FINANCIAL SUSTAINABILITY OF LOCAL GOVERNMENTS IN INDONESIA

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Abstrak
Tujuan Utama - Penelitian ini bertujuan untuk mengkaji faktor-faktor yang mempengaruhi kesinambungan keuangan pemerintah daerah di Indonesia
Metode - Penelitian ini menggunakan metode kuantitatif dan menggunakan pengolahan data sekunder Laporan Keuangan Pemerintah Daerah (LKPD) tahun 2018–2020 yang diperoleh dari Badan Pemeriksa Keuangan (BPK). Penelitian ini menggunakan sampel jenuh yang mencakup setiap anggota populasi tepatnya 34 provinsi di Indonesia. Penulis menggunakan analisis regresi berganda dari data panel dengan menggunakan Eviews 10.
Temuan Utama - Studi ini menyimpulkan bahwa jumlah penduduk dan produk domestik regional bruto memiliki dampak negatif yang cukup besar terhadap kesinambungan keuangan, sedangkan kemandirian keuangan berpengaruh positif terhadap kesinambungan keuangan.
Implikasi Teori dan Kebijakan - Dengan mempertimbangkan variabel-variabel yang dapat menghambat atau mendorong keberlanjutan keuangan di setiap lokasi, pemerintah daerah dapat memanfaatkan penelitian ini untuk menginformasikan kebijakan yang mereka ambil untuk mengelola keuangan daerahnya masing-masing.
Kebaruan Penelitian - Studi ini menambah informasi baru tentang keberlanjutan keuangan pemerintah provinsi di Indonesia, memberikan dukungan teoretis yang nantinya dapat dikembangkan oleh penelitian di masa mendatang.
Kata Kunci - Keberlanjutan Finansial, Pemerintah Daerah, Provinsi, Indonesia, Jumlah Penduduk, Produk Domestik Regional Bruto (PDRB), Kemandirian Finansial

Abstract
Main Purpose *- This study aims to examine the factors that impact the financial sustainability of local governments in Indonesia*
Method *- This study used a quantitative method and employed the secondary data processing of the Regional Government Financial Reports (LKPD) for 2018–2020 retrieved from The Audit Board of the Republic of Indonesia (BPK). This study used a saturated sample that included every member of the population, precisely 34 Indonesian provinces. The author used multiple regression analysis of panel data by using Eviews 10.*
Main Findings *- This study concludes that total population and gross regional domestic product have a substantial negative impact on financial sustainability, while financial independence positively affects financial sustainability.*
Theory and Practical Implications *- By taking into account variables that may impede or promote financial sustainability in each location, local governments can utilize this research to inform the policies they adopt to manage the finances of their respective regions.*
Novelty *- This study adds new information about the financial sustainability of Indonesian provincial governments, providing theoretical support that future research can later expand upon.*
Keywords *- Financial Sustainability; Local Governments; Provinces; Indonesia; Total Population; Gross Regional Domestic Product (GRDP); Financial Independence*

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INTRODUCTION

In an effort to achieve a sustainable financial management system following the fundamental guidelines outlined in the constitution and general principles that apply uniformly throughout the administration of government, Law Number 17 of 2013 concerning State Finances was enacted. The broad subject of state finance management can be divided into sub-sectors of financial management, sub-sectors of monetary management, and sub-sectors of separate management of state assets based on Law Number 17 of 2013 about State Finances.

Financial sustainability refers to the government's capacity to keep the state's finances in a respectable position and provide services to the populace over the long term, regarding factors related to spending and income policy, the costs of debt repayment, and future socioeconomic and environmental factors. In the short and medium-term, sustainable expenditure and income strategies will be guided by prudent macroeconomic assumptions, attention to sensitivity and risk analysis, and adequate financial restrictions.

The publication of sustainable financial statements is receiving more attention on a global scale. It is evident in nations that have started implementing and disseminating sustainable financial reports supported by their governments' rules. Australia releases three-yearly, 40-year-long periodic sustainable financial reports. The Charter of Budget Honesty Act of 1998 governs this reporting. The Budget Responsibility and National Audit Act of 2011 mandates the UK publish a sustainable financial report annually, including an estimation for the next 50 years. Sustainable financial statements are published annually by other nations, including New Zealand. The Public Finance Act of 1989 governs every four years with a 40-year plan.

