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THE EFFECT OF SERVICE SOLVENCY AND GROWTH OF ORIGINAL LOCAL GOVERNMENT REVENUE ON POVERTY LEVEL IN LANGSA CITY WITH GROSS REGIONAL DOMESTIC PRODUCT AS A MEDIATING FACTOR

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Abstract

Many factors determine the level of poverty in a region, therefore comprehensive steps are needed to achieve general prosperity and reduce the rate of poverty, taking into account the underlying factors. The urgency and renewal regarding service solvency which has not been studied extensively and the level of poverty has become important topic, as Aceh is one of the 10 poorest provinces in Indonesia. This research aims to determine the effect of service solvency and the growth of original local government revenue on poverty levels using gross regional domestic product as mediating factor in Langsa city. Based on research findings, it is known that simultaneously service solvency and original local government revenue variables have significant effect on poverty level. Partially, original local government revenue variable has positive and significant effect on poverty level, while service solvency has no effect on poverty level. The result of path analysis testing indicates gross regional domestic product variable is not able to serve as a mediating variable for service solvency and original local government revenue on poverty level in Langsa city.

Keywords: ***Service Solvency, Original Local Government Revenue, Poverty Level, Gross Regional Domestic Product***

Introduction

The main objective of Indonesia's development, as stated in the Preamble of the 1945 Constitution, is to advance the general prosperity. General prosperity is the condition in which the material, spiritual, and social needs of the population are met, allowing them to live decently and develop themselves, thereby enabling them to fulfil their social and economic functions. The poverty level is one of the indicators of general prosperity in Indonesia. Public prosperity and the poverty level have a negative relationship, where the lower the poverty level, the higher the public prosperity in a region.

Aceh Province is one of the provinces that ranks seventh in terms of poverty percentage and is the poorest province on the island of Sumatra, with a poverty rate of 14.75% in 2022. Langsa City itself is one of the districts/cities in Aceh Province with a fluctuating poverty level each year, with the highest percentage of poor residents in 2008 at 17.97% and the lowest in 2019 at 10.57%. The lowest percentage of poor residents in Langsa City is 10.57%, which is still considered high compared to the standard poverty percentage in Indonesia, which is 9.36%.

The growth rate of poverty in Indonesia must be curtailed, and one of the efforts made by the Indonesian Government is to establish a broader basis for regional autonomy for the District/City Governments, which involves the delegation of some authority from the Central Government to the

Regions. Through regional autonomy, local governments are expected to be more independent in managing their regional finances in accordance with the share of Original Local Government Revenue (OLGR) and other legitimate OLGR, as well as fundings from the Central Government that can be used effectively and efficiently by local governments to improve services to their communities. Ultimately, it is hoped that this will enhance general prosperity and reduce the growth rate of poverty in a region.

Based on theory, the measurement of a region's level of autonomy is assessed through its Original Local Government Revenue (OLGR), which comes from local taxes, regional levies, profits from state-owned enterprises, as well as other separated regional wealth processing profit, and other legitimate regional income. The main source of financing for the administration and development of regions, whether provinces, districts, or cities, should ideally come from the region's autonomy derived from Original Local Government Revenue (OLGR). In other words, theoretically, if the management of Original Local Government Revenue (OLGR) is handled well, it will be able to curb the rate of poverty growth in a region. Another matter is regarding the solvency of the services. With the existence of regional autonomy, there are differences in budgets, programs, and activities that are implemented, which will then create differences in the quantity and quality of goods and services. Thus, the solvency of local government services to provide and maintain the level of service offered to the community can be achieved.

Another indicator in assessing the success of general prosperity goals can be seen from the economic development in a region. Economic development is expected to have a positive impact on economic growth and general prosperity, as well as to reduce the rate of poverty in a region. The development and economic growth of a region are reflected in the changes in Gross Regional Domestic Product (GRDP). Gross Regional Domestic Product (GRDP) is an important factor in assessing the economic condition of a region over a certain period, both based on current prices and constant prices. Based on the description above, this research aims to examine the effect of Original Local Government Revenue (OLGR) and Service Solvency on the Poverty Level in Langsa City, with Gross Regional Based on the description above, this research aims to examine the effect of Original Local Government Revenue (OLGR) and Service Solvency on the Poverty Level in Langsa City, with Gross Regional Domestic Product (GRDP) as a Mediating Factor during the years 2013 to 2022.

