditure quality variable with coefficient values of 0.540 and 0.18 with a t statistic of 3.301 for the accountability variable and by 4.069 for the t value of the variable of the spending quality. The time variable does not directly affect the effectiveness variable because it has a negative coefficient and a t statistic above 1.6. The results of this study are in line with Listiana et al., (2016) and Wahyuni et al., (2018).

The latent variable allocation positively and significantly influences the time variable and influences the allocation variable with each coefficient value of 0.409 and 0.117 with a t statistic greater than 1.6. The allocation variable has a positive effect on the accountability variable, but it is not significant. The allocation variable to the accountability variable has a coefficient value of 0.237 with a t statistic of 1.032. The allocation variable has a negative effect or an indirect effect on the quality of regional expenditure. The allocation variable's coefficient value to the quality of spending is -0.087 with a t statistic of 0.578. This research is in line with Wahyuni et al., (2018) but not in line with Listiana et al., (2016) which states that the allocation variable has an effect on effectiveness and has no effect on accountability. In this study, the effectiveness of spending is highly dependent on the priority and allocation of spending and accountability. Meanwhile, accountability is highly dependent on the allocation of expenditures. Appropriate allocation of spending, according to need, will increase public accountability or trust in local governments.

The accountability variable has a positive and significant effect on the effectiveness variable with a coefficient of 0.433 and a t statistic of 2.122. The accountability variable also has a positive and significant effect on the variable quality of spending with a coefficient of 0.170 and a statistic of 2.623, greater than 1.6. While the effectiveness and positive variables significantly influence the quality of spending with a coefficient value of 0.432 and a t statistic of 5.101. Because there is still a negative relationship between latent variables or having negative path coefficients, it needs to be eliminated. This research is in line with Listiana et al. (2016) and Wahyuni et al. (2018).

The Relationship Between Spending Quality and Development Performance

Before testing the influence or relationship between the quality of spending and development performance, it is necessary to test indicators that can reflect the construct or latent variables, namely development performance. Indicators of construct performance in development are Poverty (F1), Poverty t+1 (F1a), Unemployment (F2), Unemployment t+1 (F2a), Gini Index (F3), Gini Index t+1 (F3a), Economic Growth Rate/ LPE (F4), LPE t+1 (F4a), GRDP per capita (F5), GRDP per capita t+1 (F5a), Human Development Index/HDI (F6), and Human Development Index / HDI t+1 (F6a).

The development performance indicators consist of six indicators. Selection and elimination of indicators by looking at the loading value of each indicator. Poverty indicator loading value (F1) is 0.447, loading Poverty indicator t+1 (F1a) 0.620. loading Unemployment (F2) -0,524. loading Unemployment t + 1 (F2a) -0,378, loading Gini Index (F3) 0,200, loading Gini Index t +1 (F3a) 0,118, loading Economic Growth Rate / LPE (F4) -0,029, loading LPE t+1 (F4a) -0,082, loading PDRB per capita (F5) -0,254, loading PDRB per capita t + 1 (F5a) -0,373, loading the Human Development Index/HDI (F6) 0.623, and loading the Human Development Index/HDI t+1 (F6a) amounted to 0.576. Composite Reliability (CR) value of 0.836 and Average Variance Extracted (AVE) of 0.562.

Based on the value of loading the development performance variable, the selected indicators are indicators with loading more than 0.4, namely Poverty (F1) and Poverty t +1 (F1a), and Human Development Index/HDI (F6) and HDI t+1 (F6a) while other indicators are eliminated. To obtain a new development performance model from the selection and elimination of indicators.

The influence or relationship between the quality of regional expenditure can be seen from the coefficient value of the variable quality of expenditure on the constructs or latent variables of development performance. The construct quality coefficient of expenditure on development performance is -0.392 with a t-statistic value of 4.776 or a p-value of 0.000. Thus it can be stated that the quality of underdeveloped regional spending on Java has a significant negative effect on development performance. This means that the quality of regional spending or the higher quality of regional spending will reduce development performance. This contradicts the theory that was built previously, that the quality of spending has a positive effect on development performance. The coefficient value of the variable quality of regional expenditure on development performance can be seen in the model as in the following figure:

Therefore, the interpretation of the coefficient values as built by the model (Figure 1) is confusing when it comes to poverty and HDI indicators. Because if it is translated negatively, it can be accepted if it is related to poverty. This means that the quality of regional spending has a negative effect on poverty levels. The better the quality of spending, the poverty level will decrease. However, if it is associated with HDI, it
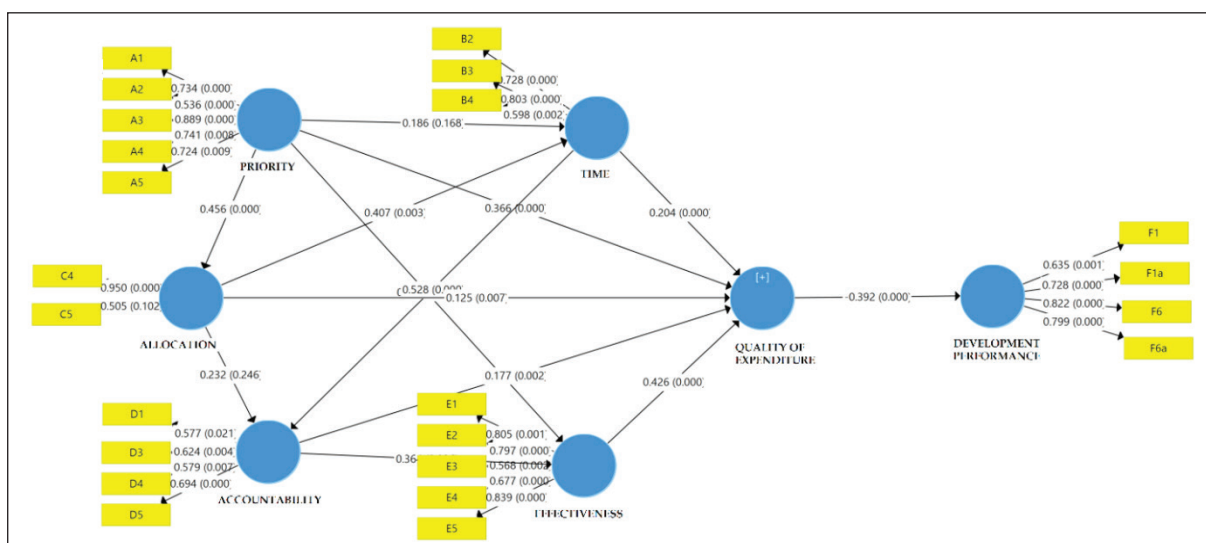

Figure 2. Model the Relationship of Spending Quality with Development Performance

is difficult to accept because the sign is negative. If translated, the quality of regional spending has a negative effect on HDI levels. The higher the quality of regional spending, the HDI will decrease. Conversely, to improve HDI, the quality of spending must be reduced.

To overcome these problems, it is necessary to create a new latent variable or separation/settlement of development performance variables, namely by dividing development performance variables into poverty and HDI variables. Solving this variable is important to see more clearly the relationship between the quality of regional spending and development performance, especially on poverty and HDI. So that the new model that is formed as a substitute for the development performance variable is as follows:

The results of the separation of latent variables in the development performance variable showed that the coefficient value of the poverty variable was -0.402 with a t statistic of 5.166 and an HDI coefficient of 0.292 with a t statistic of 3.581. So it can be stated that the quality of regional spending has a significant negative effect on poverty and a significant positive effect on HDI. It can also be stated that the better the quality of spending, the poverty rate will decrease, and HDI will increase. The results of this study are in line with Heriwibono (2016), Listiana (2016), and Wahyuni et al. (2017). However, the results of this study also differ from theirs, namely that they do not separate the development performance variables. So it is difficult to conclude because the performance of development has a different

relationship with indicators. For example, the relationship between poverty and HDI, if the relationship is positive, then it is positive, whether it is poverty or HDI. If the relationship is to both, it will be biased and confusing. This is where it is important to separate the development performance variables to be interpreted clearly.

Poverty and HDI are important indicators in measuring the success of government administration. Poverty and HDI are also measures used to assess the progress of a country. Whether or not the region or the country can progress can be seen from the level of poverty and the HDI. So many ways have been done to reduce poverty and improve HDI. Among the ways that need to be done to reduce poverty and improve HDI is through quality spending. According to Juanda et al., (2013), quality spending is spending that focuses on regional development priorities that are carried out efficiently and effectively, on time, transparently, and accountably so that it will reduce community poverty. At the same time, Nurmainah (2013) suggested to increase the portion of capital expenditure in an effort to reduce poverty.