International organisations have emphasised the need for sustainability policies to create the conditions for achieving sustainable finance and ensuring intergenerational equity due to economic crises particularly those involving government debt and financial deficits (Cabaleiro et al. 2013). These sustainability policies are especially true in local governments that have been affected by declining public revenues and rising service costs.

To implement regional autonomy and fiscal decentralisation, Law No. 33 of 2004 transfers from the central government to local governments the authority for development and the efficiency and effectiveness of financial resources. With the help of this legislation, local governments will have the freedom to use and manage their local revenue sources in a way that meets the needs of the neighbourhood.

The government's expenses rise together with the income growth. The region is expected to shoulder the load to provide the community with services. Loans, as well as income, are used to provide services to the community. That matter complies with Government Regulation No. 30 of 2011, which specifies that local governments may issue loans to promote economic development and offer services to the public. On the one hand, this loan might hasten the community's economic progress. Still, over time, the heavy debt loads and loans from local governments may result in unstable regional financial conditions.

The government issued Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments to meet the national development goals in encouraging the enhancement of community welfare and sustainable economic growth. With the rules governed by this law, it is envisaged that public services can be provided more equally

and with acceptable quality throughout the archipelago. The ability for regional governments to collaborate and collaborate with the central government will be provided by arrangements for the management of regional taxation, regional performance allowances, financing of regional debt, and controlling regional revenue and expenditure budgets.

Local governments will have stable financial conditions if they can manage resources and seek funding independently. Those financial conditions are supported by granting rights to local governments to exploit potential funding sources to become independent and sustainable regions (Maizunati et al., 2017). Intergenerational equity is considered an essential factor in evaluating the sustainability of government finances for future financial viability in providing services to the public (Rodríguez Bolívar et al., 2014).

In actuality, numerous areas continue to rely on transfers from the central government. They do not implement regional measures to enhance their financial management while promoting economic equality and positive or non-physical development is the goal of regional autonomy implementation, which aims to enhance community welfare (Nugraha, 2019). Budgets for regional operations predominate over budgets for regional development and service enhancement. When a region has conditions that are frequently fluctuating, stable financial management becomes crucial because the region must observe how the situation evolves.

Inefficient management of regional finances will result in unsustainable provincial finances, thereby disrupting the financial stability of the regional government in the future and potentially disrupting the provision of services to the community. According to Irvine & Ryan (2019), larger organisations can better manage funding fluctuations from the central government since they have more potential for cost efficiency and financial sustainability.

Economic or non-economic issues may have an impact on the financial sustainability of local governments. Regional financial problems, which can be brought on by internal, external, economic, or even political causes, are barriers to financial sustainability (Wallstedt et al., 2014). So that local governments may make the best choices for enhancing community services, it is essential to understand the variables that can impact financial situations, particularly the sustainability of regional finances.

Numerous academics have used a variety of research techniques to investigate financial sustainability. From a political and economic perspective, Slembeck et al. (2014) conducted a qualitative analysis on several factors, specific regulations relating to transparency, law, and independence. Other researchers examined a range of variables, including area size, socioeconomic, political, and financial structure, to identify the variables that affect financial sustainability (Brusca et al., 2015).

Rodríguez Bolívar et al. (2016) researched risk and supportive variables for financial sustainability, including economic, demographic, social, and political aspects. Additionally, other scholars looked at how income, debt, and service levels affected the financial viability of local governments (Navarro-Galera et al., 2016).

Several studies on financial sustainability have been conducted in the commercial or banking sectors. Still, there have been relatively few in the public sector, which has stimulated the authors' interest in conducting this research entitled "Financial Sustainability in Indonesian Provincial Governments."

LITERATURE REVIEW

Neo-Institutionalism Theory

Neo-institutionalism refers to the forces that promote and thwart institutional change, and it describes institutions in terms of their formal and non-formal features (Putra & Sanusi, 2019). Neo-institutionalism theory emphasises that an institution can also function as an object in addition to explaining formal institutions as the legal system, religion, economy, and society (Hadler, 2015).

The institution can be influenced by a variety of circumstances both inside and outside the organisation. Neo-institutionalism is defined by an emphasis on diffusion and isomorphism and focuses more on how the external environment socially constructs organisations, offering a model for new structures and policies to strengthen the legitimacy of a larger organisation (Powell & Bromley, 2015).

