

ANALYSIS OF THE DEGREE OF FISCAL DECENTRALISATION, INDEPENDENCE, REVENUE EFFECTIVENESS, AND FINANCIAL EFFICIENCY IN MEASURING FINANCIAL PERFORMANCE

Sri Mulyati^{1*}, Nur Fadrijh Asyik²

¹ Management Science Doctoral Programme Student, STIESIA Surabaya, Indonesia

² Management Science Doctoral Programme, STIESIA Surabaya, Indonesia

*Corresponding Author: sri@fekon.unrika.ac.id

Abstract: This research aims to analyze the factors causing the Degree of Fiscal Decentralization Ratio to remain at an adequate level, the Independence Ratio to be relatively high, the Regional Budget Revenue Effectiveness Ratio to be high, and the Regional Financial Efficiency Ratio to also be high. Additionally, the study seeks to improve the financial performance of the Riau Islands Provincial Government based on these ratios. This field research uses a quantitative descriptive approach, collecting data from the Riau Islands Provincial Financial and Asset Management Agency's Budget Realization Report with a saturated sampling technique. The results show that the Degree of Decentralization Ratio remains within sufficient criteria, the Independence Ratio is at a medium level, the Regional Budget Revenue Effectiveness Ratio is already very effective, while the Regional Financial Efficiency Ratio is inefficient. To improve financial performance concerning the Independence Ratio, it is recommended to provide public education on natural resource management. For the Decentralization Ratio, efforts are needed to develop trade and manufacturing sectors and optimize existing Regional Budget Revenues. To enhance the Effectiveness Ratio, it is important to continue optimizing regional income utilization, and for the Efficiency Ratio, preparing regional workers according to their fields is essential to reduce the relatively high regional expenditures.

Keywords: Decentralization, Independence, Efficiency, Performance

1. Introduction

In accordance with Act No. 32 of 2004 on the establishment of regional autonomy, it is stated that local governments are given the power, authority, and responsibility to regulate and manage the finances of their regions in connection with their governmental operations. Rosemarry et al. (2016) argued that the reason for implementing the regional autonomy policy was that the central government could not manage the development of its entire territory. As a result, the central government granted authority to local governments to regulate and manage their territories.

Additionally, Act No. 33 of 2004 on the financial balance between the center and the districts also stipulates how local autonomy can be applied. Local governments are provided with a balance of funds from the central source of the State Budget (APBN) to manage their areas. The central and regional financial balances constitute a system of equitable, proportionate, transparent, and decentralized financial distribution, taking into account the potential, conditions, and needs of each region. Regional autonomy allows regions to carry out governmental duties more independently from the center, including planning, implementation, monitoring, evaluation, and accountability.

In line with the implementation of regional autonomy, the Riau Islands Provincial Government should maximize its potential by utilizing local finances as efficiently as possible. To optimize the autonomy process, the region must be innovative and creative in formulating government policies, particularly those related to financial management. Managing finances should be done efficiently and effectively to

achieve the region's goals and realize its revenue potential. However, in practice, the realization of these objectives often falls short, raising the question: why? This issue requires investigation, as it impacts development funding. Therefore, the regional income management units must enhance their ability to optimize participation in increasing Regional Own Revenue (ROR) to ensure sustainable government and development funding, while also promoting regional economic growth.

2. Literature Review

Regional Finance

Regional Finance is a field of study or practice related to the seizure of government financial resources at the local or regional level. The financial management of the district is the rights and obligations that can be valued with money as well as everything that may be made into the property of the region according to the regulations of the legislation. (Halim dalam D. Siregar dan Mariana, 2020).

Regional Financial Performance

Siregar and Mariana (2020), Performance is described in relation to an activity or program at the level of realizing the goals and objectives, mission and vision of an organization that is focused in the formulation of a strategy scheme of an organisation or activities or programs that are included in the strategic planning of a organization.

According to Government Accounting Standards Statement No. 01 on the Presentation of Financial Statements, the purpose of financial statements in general is to help users make and evaluate resource decisions by presenting information about the financial position, budget realisation, surplus budget balances, cash flows, operating results, and changes in the equity of the reporting entity.

Regional Financial Performance Analysis

The Government of the District as the party that has been given the task of conducting governance, development and service to the community is obliged to report financial accountability on the basis of resources collected from the community as a basis for assessment of financial performance. One tool to analyze the financial performance of the Government in the management of local finance is by carrying out financial analysis of the APBD which has been established and implemented. (Halim, dalam D. Siregar dan Mariana S, 2020).