Research Method

This research uses a quantitative research design with a causal comparative method. Quantitative research produces findings that can be achieved/obtained using statistical procedures or other methods of quantification (measurement). This research aims to provide empirical evidence by analysing the effect of independent variables on dependent variables. In this case, the researcher determines the extent of the contribution of independent variables in affecting the dependent variable, specifically aiming to examine the impact of Service Solvency and Original Local Government Revenue (OLGR) on the poverty level, mediated by Gross Regional Domestic Product (GRDP) in the Langsa city.

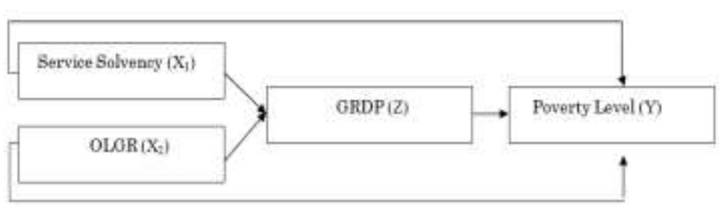

Figure 1. Research Model

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The data analysis in this research uses descriptive statistics, multiple linear regression, and path analysis. The regression equation in this research is:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$

Path equation in this research is:

$$Z = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$$
$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 Z_3 + \varepsilon$$

This research uses time series data from 2013 to 2022 sourced from the Budget Realization Report of the Local Government Financial Agency (BPKD) of Langsa City and the Central Statistics Agency**.**

Result and Discussion

Result

Table 1. Descriptive Statistic

	N	Min	Max	Mean	Std.Dev
Y	10	10,4	12,6	11,2	,70847
X1	10	3474616,8	5954756,1	4811379,1	737766,0
X2	10	-4,42	243,4	41,1	77,3
Z	10	523223,6	6246284,7	4213663,6	1605067,4

Multiple Linear Regression Analysis

From the test results, an R2 of 67.3% was obtained, which means that the independent variable can explain the dependent variable by 67.3%.

Table 2. ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3,042	2	1,521	7,21	,020[b]
	Residual	1,476	7	,211		
	Total	4,517	9			

The ANOVA table shows that the Service Solvency variable and the growth of Original Local Government Revenue simultaneously affect the Poverty Level. The results obtained from the partial test indicate that [1] the Service Solvency variable does not affect the Poverty Level, while the Original Local Government Revenue variable has a positive and significant impact on the Poverty Level. With the regression equation as below:

$$Y = -6{,}749 + 1{,}146X_1 + 0{,}009\ X_2$$

Path Analysis

This analysis examines the cause-and-effect relationship among variables in a model and is used to understand the patterns of relationship in research data.

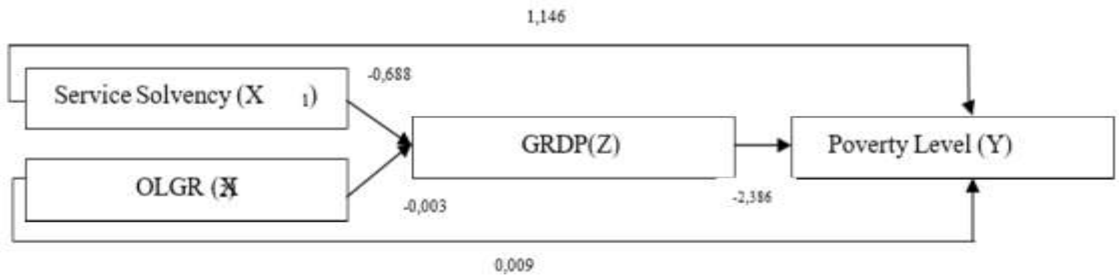

Figure 2. Path Analysis

The equations present in this path analysis are:

$Z = 26{,}021 - 0{,}688X_1 - 0{,}003X_2$

$Y = 53{,}830 – 0{,}456X_1 + 0.02X_2 – 2{,}386Z$

The picture and the equation above illustrate the direct effect between independent variables and the dependent variable. This hypothesis tests the direct effect of independent variables on the dependent variable, as well as the effect of independent variables on the dependent variable through intervening variables. The following is the calculation of direct effect, indirect effect, and total effect in this research.

Table 3. Testing Intervening Variable

Independen Variable	Dependen Variable	Direct Effect	Non Direct Effect	Total Effect	Intervening Variable
X_1	Z	-0,688			
X_2	Z	-0,003			
X_1	Y	1,146	-2,734	-1,588	No
X_2	Y	0,009	-0,02	-0,011	No
Z	Y	-2,386			

The testing of the intervening variable, Gross Regional Domestic Product (GRDP), is unable to serve as a mediating variable for the service solvency and Original Local Government Revenue (OLGR) in relation to the poverty level in Langsa City, due to the direct effect of both variables being greater than their indirect effect.