A coercive isomorphism from outside the organisation causes a process of homogeneity within the institution (DiMaggio & Powell, 1983). The central government has given local governments the duty of competent financial management; hence, local governments will strive to manage their finances as effectively and efficiently as possible or even tend to handle their finances like other areas. Local governments are also tasked with creating rules to ensure that the community receives high-quality services and the central government.

According to Riahi & Khoufi (2019), Neo-institutionalism theory concludes that the environment will influence the organisation's and its members' conduct as a social construction. An area's population will impact the policies implemented by local governments; as a result, it is evident that social and economic issues like poverty and unemployment are growing along with the population. Under these circumstances, local governments are under pressure to spend funds to meet the needs of the people in their jurisdiction, which will impact their ability to sustain their finances. Population size can affect the financial viability of an economy through local government income or regulations (Subires et al., 2019).

Macroeconomic factors, such as the GRDP can help the community gauge the effectiveness of the government's programmes and services from an economic perspective. A high GRDP indicates that local governments can offer sufficient facilities to raise peoples' incomes (Navarro-Galera et al., 2016).

According to Rodríguez Bolívar et al. (2019), the neo-institutionalism theory is also connected to socially acceptable and valid policies. The funding plan used by the local government includes the policy. Each area is entitled to collect money autonomously generated, including local taxes, levies, profits from locally owned businesses, and other permissible income. High levels of regional independence support their government operations without relying on subsidies from the central government. As a result, areas with a high degree of independence are also capable of achieving financial sustainability.

Financial Sustainability

Financial sustainability is the government's capacity to finance the provision of public services now without jeopardising its capacity to do so in the future, according to CICA (1997) and Stavins et al. (2003). Thus, intergenerational equity, also known as "inter-period equity" (WCED 1987), is one of the key concerns relating to sustainability (Pezzy & Toman 2002).

Every region should pay attention to financial management because it significantly influences regional economic development. The welfare of the local population will increase due to sound

financial management. According to Subires & Bolívar (2017), financial management has undergone changes, which were first driven by indications of financial situations and issues, but are now changing towards financial sustainability. Financial conditions and fiscal distress are based on historical financial data. In contrast, financial sustainability offers essential data that can be used to foresee and address threats and maintain the same level of public services for future generations.

According to Slembeck et al. (2014), financial sustainability is a long-term objective that necessitates the government to generate a substantial surplus to pay down debt. According to Bröthaler et al. (2015), financial sustainability is the local government's capacity to issue bonds or loans to finance investment. The ability to meet present and future obligations through good inflows of taxes, transfers, and services to uphold service quality to the community is referred to as financial sustainability. Financial condition and fiscal health are additional terms used to describe this ability (Brusca et al., 2015). Financial sustainability is a broader notion that encompasses three interrelated dimensions, including services, income, and debt. It can be described as a government's capacity to provide services today without jeopardising its capacity to do so in the future.

In this study, the term "financial sustainability" relates to research by Rodríguez Bolívar et al. (2016), which uses the adjusted income report. The extraordinary revenue component has been eliminated due to the adjustment since it involves actions that are unlikely to occur again and are without potential in the future. According to Rodríguez Bolívar et al. (2016), the accrual-based method successfully illustrates the region's potential to maintain financial sustainability in the future since it considers the consumption of capital investments, projections of future costs, and actual expenditures. In this sense, the operational income report surplus can serve as a sign of the financial stability of the public sector.

Total Population's Impact on Financial Sustainability

According to the regulation, people who live in a particular area are considered residents. The need for local governments to deliver more effective services to the community grows along with the population, and local governments will be forced to shoulder more responsibility and costs. According to research by Ritonga et al. (2019), the population has a negative impact on the state of the local economy. Because population growth does not always promote economic growth, Subires et al. (2019) indicated that population size negatively impacts financial sustainability. On the other hand, population growth will raise demand for services, goods, and services. This study develops the following hypothesis regarding the population's impact on financial sustainability.

