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Capacity building of local Government in financial management towards sustainable development goals (SDGS)

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ABSTRACT

Capacity building is a strategy to improve government performance. The factual condition of the amount of funds received by the local government and the gap between capacity and needs in local financial management requires the development of local government capacity in financial management. The success of local financial management is very much determined by the capacity of the local government in meeting the needs and demands of the community. Capacity building to improve government performance that is efficient, effective, responsive and sustainable generally focuses on developing human resources, developing organizations and systems. From the researchers' identification of the theories and ideas used, then juxtaposed with empirical phenomena, this study offers capacity building of local governments from the dimensions of human resource development, dimensions of organizational strengthening, dimensions of networking, leadership dimensions and dimensions of institutional or system reform. Another finding is that the existing dimension in capacity building is a series of systems that influence and need each other. Capacity building is crucial and guarantees the implementation of an effective, efficient, responsive and sustainable cycle of local financial management activities in order to achieve Sustainable Development Goals (SDGs).

Key words: Local government, Capacity building, Financial management, Sustainable development goals (SDGs)

Introduction

Local government has an important role in achieving sustainable development goals, one of which is creating community welfare based on the 16th goal of the Sustainable Development Goals (SDGs) (Khairil *et al.*, 2017). The success of activities carried out by local governments is determined by the ca-

capacity it has. This study looks at local government capacity building in local financial management. This research identifies capacity development priorities in Indonesia as being at the local government level, one of which concerns local financial management. The local government in this study is related to the lowest government in Indonesia or also called the village government. Capacity building is an an-

swer to various weaknesses and problems in local financial management. The gap between local financial management and local government capacity demands the development of local government capacity in local financial management. Based on the facts in the field, the local government has not been able to carry out the cycle of local financial management activities, ranging from planning, implementation, administration, reporting and accountability with the current conditions in the form of low quality of local government human resources, local government organizations that have not been well organized, government networks that have not created, weak local leadership and policies that do not yet support and strengthen the constitution.

The facts in the field of local government so far show the inability and ineffectiveness of development activities carried out to catch up and solve various problems that exist in the community (Razman *et al.* 2010a, Khairil *et al.*, 2017; Rauf, 2018). The success of the local government is largely determined by the efforts of the local government to learn from the success of the important role of capacity building (Razman *et al.*, 2010b; Razman *et al.*, 2010c, Rauf *et al.*, 2016). Improving government performance that is effective, efficient, responsive and sustainable in general uses three dimensions or aspects namely the dimensions of human resources, organizational dimensions and system dimensions. Grindle (1997) introduced several dimensions for capacity building. Capacity building according to Grindle (1997) focuses on the dimensions of human resource development, organizational strengthening, and institutional reform.

The capacity building aims to improve government performance that can meet the needs and demands of society. Based Grindle (1997), capacity building is intended to encompass a variety of strategies that have to do with increasing the efficiency, effectiveness, and responsiveness of government performance. In this study, Grindle (1997) is used as an entry point to see the development of local government capacity in local financial management. Grindle (1997) is used because it has a focus and type of activity in developing government capacity, and there is compatibility with the empirical phenomenon in Indonesia regarding the cycle of local financial management activities. However, the three dimensions of capacity building proposed by Grindle (1997) in this study are considered to still have weaknesses because they have not been ex-

plicit and comprehensive in seeing the development of local government capacity in financial management. The existing dimensions cannot be generalized to analyze the development of local government capacity in local financial management. Grindle (1997) has not described how to develop the capacity of local governments that prioritizes the stages of local financial management by taking into account the principles or principles of local financial management. So the dimensions developed by Grindle (1997) still leave a vacancy to be completed or refined to become a new variant while still strengthening the old variant that has already been developed (Grindle, 1997).