Discussion

The Effect of Service Solvency on Poverty Level

Based on the results of the tests conducted, it shows that the service solvency has an effect, but not a significant one, on the level of poverty. This means that the spending incurred by the Langsa city government per resident (per capita) does not affect the poverty level in Langsa. In theory, the service solvency indicates the quality of services provided by the local government. (Wang in Ritonga,2014). The spending by local governments should enhance the quality of services received by the community. However, Fasholla's (2018) research shows that the increase in regional spending has led to a rise in the number of people living in poverty in Cilacap Regency. This is due to the spending incurred by the local government, part of which is allocated for employee expenses. In 2022, the budget for the City Government of Langsa allocated 37.76% for employee expenses. Meanwhile, the proportion of the budget for capital expenditures and social assistance was only 13.67% and 3.07%, respectively.

The Effect of OLGR Growth on Poverty Level

The effect of OLGR growth (X2) on the poverty level can be seen from the results of the tests conducted, where X2 has a coefficient value of 0.009 and a significance value of 0.015. The figures indicate that the growth of OLGR has a significant positive impact on the poverty level in Langsa city. The increase in OLGR growth results in a rise in the poverty level in Langsa. Based on the available data, OLGR in Langsa has always been fluctuating. In addition, OLGR only contributes 16.84% of the total overall revenue budgeted by the Langsa City Government. Fathiyah (2021) shows that the increase in local revenue in the Yogyakarta Province does not have the potential to reduce the poverty level. Manduapessy (2020) states that OLGR has a significant positive impact on the poverty level in Mimika Regency.

The Effect of Service Solvency on Gross Regional Domestic Product

The test results show that the service solvency (X1) has a negative impact on Gross Regional Domestic Product (GRDP). This means that government spending per capita in the city of Langsa does not increase the GRDP in that city. Overall regional spending has a significant positive impact on GRDP (Amelia et al., 2024). However, Primasari (2024) states that spending on goods and services and capital expenditure do not affect GRDP in eight provinces from 2016 to 2022. The GRDP of Langsa city has consistently increased during the period from 2013 to 2022. Meanwhile, the service solvency has experienced both increases and decreases due to fluctuations in government

The Effect of OLGR Growth on GRDP

The growth of Original Local Government Revenue (OLGR) in this research has a negative impact on the Gross Regional Domestic Product (GRDP), as evidenced by the coefficient β of variable X2 in the intervening (mediating) regression equation, which is valued at -0.003. This means that the growth of OLGR does not result in an increase in the GRDP in Langsa city. The growth of OLGR in Langsa city in this research shows fluctuating values. Several years of experiencing negative growth. Meanwhile, GRDP data has consistently shown an increase. The research conducted by Mahfir and Sulistiyo (2017) shows that the growth of OLGR has a negative and insignificant effect on the GRDP in the Province of West Nusa Tenggara.

The Effect of Service Solvency and OLGR Growth on Poverty through GRDP

The testing of the intervening variable, Gross Regional Domestic Product (GRDP), is unable to serve as a mediating variable for the service solvency and Original Local Government Revenue (OLGR) in relation to the poverty level in Langsa City, due to the direct effect of both variables being greater than their indirect effect. The direct effect of X1 on variable z (GRDP) is -0.688, while on variable Y it is 1.146. Meanwhile, the direct effect of X2 on variable z is -0.003, and on variable Y it is 0.009. The intervening variable Z (GRDP) has a negative direct effect of -2.386. This means that an increase in GRDP will reduce the poverty rate. The service solvency and the growth of OLGR do not have a positive impact on GRDP. The same applies to the poverty rate. Paat et al. (2024) show that OLGR and economic growth have a negative impact on the poverty rate.

Conclusion

In the Multiple Linear Regression test, it was found that simultaneously, the variables of Service Solvency and Original Local Government Revenue significantly affect the Poverty Level. Meanwhile, partially, only the Original Local Government Revenue variable has a positive and significant effect on the Poverty Level, while Service Solvency does not affect the Poverty Level. Furthermore, in the path analysis test, it was found that the Gross Regional Domestic Product variable is unable to mediate the relationship between Service Solvency and Original Local Government Revenue on the Poverty Level in Langsa City, because the direct effect of both variables is greater than their indirect effect.

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