

UDC 332

COMPARATIVE STUDY OF PUBLIC FINANCIAL PERFORMANCE AND PUBLIC WELFARE IN WEST HALMAHERA BARAT MUNICIPALITY AND TERNATE CITY, NORTH MALUKU OF INDONESIA

Syahdan Rinto

Faculty of Economics and Business, University of Khairun Ternate, Indonesia
E-mail: rintosyahdan@gmail.com

ABSTRACT

Regional Budget represents regional government ability to manage their budget to fund their agenda, particularly their development program. Objectives of this study are: (1) to describe significance of average government financial performance in West Halmahera and Ternate, and (2) to describe significance of public welfare in West Halmahera and Ternate. Two-point discrimination was the data analysis techniques used to find out development of the variables. The findings stated that based on independence, effectiveness, efficiency and shopping harmony, there is no significant difference in average financial performance between West Halmahera and Ternate. Data analysis showed that Ternate has higher financial independence and effectiveness, but lower efficiency and shopping harmony compared to West Halmahera.

KEY WORDS

Regional government, financial performance, public welfare.

An important criteria describing how much ability regional government has to manage rumah tangganya is its ability to manage their financial performance. Regional government financial performance is regional government ability to explore and manage available financial resources to carry out governance, provide public service and conduct development programs without having to rely upon central government; regional government financial performance also refers to regional government authority to spend their budget to improve public welfare with reference to the legislation (Florida, 2007).

Regional financial management is responsible for management of regional government financial performance. Regional financial management is organization and management of resource or asset regional government has to achieve certain objectives. Ability regional government has to achieve that objective is called regional government performance. In relation to regional autonomy, regional government performance is required to explore locally-generated assets. Financial performance itself is measured based on various ratio. One of which is fiscal decentralization, namely regional income per total regional revenue or independence ratio, namely total locally-generated revenue per total central government assistance and loan.

Objective of regional autonomy or decentralization is that regional government has more flexibility to design strategy for its development program; with regional autonomy or decentralization, government has easier access to society, allowing government to meet demand of the society. Local autonomy enables regional government to allocate their budget more accurately, and develop strategy and policy that meets situation in their governing area (Yustika, 2007).

Implementation of regional autonomy should be oriented to public welfare, public aspiration, and demand of society. Thus, it is expected that local autonomy: create efficiency and effectiveness of local resource management, improve public service and public welfare, and create opportunity for society to participate in development program (Mardiasmo, 2002). At the opposite, despite of lack of locally-generated resource, regional government is able to improve quality of its human resource when it applies suitable strategy and spends central government assistance wisely.

Since the beginning of the 1990s, the United Nations Development Program (UNDP) has measured public welfare in a more comprehensive manner using Human Development Index (HDI) which consists of GDP, life expectancy, and level of education. GDP refers to Gross Regional Domestic Product (GRDP) based on price applies in the society towards total population in the middle of the year when this study is conducted; GDP is stated in thousand rupiahs. Level of education is measured based on number of individuals who complete formal education divided by total population in a city/municipality when the study is conducted; level of education is stated in percentage. Life expectancy is average age of total population in a city/municipality when the study is conducted; life expectancy is represented in age.

Based on the background, objectives of this study are to describe (1) significance of average government financial performance in West Halmahera and Ternate, and (2) significance of average public welfare in West Halmahera and Ternate.

LITERATURE REVIEW

Regional Financial Performance

Financial performance is a measure of performance based on financial indicators. Financial performance analysis is carried out to assess past performance using several means of analysis to obtain financial positions that represent real entity and potential performance in the future. Why financial performance analysis is importance. Performance evaluation and its indicators are part of strategic management process (Jackson and Palmer, 1992). Therefore, as a managerial element, performance is the key to success. Strategic decision is prepared through policy to achieve desired goals and targets. This requires information about desired actual performance expected, comparing setting objectives. This information should be well-organized, and performance evaluation and its indicators should be elaborated clearly.

There are several ideas for establishment of local government organization based on performance evaluation of both routine and developmental activities from sector to project. Performance evaluation is a management instrument used to improve quality and decision-making or an instrument to assess organizational goals and objectives (Withaker, 1993). Halim (2001) stated that analysis of financial performance is an activity to identify financial characteristics based on available financial report.