The idea of capacity building emerged in which researchers added and completed several dimensions of capacity development apart from the three dimensions presented by Grindle (1997) more explicitly and comprehensively related to the development of local government capacity in financial management. In addition to the human resource dimension, the dimension of organizational strengthening and the dimension of institutional reform delivered by Grindle (1997), the researcher added two dimensions to this study namely, the leadership dimension and the networking dimension. The identification of researchers of the theory of capacity building by adding the dimensions of capacity development is based on empirical problems and phenomena that occur in Indonesia related to local financial management. The leadership dimension is crucial in running a local government organization. The success of institutional capacity development is largely determined by the leadership factor, however good human resources, organization, and support systems if no leadership capacity support drives the wheels of government, the goals to be achieved will be difficult to realize. Agree with Davis (1972) who said that without leadership an organization is an irregular collection of people and machines (Davis 1972). The key and main factor needed to improve human resources is leadership (Zainal *et al.*, 2011; Zainal *et al.*, 2012; Rauf *et al.*, 2016). The success of local financial management so far is highly dependent on the attitude of local leaders (Rauf, 2018). From the studies that have been carried out, local leadership influences the effectiveness of the use of local finance. The results of the study stated that 57 percent of local leadership affects the effectiveness of the use of local finance (Rauf *et al.*, 2016; Rauf 2018).

The importance of developing local government capacity in local financial management is expected to be able to improve the performance of local governments that are effective, efficient, responsive and sustainable to achieve the welfare of the community. The stages of local financial management which include planning, implementing, administering, reporting, and local financial accountability are expected to be implemented well by the local government while still paying attention to the principles of local financial management.

Local Government and Capacity Building

Local government in its development is an inseparable part of the government system in Indonesia. The local government or in this study related to the lowest government in Indonesia is the last set of national government systems (Emrizal and Razman 2010; Sulaiman and Razman, 2010). Although local government (village) is the last link in the national government system, its existence is very important in achieving national development which has been outlined as a shared ideal. Local government is the leading unit in service to the community and a strategic milestone for the success of all programs. Therefore, efforts to strengthen locality are steps to accelerate the realization of people's welfare (Razman *et al.*, 2011; Razman *et al.*, 2012; Rauf, 2018). By strengthening local government in financial management and management, it is possible to achieve Sustainable Development Goals (SDGs) with effectively and efficiently.

There are two emphasis concerns relating to capacity development, first relating to developing existing capabilities and second, building capacity that does not yet exist. In connection with this research, both of these perspectives are very necessary in looking at studies of the capacity building of local governments in managing development funds. Existing capacity building is intended to reinforce the values needed in achieving development goals. While building capacity that does not yet appear is intended to respond to the dynamics of change or adjust to existing conditions. The capacity that has been understood as the overall capability of the organization or group requires capacity building to carry out its functions properly. So in this case, capacity building also includes multidimensional things. Every discussion about capacity building speaks related to capacity and ability. Ability refers to individual knowledge, skills, and attitudes sepa-

rately or as a group, and the competence to carry out responses that are capable of carrying out the given task. Capacity here refers to the overall ability of individuals or groups to truly carry out responsibilities. Capacity depends not only on the abilities of people but also on the overall size of the task, the resources needed and the framework that is built (Funks, 1999).

Capacity building is an effort intended to develop a variety of strategies to improve efficiency, effectiveness, and responsiveness of government performance. Namely efficiency, in terms of time (time) and resources (resources), needed to achieve an outcome; effectiveness in the form of the appropriateness of business carried out for the desired results; and responsiveness refers to how to synchronize the needs and abilities for this purpose (Grindle, 1997). Implied that capacity building is a form of an effort to make improvements in an effort to achieve goals, explicitly conveyed by) defining capacity building as an effort to help the government, community or individuals in developing the skills and skills needed to realize their goals. Capacity building programs are often localized to strengthen the ability to evaluate their policy choices and implement their decisions effectively. Capacity building can include education and training, regulatory and institutional reforms, as well as financial, technological and scientific assistance (Sessions, 1993).

The previous opinion emphasized that capacity building is more an effort to help and a form of concern for the government, community or individuals to achieve goals. Capacity is defined as the ability of a person, institution or organization (Vincent, 2015). Besides capacity building is also a process, capacity building is a process that can improve the ability of a person, group, organization, or system to achieve goals or to perform better (Razman and Azlan, 2009; Razman *et al.*, 2009a). Capacity building is the process by which individuals, organizations, institutions, and communities develop abilities (individual and collective) to perform functions, solve problems and set and achieve goals (United Nations Development Programme 1997). Capacity building can be seen as a process to encourage or drive change at various levels (multi-level) in individuals, groups, organizations, and systems. Ideally, the capacity building seeks to strengthen the ability to adapt (adaptive) people and organizations to be able to reach/respond to environmental changes that occur

in a sustainable manner (Morrison, 2001).