H1: The total population has a negative impact on the financial sustainability of provinces in Indonesia

GRDP's Impact on Financial Sustainability

Gross Regional Domestic Product (GRDP) is the sum of all products and services generated within a region or by a resident with the aid of domestic economic activity. Tax revenue in the region has an impact on GRDP. According to research by Batuo et al. (2018), financial sustainability is negatively impacted by economic growth as measured by GDP per capita. This study develops the following hypothesis regarding the impact of GRDP on financial sustainability.

H2: GRDP has a negative impact on the financial sustainability of provinces in Indonesia

Financial Independence's Impact on Financial Sustainability

Comparing total local revenue to total regional income as a whole yield a measure of regional financial independence. Being financially independent is having the capacity to exercise financial rights in a manner that maximises original regional income (Ritonga, 2014).

Because they are less reliant on debt or payments from the central government, regions that offer services using local revenue funding will have more robust financial sustainability. According to Brusca et al. (2015), financial independence significantly impacted operating surplus. Financial independence might be a sign to evaluate a region's financial condition, according to Ritonga et al. (2012). According to Navarro-Galera et al. (2016), a region's domestic revenue can favor its ability to maintain financial sustainability. This study develops the following hypothesis regarding the impact of financial independence on financial sustainability.

H3: Financial Independence has a positive impact on the financial sustainability of provinces in Indonesia

METHODOLOGY

This quantitative study is based on the secondary data processing of the Regional Government Financial Reports (LKPD) for 2018–2020. The Audit Board of the Republic of Indonesia (BPK) is the source of the data used in this study. This study used a saturated sample that included every member of the population, precisely 34 Indonesian provinces. One dependent variable and three independent variables made up the study's variables.

Financial Sustainability (FS) is the study's dependent variable. The ability of the government to provide services today without jeopardising its ability to do so in the future is defined as financial sustainability. This ability is determined based on adjusted income, which is the difference between operating income and operating expenses after subtracting extraordinary items (Rodríguez Bolívar et al., 2018). The operational report serves as the dependent variable's data source.

The total population (TP) is the first independent variable, all individuals residing in the Republic of Indonesia's geographic area (BPS, 2020). The information comes from the Central Bureau of Statistics Republic of Indonesia (BPS) for 2018 to 2020. Gross regional domestic product (GRDP), the second independent variable, measures the products and services created through domestic economic activity with the aid of local production factors (BPS, 2020). Financial independence (FI) is the third independent variable. According to Rodríguez Bolívar et al. (2014), financial independence is measured as the ratio of local revenue to overall operational income. Multiple regression analysis of panel data using multiple linear regression models is used to analyse the data as follows:

$$FSit = \beta 0 + \beta 1TPit + \beta 2GRDPit + \beta 3FIit + eit$$

RESULT AND DISCUSSION

Result

Descriptive analysis

The following is a descriptive analysis table of each variable using Eviews 10. Descriptive analysis is the first stage in conducting data analysis. This analysis aims to determine the characteristics of the data, such as the average, standard deviation, maximum, or minimum value of a data.

Table 1. Descriptive Statistical Results

	FS	TP	GRDP	KI
Mean	1295127.9444	7849.7735	2.9418	0.7026
Maximum	22190919.3000	49565.2000	17.5500	3.1400
Minimum	-3868850.6200	682.8000	0.2400	0.0400
Std. Dev.	3496782.5490	11054.7788	4.2086	0.5187

Source: Processed research data (2022)

Table 1 shows that the financial sustainability (FS) of the provinces in Indonesia has an average of 1295127.9444, with a maximum value of 22190919.3000, a minimum value of -3868850,6200 and a standard deviation of 3496782.5490. The population variable (TP) averages 7849.7735, with a maximum value of 49565.2000, a minimum value of 682.8000, and a standard deviation of 11054.7788. The Gross Regional Domestic Product (GRDP) variable has an average of 2.9418, with a maximum value of 17.5500, a minimum value of 0.2400, and a standard deviation of 4.2086. The variable Financial Independence (KI) has an average of 0.7026, with a maximum value of 3.1400, a minimum value of 0.0400, and a standard deviation of 0.5187.

Analysing multiple linear regressions and testing hypotheses

Multiple linear regression analysis is utilised to ascertain how much independent variables impact the dependent variable. The data of this study covers the years 2018 to 2020 and 34 provincial governments in Indonesia, so the authors use multiple regression analysis of panel data. Time series data and cross-section data are combined to create panel data.