Tax Decentralization Degree Ratio

In Mrselina et al. (2022), the decentralization theory was first proposed by Koesoemahatmadja (1979), which explains the transfer of power from the central government to the region. Central government cannot solve all local affairs directly because of decentralization. The local government, as the lowest level of administration, can handle this issue.

Regional Financial Independence Ratio

Regional financial independence (fiscal autonomy) indicates the level of ability of the Regional Government to self-finance the activities of government, development and public services that have paid taxes and remuneration as a source of local income. (Halim, dalam D. Siregar dan Mariana S, 2020). According to Anyda and Hermanto (2020) the Regional Independence Ratio shows how the role of the community in regional development and how the region depends on the level of public participation in development.

PAD Efficiency Ratio

The Effectiveness Ratio describes the level of ability of the Regional Government to realize the planned Regional Real Income (PAD) and then compare it to the targets that have been set based on the real potential of the region. (Halim, dalam Anynda dan Hermanto, 2020).

Regional Financial Efficiency Ratio

The Regional Financial Efficiency Ratio is a ratio that describes and shows the level of comparison between the amount of expenditure spent on the realization of the regional expenditures and the realisation of income received. The financial performance of the local government in carrying out and implementing income-raising activities is categorized efficiently when the ratio to be achieved is less than 1 (one) or less than 100 percent.

3. Method

The approach used in this study is a quantitative descriptive method, which involves analyzing data obtained from samples and populations using statistical techniques. This method interprets data without comparing or linking variables but focuses on independent variables, whether one or more, to determine their values. According to Sugiyono (in Wulandari, 2017), this approach is well-suited for such analysis. The sampling technique applied is a saturated sampling method. Sugiyono (2013) explains that when the population is below 100, a saturated sample is used, meaning the entire population is taken as the sample. In this study, the sample consists of the Budget Realization Reports of the Riau Islands Provincial Government for the fiscal years 2018-2022, which were obtained from the Regional Financial and Asset Management Agency (BPKAD) of Riau Islands Province.

4. Result and Discussion

Deskripsi Data

According to the Regional Financial and Asset Management Agency (2019), the Budget Realization Report (LRA) of the Government of Kepulauan Riau is a report that presents information about the realization of income, expenditure, transfer, surplus or deficit, and the financing of an entity (the Riau Islands Provincial Government), which is then compared with its estimates.

Data Analysis

a. Tax Decentralization Degree Ratio

The Fiscal Decentralization Degree Ratio shows the ability of governments to implement development and shows how well local governments manage and regulate their income and expenditure. This ratio shows that the greater the PAD contribution, the better the capacity of the local government to implement decentralisation. The fiscal decentralization ratio can be calculated using the following formula:

$$RDDF = \frac{\text{District Original Receiver}}{\text{Total District Revenue}} \times 100\%$$

With criteria:

Table 1. Fiscal Decentralization Degree Criteria

Presentase PAD against TPD (%)	Fiscal Decentralization Degree Criteria
>50,00	Very good
40,01-50,00	Good
30,01-40,00	Enough
20,01-30,00	Currently
10,01-20,00	Not enough
0,00-10,00	Very less

Source: Hanafi et al. (2005)

Table 2. Ratio Degrees of Fiscal Decentralization of Kepulauan Riau Province 2018-2022

Years	Local Natural Income	Total income	Presentase Desentralisasi	Criteria
2018	1.220.768.246.945	3.500.007.224.302	34,88%	Enough
2019	1.311.704.305.173	3.939.451.004.378	33,30%	Enough
2020	1.195.637.693.103	3.514.310.183.325	34,02%	Enough
2021	1.375.770.280.701	3.809.875.882.443	36,11%	Enough
2022	1.675.729.889.080	3.918.136.426.614	42,77%	Good
Average			36,22%	Enough

Source: Processed data (2024)

The table above shows that the assessment of the fiscal decentralization performance of the Riau Provincial Government has not changed its criteria from the 2018 to 2021 fiscal years. The criteria are considered adequate, meaning that the central government has provided sufficient authority and responsibility to local governments for implementing regional government development. However, in the 2022 fiscal year, the criteria changed and are now considered adequate.