Dimension of Capacity Building

There are several dimensions or approaches in capacity development, experts in viewing the capacity development dimension exist which emphasize capacity development in the scope of the nongovernment organization (NGO) or community/community, and the public sector (government) or in a more general perspective. Capacity building in the scope of NGOs or the community/community, one of which expressed by Eade (1997) who saw there are three dimensions or approaches in capacity development, especially for NGOs and civil society in relation to empowerment and participation in the form of individual, organizational and network levels. Capacity building on the grounds that many practices maintain more power than empowerment (Eade, 2007) Public sector capacity building focuses on the dimensions of human resources, organization and institutional reform (Grindle 1997). Then Brown *et al.* (2001); Razman *et al.* (2009b) looked at four levels of capacity development consisting of the system level, organizational level, personnel level (government apparatus) and individual or community level. Third, capacity building in a general perspective (Brown *et al.*, 2001; Razman *et al.* 2009b; Razman *et al.*, 2009c). The capacity building approach is not only used in the scope of NGOs and the community/community but also used in the capacity building of public sector organizations that provide services to the community. Capacity covers a broader scope when it relates to the implementation of decentralization and autonomy, which is related to several levels. Capacity building includes three levels of interventions that should be the focus of analysis to be effective and sustainable. The three levels are (a) the system level, (b) the organizational level, and (c) the individual level (Rohdewohld 2004).

Existing Conditions of Local Financial Management

Based on the existing conditions of capacity building and local financial management in Indonesia in general, several important things are relevant and interconnected including: *First*, there are guidelines in local financial management. *Second*, there is support from transfer groups from both the central government (APBN) and regional governments (APBD). *Third*, the application of the local financial

system has not been maximized. *Fourth*, the role of the central government in local financial management: a) supervision and coaching of local government in financial management, and b) a strategic program for accelerating local development. *Fifth*, there is a professional local companion. *Sixth*, local financial management is based on the level of local progress (local status or classification). Factual conditions of the amount of finance received by local governments and the occurrence of gaps between capacity and local financial management needs require local governments to develop their capacity in effective, efficient, responsive and sustainable local financial management. Based on the results of the study, several dimensions are needed in the development of local government capacity including, dimensions of human resources, dimensions of organizational strengthening, dimensions of networking, leadership dimensions and dimensions of institutional reform.

First, the dimension of human resources. This study found that there are several types of activities that can be carried out to create professional and technical local government human resources including education and training, salary, working environment conditions, recruitment, and mentoring. But sharing activities based on the facts in the field where all levels of government do not make serious development of human resources. Various efforts to develop human resource capacity have not been carried out with the correct and consistent methods, the conditions of the work environment that are less conducive and the lack of utilization of potentials and opportunities, thus hampering the effectiveness, efficiency, responsiveness, and sustainability of local financial management, as well creating an ineffective work culture, weak motivation of local government officials and a lack of commitment which is characterized by lack of seriousness and willingness to improve. Whereas some aspects such as work motivation and commitment are aspects that can be classified as potentials in developing human resources. Various capacity building efforts of local government human resources in local financial management need to be done, both from education and training, salary, harmonious working environment conditions, assistance, and recruitment that prioritizes the needs and demands of the organization. All capacity building activities must be carried out correctly and consistently so that efforts to realize the ideals of local government that are effective,

efficient, responsive and sustainable in local financial management can be realized.

Second, the dimension of organizational strengthening. This study found that in realizing management procedures to improve the performance of functions and tasks as well as managing macro structures in local financial management, some activities can be carried out including structuring incentive systems, personnel utilization, leadership, organizational culture, communication, and managerial structures. Based on the facts in the field, various efforts in organizational strengthening have not been carried out optimally and there has not been consistent application of the micro-structure of local financial management. The success of local financial management in this context is determined by the ability of the organization to carry out the tasks and functions of local financial management.