Local government financial performance is regional government ability to explore and manage locally-generated financial resource to support/ carry out governance, provide public service, and carry out regional development program without having to depend entirely on central government and having flexibility in using funds to the interests of the local community; regional government has an authority to spend regional budget to improve public welfare based on the legislation (Syamsi, 1986). Public organization is organization that aims to provide public service, for example service in education, health, security, law enforcement and transportation. Public service is provided for the society because they are one of the stakeholders of public organization. As the result, regional government is responsible for not only central government, but also the society. Therefore, there is need for performance evaluation system that helps public manager evaluate performance of a strategy through financial and non-financial indicators. Performance evaluation system is an instrument that controls organization.

There are three goals to conduct evaluation towards regional government financial performance (Mardiasmo, 2002), namely to improve regional government performance, help allocating resource and decision-making, realize public accountability, and improve communication between institutions. Implementation of regional autonomy is quite challenging since it is related to ability of a region to fund its development programs and provide public service. Ability refers to methods regional government applies to obtain and increase locally-generated revenue to carry out its governance and development programs.

Analysis of Regional Financial Ratio

Regional government is responsible for carrying out governance and development programs, providing public service, and make financial report as basis for evaluating financial performance of regional government. An instrument to analyze regional government performance in managing its finance is to conduct financial ratio analysis towards regional budget (Halim, 2007). Financial ratio analysis has been widely used as an instrument for instrument for financial performance evaluation, particularly in commercial organization. Public institution, particularly regional government, has limited resource and therefore, theoretically does not have any consensus on type and regulation for financial performance analysis. To carry out a transparent, honest, democratic, effective, efficient, and accountable regional financial management, financial ratio analysis towards regional budget should be conducted (Mardiasmo, 2002).

Regional Financial Independence Ratio

Regional financial Independence ratio shows regional government ability to fund governance, development programs and public service. Independence ratio, represented in percentage, is measured by dividing total locally-generated revenue and total regional expenditure (Utama, 2008:33). Higher independence ratio means regional government (municipal government) has less dependence towards central and provincial government, and vice-versa. This ratio also describes public participation in regional government program. Higher independence ratio means public has higher participation in regional tax-paying and retribution, components of locally-generated revenue.

Independence ratio can be measured based on the following formula (Mahsun as cited in Utama, 2008):

$$\text{Independence Ratio} = \frac{\text{Locally-generated revenue}}{\text{Total Regional Expenditure}} \times 100\%$$

Halim (2001) explained relationship between central and regional government in implementation of regional autonomy, particularly implementation of legislation on financial balance between central and regional government as follows:

- Instructive, in which central government is more dominant than regional government;
- Consultative, in which central government interference is decreasing gradually, central government takes a role as consultant;
- Participative, in which role of central government is decreasing in a significant manner because regional government has been able to carry out regional autonomy,
- Delegative, in which regional government has become independent and been able to carry out regional autonomy.

Table 1 showed type of relationship between central and regional government, and regional government independence and financial ability (Mahsun, 2006).

Table 1 – Pattern of Relationship, Independence, and Financial Ability of Regional Government

Financial Ability	Independence Ratio	Pattern of Relationship
Very Low	0 – 25	Instructive
Low	>25 – 50	Consultative
Fair	>50 – 75	Participative
High	>75 – 100	Delegative

Regional government financial independence ratio or fiscal autonomy shows regional government ability to finance its governance, and development, and provide public service for individual who has paid for regional tax and retribution. The ratio also shows how much dependence regional government has towards external source of funding. The higher this ratio is, the higher dependence regional government has towards external source of funding, and vice-versa.

Regional Finance Effectiveness Ratio

Effectiveness refers to degree of success of operation in public sector. Therefore, an activity is considered effective when it has significant influence towards public service, its target. Effectiveness ratio, represented in percentage, is regional government achievement measured by making comparison between budget realization and regional budget (Utama, 2008).

$$\text{Effectiveness Ratio} = \frac{\text{Budget Realization}}{\text{Regional Budget}} \times 100\%$$

Effectiveness ratio is obtained based on financial performance criteria (Mahsun, 2006).

Table 2 – Regional Finance Effectiveness

Effectiveness of Autonomous Regional Finance and Financial Ability	Effectiveness Ratio
Very Effective	>100
Effective	>90 – 100
Fair	>80 – 90
Low	>60 – 80
Not Effective	<60

Public Welfare

Social security refers to program of which objective is to eradicate poverty. Government may not be able to eradicate poverty but the government can minimize it. In other words, social security aims to decrease number of people living below poverty line instead of poverty itself.