CONCLUSION AND RECOMMENDATION

Conclusion

From the results of this study it can be concluded that Out of 28 underdeveloped district spending quality indicators in Java, there are 19 indicators that are able to reflect
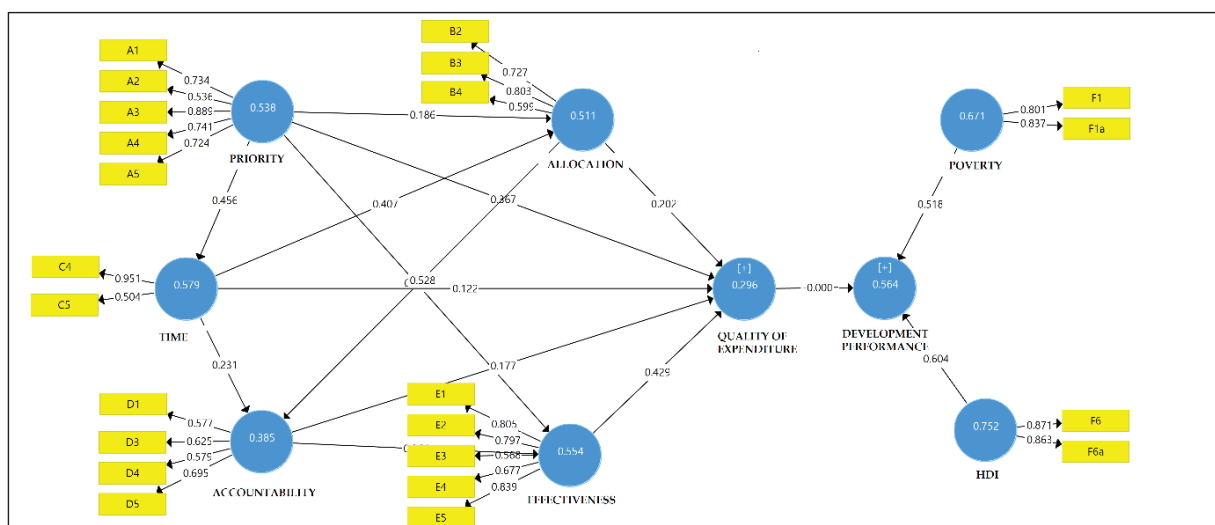

Figure 3. Model of Regional Spending Quality and Its Effect on Development Performance (Poverty and HDI)

spending quality indicators. The quality of underdeveloped regional spending on Java reflected by its indicators is able to influence development performance, which can reduce poverty levels and increase the Human Development Index (HDI). However, several indicators of the spending quality variable do not meet the criteria, so they do not reflect indicators of the quality of regional spending. The existence of invalid indicators is one of the limitations of this study, This happens, it is suspected that the available data is incomplete.

This study also found the need to separate development performance variables. Because development performance variables have various indicators such as poverty, unemployment, HDI, Gini Index, and others. This separation is important to do to know for sure the relationship between the quality of spending and the indicators of development performance.

Recommendation

The results of this study have confirmed that regional spending is closely related to development performance. The better the expenditure or regional expenditure that reflects, the better the quality of spending, the development performance will increase, especially in reducing poverty and increasing the Human Development Index (HDI). Therefore, it is important for regions, especially underdeveloped areas in Java, to improve the quality of their spending, especially for regions that still have high poverty rates and low HDI levels. Policies that need to be carried out by underdeveloped regional governments in Java are as follows:

First, for all underdeveloped areas in Java Island, both in Banten Province and in East Java Province, to increase spending priority. Because spending priorities can determine the achievement of predetermined development priorities. In addition, the priority variable also has a high coefficient in shaping or influencing the quality of spending.

Second, improve expenditure allocation. The proportion of indirect expenditure (personnel, goods, and services) with direct expenditure (capital expenditure) is still high, dominated by indirect spending. Increasing direct spending is needed to increase development. Budget absorption also needs attention. There are still many areas that have low absorption (below 90 percent). The absorption of expenditure allocations can accelerate and enhance development in certain fields.

Third, improve the effectiveness of spending, especially on matters of public works and housing, and on affairs in the environmental sector. In addition, the effectiveness variable is a variable that greatly affects the quality of spending because it has the highest coefficient value, also because this performance improvement can increase the acceleration and quality of regional infrastructure.

Fourth, improving the quality of spending is very important for disadvantaged district in Java because it affects development performance. Thus improving the quality of spending is an alternative to make the region developed.

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