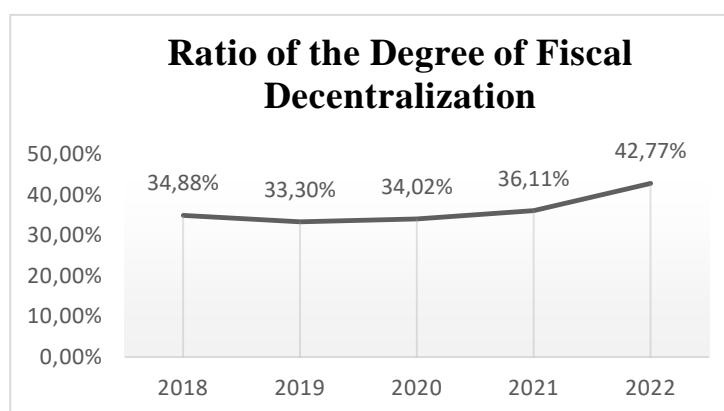


Figure 1: Graph of the Ratio of the Degree of Fiscal Decentralization

Source: Processed data (2024)

b. Independence Ratio

The Regional Financial Independence Ratio shows how capable the regional government is of financing government, development and community services paid for through taxes and levies without depending on the central government. The Regional Financial Independence Ratio (RKKD) can be calculated using the following formula:

$$RKKD = \frac{\text{Regional Original Income}}{\text{Central Government Assistance} + \text{Loans}} \times 100\%$$

With Criteria:

Table 3. Criteria for Regional Financial Independence

Financial Capabilities	Independence (%)
High	75% - 100 %
Currently	50% - 75%
Low	25% - 50%
Very low	0%- 25%

Source: Mahmudi (2010)

Table 4. Riau Archipelago Province Financial Independence Ratio 2018-2022

Year	Locally Generated Revenue	Transfer Income	Percentage of Independence	Criteria
2018	1.220.768.246.945	2.278.002.977.357	53,59%	Currently
2019	1.311.704.305.173	2.626.462.699.205	49,94%	Low
2020	1.195.637.693.103	2.317.188.590.222	51,60%	Currently
2021	1.375.770.280.701	2.406.531.983.533	57,17%	Currently
2022	1.675.729.889.080	2.241.141.497.534	74,77%	Currently
	Average		57,41%	Currently

Source: Processed data (2024)

The table above shows that the criteria for measuring the Regional Financial Independence Performance of the Riau Islands Provincial Government have not changed from the 2018 to 2022 budget years. The criteria are moderate in each year, which means the role of the central government has been reduced and the independence of regional governments has become more dominant.

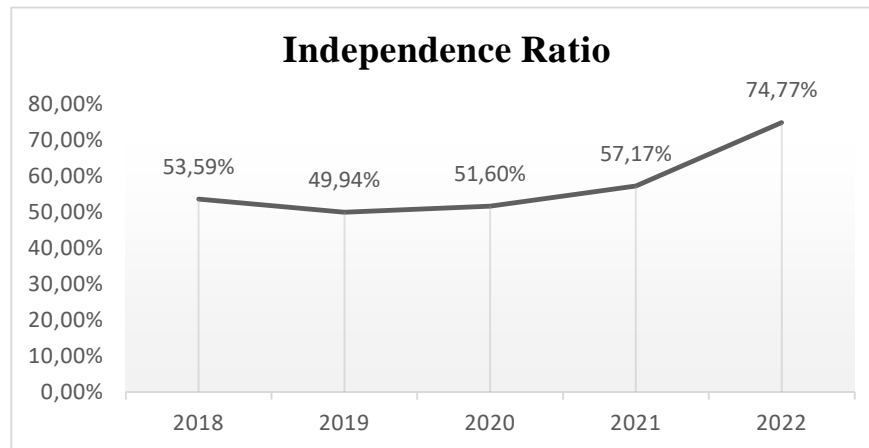


Figure 2: Financial Independence Ratio Graph
Source: Processed data (2024)

c. PAD Effectiveness Ratio

The PAD effectiveness ratio shows how local governments can achieve planned goals using PAD. It shows how goals can be achieved without considering the budget used. To determine the PAD effectiveness ratio, the following formula can be used:

$$\text{Rasio Efektivitas PAD} = \frac{\text{Realisasi PAD}}{\text{Anggaran PAD}} \times 100\%$$

With Criteria

Table 5. PAD Effectiveness Criteria

Effectiveness Criteria	Effectiveness Percentage (%)
Very effective	>100%
Effective	>90% – 100%
Quite Effective	>80% – 90%
Less effective	>60% – 80%
Ineffective	≤ 60%

Source: Mahmudi (2010)