Discussion on poverty would not be complete without discussing about definition of poverty, which basically is political activity; political conflict towards poverty will lead to poverty itself. There are three dimensions related to poverty, namely utility, income, and capabilities. Utility refers to not only individual preference, but also underlying purpose of policy by paying attention to the individual preference (Sen, 1979). Income is sometimes interpreted as “measurement of money” emphasizing on GDP as indicator of development. Capabilities is related to basic need, which included programs to prevent poverty and illiteracy (Sen, 1985).

Furthermore, Social Security Administration (SSA, 1987) defined poverty as income (cash) without paying attention to free health service, food stamps, free tuition and public housing (Danzinger and Haveman, 1981). Discussion on poverty eradication means discussion on change of income distribution (Levine, 1970).

Whyte in Ahluwalia (1976) stated that poverty is a relative deprivation phenomenon. Whyte further explained that there are two kinds of poverty, relative and absolute poverty. Absolute poverty means measuring poverty based on empirical indicators, such as famine, malnutrition, illiteracy, poor public housing, and poor sanitation. Relative poverty is measured between income groups and thus, it has always been dynamic. This type of poverty cannot be measured based on economic indicators alone, but also based on various social dimensions. Its underlying foundation is psychology, when an individual makes comparison between himself or herself and other people that belong to the same community reference group. Therefore, poverty occurs across the world, including the developed countries where people live above poverty line. As a post-industrial country, Japanese live above poverty line but many feel that they are poor. It happens because of relative feeling (Winarni, 1994).

Murray (1994) compared three indicators of poverty, namely official poverty, net poverty, and latent poverty. Official poverty refers to poverty level US government used to determine poverty index. Net poverty is official poverty subtracted by the value of in-kind benefits. Latent poverty refers to number of individuals living below poverty line without social assistance and public assistance payment. In Indonesia, central government provides social assistance in the form of food, public housing, clothes, medical assistance and education for people living at or below poverty line through State Budget or Regional Budget. The second

element is social insurance (Barr and Whyne, 1993), a program where society becomes active participant while government acts as regulator and facilitator. Two examples of social insurance are retirement and employment fund. The third is individual insurance where society participates as an individual and government acts as regulator.

METHODS OF RESEARCH

There were two variables in this study. The first was financial performance of which ratios were regional government financial independence, effectiveness ratio, efficiency ratio, and matching ratio. The second variable was public welfare of which ratios were GDP, level of education, and life expectancy.

Two-point discrimination was data analysis technique used to identify development of the variables in both regions. Objective of two-point discrimination is to identify whether a variable has the same score or not, has higher score or not, or has lower score or not. T-test is conducted when data analysis in a study is conducted by making comparison of data between times from one group of sample. Step of hypothesis-testing with t-test is as follows.

Steps of hypothesis-testing:

a. Develop H1 and H2:

$$H1: \mu_{II} \neq \mu_I$$

$$H2: y_{II} \neq y_I$$

- μ is average financial performance of West Halmahera and Ternate;
- y is average public welfare of West Halmahera and Ternate.

b. Statistical analysis:

$$r = \frac{Md}{\sqrt{\frac{\sum Xd^2}{n(n-1)}}}$$

Where:

d_i = ratio between every subject (region) (i);

Md = average gain (d);

Xd = deviation of gain towards its average ($Xd = d_i - Md$);

Xd^2 = square of deviation of gain towards its average;

n = number of subject.

c. Determine Level of Significance:

For hypothesis-testing, t-score was compared to t-table. T-table was developed based on level of significance (for example $\alpha = 0.05$) and $dk = n - 1$.

d. Criteria for Hypothesis Testing:

H_0 is rejected when t-score < t-table, or

H_0 is accepted when t-score > t-table.

e. Drawing conclusion by making comparison between t-score and its criteria.