Third, the dimensions of the network. Based on an exploration of capacity building theory and research findings, this study reveals the need for a network dimension in developing local government capacity. The facts explain the dimensions of the network with a focus on the workings of government organizations with other parties to achieve the objectives of local financial management can be done with two key activities namely collaborative governance activities and organizational activities in the form of comparing, coordinating and communicating. If the dimensions of human resources and organizations are more representative of the internal aspects of local government, then the dimension of the network, in this case, is more representative of the workings of local government organizations with other parties or stakeholders. Networking between organizations and other parties becomes a rational choice and development demands that prioritize the principle of participatory in the future given the role of construction actors that need to be developed. To maintain and operate the network with other parties in achieving the objectives of local financial management based on facts in the field, it requires joint commitment, trust, responsibility, cooperation, and benefits. Based on the facts in the field in local financial management, the local government has not utilized the existing network so that it affects the effectiveness, efficiency, responsiveness, and sustainability of local financial management. At present and in the future the local government needs to utilize the potential of networks in

local financial management with collaborative governance and organizational activities which include benchmarking, communication and coordination.

Fourth, the leadership dimension. Based on an exploration of capacity building theory and research findings, this study reveals the leadership dimension needed in local financial management. Existing dimensions with various types of activities such as education and training, recruitment, working environment conditions, the use of personnel, organizational culture, communication, creation of rules in the organization, collaboration, organizational activities in the form of benchmarking, communicating and coordinating implicitly and explicitly can be realized or strengthened by local leadership. Based on the facts in the field, local leadership has not been able to accommodate the needs and demands of local financial management. In local financial management, local leadership is needed which is a capability, compatibility, and acceptability, namely through education and training activities, increasing the requirements of prospective local leaders, behavior modification, assistance, and assistance.

Fifth, the dimensions of institutional or system reform. The system dimension or institutional reform within the framework of developing local government capacity in local financial management is the highest and final level where many components are included. The dimensions of institutional reform can only be described if the dimensions of human resources, dimensions of organizational strengthening, dimensions of the network and leadership dimensions have been described first. The dimension of the system is an inseparable part in developing the capacity of a government, however good human resources, organization and leadership need the support of a system that supports the implementation of various local financial management activities, especially public organizations such as local governments that are in the context of a unitary bound State with the principles of governance. This study found there are several types of activities that can be carried out in creating macro institutions and structures that support the development of local government capacity in managing local finances in the form of rules of the economic and political system, policy improvement, policy, and legal changes and constitutional reform and constitutional strengthening. Based on the facts in the field of local government capacity building in local financial management has been supported by the rules of the

political and economic system of the ruling regime, but it is necessary to improve policies such as setting the stages of local financial management more clearly, changes in policies such as educational level requirements, accountability for financial management and regulation sanctions in local financial management, as well as the adoption of the constitution by carrying out and utilizing the opportunities that exist with full responsibility.

Based on the research findings, a new variant is needed in the form of networking and leadership dimensions. The cycle of local financial management activities which consists of planning, implementing, administering, reporting and accountability require the capacity of local governments in their implementation. The existing capacity development dimension is a strategy to develop the capacity of local governments in effective, efficient, responsive and sustainable local financial management and as an answer in overcoming the problems and phenomena of local financial management that have occurred so far.

Conclusion

The conclusion from this study is that the capacity building dimension of Grindle (1997) has not been able to explicitly and comprehensively explore the development of local government capacity in local financial management. If previously Grindle (1997) focused on the development of government capacity on three dimensions, human resources, organization, and institutional reform, then in this study produced five dimensions of local government capacity development in local financial management, including: (1) human resource dimensions, (2) dimensions of organizational strengthening, (3) dimensions of networking, (4) dimensions of leadership and (5) dimensions of institutional or system reform. The existing capacity building dimension is based on studies that have been carried out; it is known that local government capacity building in local financial management has not been able to be optimized so that it has not supported the creation of effective, efficient, responsive and sustainable local government performance. Local governments need to optimize the dimensions and various existing capacity building activities. The dimension obtained from the study of local government capacity building in local financial management is a systematic series of interplay and mutual needs. Capacity

building is crucial and guarantees the implementation of an effective, efficient, responsive, fair and sustainable cycle of local financial management activities.

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