Table 6. Riau Islands Province PAD Effectiveness Ratio 2018-2022

Year	PAD Budget	Realization of PAD	Effectiveness Presentation	Criteria
2018	1.142.352.161.810	1.220.768.246.945	106,86%	Very Effective
2019	1.260.161.048.669	1.311.704.305.173	104,09%	Very Effective
2020	1.165.900.404.290	1.195.637.693.103	102,55%	Very Effective
2021	1.436.072.735.262	1.375.770.280.701	95,80%	Effective
2022	1.444.560.169.951	1.675.729.889.080	116,00%	Very Effective
Average			105,06%	Very Effective

Source: Mahmudi (2010)

According to the table above, the performance measurement of the PAD effectiveness of the Riau Archipelago Provincial Government has not changed from the 2018 to 2022 budget year in the very effective criteria. This shows that PAD is used and managed effectively to achieve regional development goals.

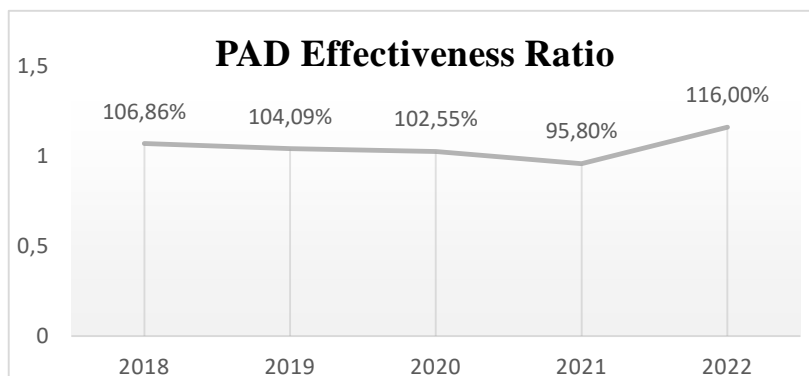


Figure 3: PAD Effectiveness Ratio Graph
Source: Processed data (2024)

d. Regional Financial Efficiency Ratio

The regional financial efficiency ratio shows the extent to which the regional government has succeeded in utilizing regional finances to realize its stated goals. This ratio shows the budget or costs used to achieve goals in accordance with what has been planned or budgeted. Local governments are considered efficient in collecting revenue if the ratio is less than one or below one hundred percent. The efficiency ratio can be calculated using the following formula:

$$REKD = \frac{\text{Realization of Regional Expenditures}}{\text{Realization of PAD Revenue}} \times 100\%$$

With Criteria:

Table 7. Regional Financial Efficiency Criteria

Percentase Efisiensi (%)	Kriteria Efisiensi
Less than 60%	Very Efficient
60% - 80%	Efficient
80% - 90%	Quite Efficient
90% - 100%	Less efficient
100% keatas	Not efficient

Source: Mahmudi (2010)

The table 8 shows that in measuring the regional financial efficiency performance of the Riau Islands Province government, the criteria used are the Inefficient and Less Efficient criteria. This criterion shows that the costs incurred to generate income are greater than the income received by the local government.

Table 8. Financial Efficiency Ratio of Riau Province 2018-2022

Year	Total Shopping	Total income	Efficiency Percentage	Criteria
2018	3.419.789.812.825	3.500.007.224.302	102,35%	Not efficient
2019	3.653.938.156.214	3.939.451.004.378	107,81%	Not efficient
2020	3.855.203.051.882	3.514.310.183.325	91,16%	Less efficient
2021	3.703.816.047.351	3.809.875.882.443	102,86%	Not efficient
2022	3.842.586.411.976	3.918.136.426.614	101,97%	Not efficient
Rata-Rata			101,23%	Not efficient

Source: Processed data (2024)

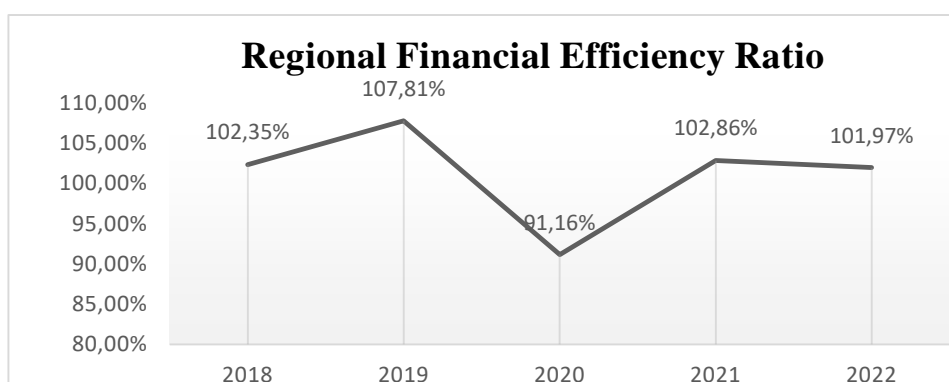


Figure 4. Regional Financial Efficiency Ratio Graph

Source: Processed data (2024)