RESULT AND DISCUSSION

Analysis on financial performance of government of West Halmahera and Ternate was conducted to analyze performance of both regional governments. In this study, financial performance of government of West Halmahera and Ternate was measured based on financial ratio of regional government, as follows:

The following formula was used to identify independence ratio of government of West Halmahera and Ternate (Utama, 2008):

$$\text{Independence Ratio} = \frac{\text{Locally-generated Revenue}}{\text{Total Regional Expenditure}} \times 100\%$$

Table 3 – Independence Ratio of West Halmahera and Ternate

Region	Year	Locally-Generated Revenue (PAD)	Total Regional Expenditure (TBD)	(PAD/TBD) x 100
HALBAR	2015	5,735,598,950	131,273,256,598	4.37
	2016	5,311,534,626	133,828,892,855	3.97
	2017	5,054,757,817	144,807,407,074	3.49
	2018	4,594,788,501.53	168,252,170,345	2.73
TERNATE	2015	9,099,082,373.83	201,787,768,608	4.51
	2016	9,732,761,922.20	232,605,539,452.92	4.18
	2017	12,767,597,336.34	352,148,244,453.62	3.63
	2018	16,014,568,858.80	333,633,532,350.87	4.80

Source: Appendix, data analysis (2019).

Based on Table 3 West Halmahera had the highest independence ratio in 2011 (4.37%), but the percentage decreased gradually to 3.97% in 2012, 3.49% in 2013 and 2.73% in 2014 (the lowest). In other words, average independence ratio of West Halmahera between 2011 and 2014 was 3.64% and when compared to Table 1 showing criteria for pattern of relationship between central and provincial government, which referred to Mahsun (2006) as cited in Suyana Utama (2008), the percentage is between 0 and 25% making independence ratio of West Halmahera very low and categorized as instructive relationship.

Independence ratio of Ternate in 2011 was 4.51%; the percentage decreased to 4.18% in 2012 and 3.63% in 2013. In 2014, Ternate had the highest ratio of 4.80%. In other words, average independence ratio of between 2011 and 2014 was 4.28%. Independence ratio of Ternate was categorized as very low with instructive pattern of relationship as it is between 0 and 25%.

Effectiveness Ratio

The following formula was used to identify effectiveness ratio of government of West Halmahera and Ternate (Utama, 2008):

$$\text{Effectiveness Ratio} = \frac{\text{Budget Realization}}{\text{Regional Budget}} \times 100\%$$

Table 4 – Effectiveness Ratio of West Halmahera and Ternate

Region	Year	Budget Realization (RPD)	Regional Budget (APD)	(RPD/APD) x 100
HALBAR	2015	136,257,798,950	132,455,675,259	102.87
	2016	139,375,480,308.26	136,822,375,213	101.87
	2017	151,114,716,882	151,396,905,466	99.81
	2018	162,140,791,314.53	164,209,624,401	98.74
TERNATE	2015	216,104,981,284.83	216,575,430,457	99.78
	2016	282,401,817,608.20	271,832,952,787	103.89
	2017	305,795,773,509.34	298,574,180,533	102.42
	2018	321,629,838,338.82	314,926,982,418.33	102.13

Table 4 showed that average effectiveness ratio of West Halmahera was 100.82%, and when compared to Table 2 discussing criteria for financial effectiveness and performance of autonomous region, which referred to Mahsun (2006) as cited in Suyana Utama (2008), the effectiveness ratio of West Halmahera is very effective (>100). As an addition, average effectiveness ratio of Ternate increased to 102.05%, and therefore, was categorized as very effective.

Efficiency Ratio

The following formula was used to identify efficiency ratio of government of West Halmahera and Ternate (Utama, 2008):

$$\text{Efficiency Ratio} = \frac{\text{Regional Budget Realization}}{\text{Regional Budget}} \times 100\%$$

Table 5 – Efficiency Ratio of West Halmahera and Ternate

Region	Year	Regional Budget Realization (RBD)	Regional Budget (ABD)	(RBD/ABD) x 100
HALBAR	2015	131,273,256,598	145,725,698,925	90.08
	2016	133,828,892,855	149,843,779,529	89.31
	2017	144,807,407,074	164,596,468,460.26	87.98
	2018	168,252,170,345	180,896,699,009.26	93.01
TERNATE	2015	201,787,768,608	229,006,922,682.50	88.11
	2016	232,605,539,452.92	285,300,989,724	81.53
	2017	352,148,244,453.62	308,602,280,900.30	114.11
	2018	333,633,532,350.87	353,791,360,054.10	94.30

Source: Data Analysis (2019).