Table 2. Results of Panel Data Regression Analysis

Variable	Coefficient	t-Statistic	Prob.
C	52983865	5.422001	0.0000
TP	-5546.935	-4.930866	0.0000*
GRDP	-4163217.	-2.108096	0.0389*
KI	5836000.	4.504530	0.0000*

Source: Processed research data (2022)
* = 0.05% significance level

Table 3. Results of Panel Data Regression Analysis

Weighted Statistics	
R-squared	0.9392
Adjusted R-squared	0.9055
F-statistic	27.9071
Prob(F-statistic)	0.0000

Source: Processed research data (2022)

Table 2 shows that the TP variable has a significance value of 0.000 below the 0.05 significance level, so it can be interpreted that the TP variable affects the financial sustainability of the provincial government in Indonesia, from these results, it is concluded that H1 is accepted and H0 is rejected. The GRDP variable has a significance value of 0.0389 below the significance level of 0.05, so it can be interpreted that the GRDP variable affects financial sustainability in the provincial government in Indonesia, from these results, it is concluded that H1 is accepted and H0 is rejected. The KI variable has a significance value of 0.0000 below the significance level of 0.05, so it can be interpreted that the GRDP variable affects financial sustainability in the provincial government in Indonesia, from these results, it is concluded that H1 is accepted and H0 is rejected.

Coefficient of Determination Test

The coefficient of determination test aims to determine how much influence the independent variable has on the dependent variable in a study. In table 2, the Adjusted R-square shows a value of 0.9055 or equal to 90.55%. This value means that financial sustainability is influenced by total population, GRDP, and financial

independence by 90.55%, while the remaining 9.45% is influenced by other variables not examined in this study.

Discussion

The impact of the total population on the financial sustainability of provinces in Indonesia

The population has a negative impact on the financial sustainability of the provincial government in Indonesia, according to the findings of the study's testing of the first hypothesis. This finding is in line with research from Ritonga et al. (2019), which claims that as the population grows, local governments must provide many public amenities to serve the community. In addition, when more social issues arise, the load on local governments also grows. According to Rodríguez Bolívar et al. (2016), a region's population density is negatively correlated with its ability to maintain its financial sustainability.

The neo-institutionalism theory illustrates how an institution or organisation can be impacted by its surroundings. Due to the high population, local governments will be pressured to build more high-quality public facilities. If the region lacks the resources to meet community requirements, this pressure will escalate, making it more likely that the government's ability to deliver public services won't be sustainable.

The Impact of GRDP on the financial sustainability of provinces in Indonesia

The findings of this study's testing of the second hypothesis show that the gross regional domestic product has a negative impact on the financial sustainability of Indonesian province governments. According to research by Batuo et al. (2018), economic growth as measured by the GDP per capita has a negative impact on financial sustainability.

The Impact of Financial Independence on the financial sustainability of provinces in Indonesia

The third hypothesis was tested, and the findings show that financial independence helps local governments maintain financial stability. The findings of this study corroborate those of Brusca et al. (2015), who found that financial independence affects the operational surplus of the regional administration. Independent provincial governments are those with substantial regional original income. The government can raise money independently and is not dependent on loans or help from outside sources to pay for infrastructure projects or deliver high-quality services to the public. Likewise, local governments will not be burdened by debts or loans to external sources, ensuring the sustainability of regional finances.

CONCLUSION

The study concludes that several factors can impact how financially sustainable the Indonesian provincial government is. The expanding population in a region where the load on local governments is growing so that they cannot sustainably deliver excellent services is evidence that the number of residents has a substantial negative impact on financial sustainability. Gross regional domestic product has a negative impact on the financial sustainability of provincial governments in Indonesia. This finding indicates that the more an area produces, the more burdensome it will be to provide services to the community. Furthermore, financial independence has a positive effect on financial sustainability, this shows that the provincial government in Indonesia can manage its resources or potential well so that it can sustainably provide quality services without having to leave burdens or debts for future generations.

This study adds new information about the financial sustainability of Indonesian provincial governments, providing theoretical support that future research can later expand upon. By taking into account variables that may impede or promote financial sustainability in each location, local governments can utilise this research to inform the policies they adopt to manage the finances of their respective regions.

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