Based on Table 5 average efficiency ratio of West Halmahera was 90.09%, and when compared to Table 2 discussing Mahsun's (2006 as cited in Suyana Utama, 2008) criteria for regional government financial efficiency, efficiency ratio of West Halmahera was not efficient (90-100%). Furthermore, efficiency ratio of Ternate was 94.51%, and therefore, was categorized as not efficient.

Matching Ratio

The following formula was used to identify matching ratio of government of West Halmahera and Ternate (Utama, 2008):

$$\text{Matching Ratio} = \frac{\text{Public Service Expenditure}}{\text{Total Regional Expenditure}} \times 100\%$$

Table 6 – Matching Ratio of West Halmahera Barat and Ternate

Region	Year	Public Service Expenditure (BPP)	Total Regional Expenditure (TBD)	(BPP/TBD) x 100
HALBAR	2015	84,277,561,367	131,273,256,598	64.20
	2016	86,262,275,163	133,828,892,855	64.46
	2017	69,204,723,229	144,807,407,074	47.79
	2018	105,570,915,429	168,252,170,345	62.75
TERNATE	2015	131.765.135.636	201,787,768,608	65.30
	2016	45.702.185.703	232,605,539,452.92	19.65
	2017	140,816,766,247.23	352,148,244,453.62	39.99
	2018	174,888,523,065.56	333,633,532,350.87	52.42

Source: Data Analysis (2019).

Table 6 showed that average matching ratio of West Halmahera was 59.80%, and when compared to Table 4 discussing Mahsun's (2006 as cited in Suyana Utama, 2008) criteria for matching ratio of autonomous region, matching ratio of West Halmahera Barat ras fair (between 40 and 60%). Furthermore, matching ratio of Ternate was 44.34%, and therefore, categorized as fair.

Table 7 – Hypothesis-testing

Indicator	sig (tailed)	t-score (0.05:3)	Hypothesis (H1)	Indicator	sig (tailed)	t-score (0.05:3)	Hypothesis (H2)
Independ-ence	1.245	2.353	Rejected	GDP	3.704	2.353	Accepted
Effectiveness	0.971	2.353	Rejected	Education	2.938	2.353	Accepted
Efficiency	0.621	2.353	Rejected	Life Expectancy	4.609	2.353	Accepted
Matching	1.404	2.353	Rejected				

Source: Data Analysis (2019).

This section discussed result of data analysis showing financial performance of government of West Halmahera and Ternate and public welfare. The data were analyzed using two-point discrimination comparing average scores of each variable in West Halmahera and Ternate.

Having analyzed hypothesis testing towards financial performance of government of West Halmahera and Ternate using independence ratio, it can be concluded that the first hypothesis (H1) was rejected since t_0 was 1.245. The score was lower than $t_{0.05:3}$ which were 2.353.

Based on the effectiveness ratio, the first ration (H1) was rejected since t_0 was 0.971 or lower than $t_{0.05:3}$ of 2.353.

Furthermore, using the efficiency ratio, the first hypothesis (H1) was rejected either since t_0 was 0.621 or lower than $t_{0.05:3}$ (2.353) (Appendix). In addition, based on the matching ratio, H1 was rejected since t_0 was 1.404 or lower than $t_{0.05:3}$ (2.353).

Based on GDP, the first indicator of the second variable, the second hypothesis (H2) can be accepted since (t_0) was 3.704, higher than $t_{0.05:3}$ of 2.353.

Using level of education, H2 can be accepted because t_0 was 2.938 or higher than $t_{0.05:3}$ (2.353).

At last, based on life expectancy, H2 can be accepted since t_0 was 4.609. It is higher than $t_{0.05:3}$ of 2.353.

DISCUSSION OF RESULTS

This section discusses relationship between the findings of this study and both the literatures and previous related studies.

Financial Performance

a. Independence

Analysis on government of West Halmahera and Ternate financial independence aims to identify relationship between central government and the regional government, particularly showing how much independence government of West Halmahera and Ternate has in carrying out regional autonomy. The analysis also shows whether or not financial performance of both governments meets pattern of relationship and regional independence level.

The finding shows that the government of Ternate is getting more independent compared to West Halmahera Barat, however it is not significant to different financial performance between government of West Halmahera and Ternate. Increase of independent ratio means government of Ternate keeps increasing their locally-generated revenue. Based on the regional budget, average locally-generated revenue of Ternate (i.e. local tax, retribution, profit-sharing from banks/financial institution, investment or other sources of locally-generated revenue) is increasing.

The finding also showed that relationship between the regional government (West Halmahera and Ternate) and central government is instructive, which means that government of West Halmahera and Ternate carried out mandate and policies established by central or provincial government. However, government of West Halmahera and Ternate's effort to increase locally-generated revenue will gradually decrease their independence to funding from central and provincial government allowing them to carry out regional autonomy well.

The study also shows showed that locally-generated revenue plays pivotal role in increasing regional government financial independence. It is in line with Dwirandra (2008) that regional autonomy means giving authority to regional government to plan, explore, manage and spend its budget according to its need. Locally-generated revenue is an indicator to decrease regional government dependence towards central government. Higher locally-generated revenue means regional government has less independence towards provincial or central government.

The finding is also in accordance to Dacosta (2002), investigating independence in Kupang, that average degree of fiscal autonomy of Kupang between 1997 and 2001 is critically low or lower than 25%.

The finding also supports Dwirandra (2008) who stated that in Bali there are seven municipalities of which independence is critically low (0%-25%) and one municipality of which independence is fair (50%-75%).

b. Effectiveness

Regional government financial effectiveness is used to measure how effective regional government is in realizing its revenue and is an indicator showing government of West Halmahera and Ternate's ability to carry out their programs. The findings showed that government of Ternate has higher effectiveness compared to West Halmahera, however it does not have significant influence towards different financial performance between West Halmahera and Ternate. Increase of effectiveness means government of Ternate has succeeded in realizing its non locally-generated revenue, such as central and provincial government balance funds, namely general allocation funds, special allocation funds, and other financial assistance. Government of Ternate budget revenue realization exceeds provincial government's requirement. Nevertheless, government of West Halmahera and Ternate's realization is effective when applied to realization of non locally-generated revenue only. Based on regional budget of West Halmahera and Ternate, total realization of locally-generated revenue is far lower than that of non locally-generated revenue. Thus it can be concluded that government of West Halmahera and Ternate is still expecting funding from central or provincial government rather than spending the locally-generated revenue.

The finding is in accordance to Samson (2001) who investigated indicators for successful regional government financial management in Barito Kuala and stated that, between 1995 and 2000, financial management of government of Barito Kuala is very effective with effectiveness ratio of 104%. The finding also supports Dwirandra (2008)'s study that, between 2002 and 2006, autonomous cities/municipalities in Bali are categorized as either fairly effective, effective or very effective since their effectiveness ratios are between 75.01% and above 100%.

Furthermore, the finding is also in accordance to Dasilva (2001) who made comparison between regional budget of Sikka, East Nusa Tenggara from 1993 to 1998 and regional budget of Ende and Manggarai. Dasilva's (2001) study showed that effectiveness of regional budget management of Manggarai was 102.98% (very effective), that of Ende was 94.70% (effective) and that of Sikka was 91.33% (effective).

c. Efficiency

Efficiency refers to how successful government of West Halmahera and Ternate is in carrying out its programs, which is measured by comparison between regional budget and regional budget realization. The findings explained that government of West Halmahera is more efficient compared to Ternate, however the difference is not significant to different financial performance between government of West Halmahera and Ternate. Financial efficiency of Ternate is declining since its budget realization increases significantly towards its regional budget. In other words, government of Ternate tends to spend its entire regional budget.

The findings of the study indicated that government of West Halmahera and Ternate has ineffective financial management. Both governments tend to overspend, neglecting principles of regional budget efficiency. As an addition, both governments also have tendency to spend the entire regional budget. The finding supports Dasilva (2001)'s study comparing regional budget of Sikka, East Nusa Tenggara from 1993 to 1998 and regional budget of Ende and Manggarai. Dasilva's study showed that regional budget management of government of Sikka, Ende and Manggarai is not efficient since efficiency ratios of the three municipalities are between 95.94 and 97.39%.

The finding of this study does not support Samson (2001) who investigated indicators for successful regional government financial management in Barito Kuala and stated that, between 1995 and 2000, financial management of government of Barito Kuala is very efficient with efficiency ratio of 51%.

d. Matching

Matching illustrates how government of West Halmahera and Ternate prioritizes its funds for public service. The finding of this study indicates that government of Ternate has lower matching level compared to West Halmahera, but the difference is not significant to differences in financial performance between West Halmahera and Ternate. Matching level of Ternate is decreasing due to the high realization of total regional expenditures such as regional apparatus expenditure, general administration expenditure and operating and maintenance expenditures and amount the expenditure was not significant and far higher than expenditure spent on public service. West Halmahera and Ternate governments are committed to improve public welfare shown in increasing allocation of funds for public service. However, in reality, increasing allocation of funds for public service is not significant to allocation of funds for direct expenditure items, which benefits only certain groups of people.

The finding is in line to Dacosta (2002) who investigated independence of Kupang based on its financial ability to carry out regional autonomy from 1997 and 2001, and stated that routine ability index of Kupang between 1997 and 2001 is 23.03% (low).

Implication of thus study towards public welfare in West Halmahera and Ternate based on GDP, level of education, and life expectancy is described as follows:

It is obvious that increase of income per capita in West Halmahera and Ternate is influenced by GRDP from productive sectors, such as trading, agriculture (vegetable, fruit, livestock and aquaculture). Increase of income in both West Halmahera and Ternate also explains that society has access to resource in the form of equal income and purchasing power, and that the society can take active participation in economic activities allowing them to make ends meet.

Level of education provides an overview of people living in West Halmahera and Ternate who can access formal education and as the result, can get decent job and improve their living and public welfare. Education allows individuals to improve their knowledge and skills so that they can participate in economic activities, social politics and other aspects of life, and be able to improve their lives (object). Therefore, government of West Halmahera and Ternate should issue policy that encourage improvement of human resources. Increase of life expectancy in West Halmahera and Ternate indicates that health status of the community, reflected through longevity and access to medical service, is getting better than the previous period. As the result, government of West Halmahera and Ternate should be able to reduce poverty, and invest in education and health sector. Cheap health and education facilities will increase productivity, public income and standard of living of the society.

CONCLUSION

Financial Performance - Analysis towards financial performance of government of West Halmahera and Ternate based on independence, effectiveness, efficiency, and matching level, it can be concluded that:

a) Independence - In terms of independence, there is no significant difference between average financial performance of government of West Halmahera and Ternate, even though government of Ternate has higher independence ratio compared to West Halmahera.

b) Effectiveness - In terms of effectiveness, there is no significant difference between average financial performance of government of West Halmahera and Ternate, although government of Ternate has higher effectiveness ratio compared to West Halmahera.

c) Efficiency - In terms of efficiency, there is no significant difference between average financial performance of government of West Halmahera and Ternate even though Ternate has lower efficiency ratio compared to West Halmahera.

d) Matching- In terms of matching ratio, there is no significant difference between average financial performance of government of West Halmahera and Ternate although Ternate has lower matching ratio than West Halmahera.

Public Welfare - Analysis towards public welfare of society members in Lembata based on GDP, level of education, and life expectancy, it can be concluded that:

a) GDP - In terms of GDP, there is significant difference between average public welfare in West Halmahera and Ternate. The analysis showed that GDP of Ternate is increasing compared to that of West Halmahera.

b) Level of Education - In terms of level of education, there is significant difference between average public welfare in West Halmahera and Ternate. The analysis showed that level of education in Ternate is increasing compared to that of West Halmahera.

c) Life Expectancy - In terms of life expectancy, there is significant difference between average public welfare in West Halmahera and Ternate. The analysis showed that life expectancy in Ternate is increasing compared to that of West Halmahera.

Based on the findings and discussion, the researcher gives the following recommendation:

- Government of West Halmahera and Ternate should pay careful attention to, accommodate, use and explore various sources of locally-generated revenue while developing their regional budget for example local retribution, and natural resources in mining and agricultural sector in order to achieve an optimum realization of locally-generated revenue, increase locally-generated revenue, and cut down dependency upon funding from central and provincial government;
- Government of West Halmahera and Ternate should start exploring sources of locally-generated revenue to reduce their dependency on central or provincial government. Therefore, both governments should start developing new sources of locally-generated revenue;
- Government of West Halmahera and Ternate should adapt and apply performance-based management to decrease inefficient regional expenditure and minimize overspending;
- Government of West Halmahera and Ternate should allocate more fund for public service and divide this fund equally with other funds in order to increase accountability and public service, and eventually public service;
- To develop regional budget and regional budget realization for the following fiscal years, government of West Halmahera and Ternate should pay careful attention to ratios of regional finance commonly used in order to improve their financial performance.

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