Discussion

1. Factors causing the Degree of Fiscal Decentralization Ratio to still be at an adequate stage in the Regional Financial Performance of the Riau Islands Provincial Government 2018 to 2022:

- a. Limited Original Regional Income, lack of clear determination of Original Regional Income targets, lack of awareness of tax and levy obligations, and lack of awareness of fiscal responsibility, namely paying taxes.
- b. Dependence on the Balancing Fund is caused by weak management of Original Regional Revenue. In the field of taxation, initially the most productive main taxes, both directly and indirectly, were collected by the central government, only a few regional taxes could be relied upon as a source of regional revenue.
- c. Economic uncertainty causes the national economy to experience uncertainty, income fluctuations and changes in global economic conditions. This can affect regional financial performance and make regions less willing to take the risk of greater fiscal decentralization.

2. Factors causing the relatively high Independence Ratio in the Regional Financial Performance of the Riau Islands Provincial Government 2018 to 2022:

- a. Increase in Regional Original Income (PAD), due to the development of the use of Natural Resources, such as in the mining sector in the Riau Islands Province, which continues to grow.

- b. Local Economic Empowerment: The mining sector in the Riau Islands Province consists of mining materials such as bauxite, tin, granite and iron ore. The tourism sector offers pristine beaches and islands as well as attractive coral reef ecosystems.
 - c. Structured Debt Management
- 3. Factors causing the high PAD Effectiveness Ratio in the Regional Financial Performance of the Riau Islands Provincial Government 2018 to 2022:**
- a. Effective Tax Management, increasing Original Regional Income (PAD) generated from several tax sources that are well managed by the government.
 - b. Good Regional Asset Management, optimal management and utilization of regional assets including managing and developing natural resources and available land to increase regional income.
 - c. Empowerment of Small and Medium Enterprises (UKM), empowers and supports the growth of local SMEs which can create more business opportunities, reduce unemployment in the region and increase the contribution of PAD.
 - d. Partnership with the Private Sector, as a world trade center, makes the Riau Islands Province have a strategic role in world trade traffic.
- 4. Factors causing the high Regional Financial Efficiency Ratio in the Regional Financial Performance of the Riau Islands Provincial Government 2018 to 2022:**
- a. The increase in regional spending allocations, especially in operational spending, is dominated by personnel spending and goods and services spending.
 - b. Lack of investment in infrastructure and basic public services increases operational costs, which hinders regional economic growth and reduces the efficient use of public funds.
- 5. Improving Regional Financial Performance based on the Fiscal Decentralization Ratio, Independence Ratio, PAD Effectiveness Ratio, and Regional Financial Efficiency Ratio of the Riau Islands Provincial Government from 2018 to 2022.**
- a. Providing education to the public about the importance of paying taxes. According to Mudrajad Kuncoro (2014), increasing PAD can be achieved through improving the function of Regional Owned Enterprises (BUMD), increasing regional revenues, changes in methods of providing subsidies, and increasing regional loans.
 - c. Providing education to the public on how to manage and develop natural resources and promoting the attractiveness and benefits of the region to private parties to participate in developing the region.
 - d. Continue to manage taxes effectively, develop regional asset management, increase SME empowerment.
 - e. Reducing the percentage of Efficiency Ratio by preparing regional workers according to their fields for implementation in the field.

5. Conclusions

Based on the results of the research conducted, the conclusions are as follows:

1. Factors causing the Fiscal Decentralization Degree Ratio to still be at an adequate stage: Limited regional income due to undetermined PAD targets. Dependence on Balancing Funds. Economic uncertainty causes the national economy to experience uncertainty, income fluctuations and changes in global economic conditions.

2. Factors that cause a fairly high Regional Financial Self-Sufficiency Ratio: Increase in PAD due to the development of the use of Natural Resources. The provincial government uses transfer funds from the central government effectively for its needs.
3. Factors causing the high PAD Effectiveness Ratio: Good Regional Asset Management, Empowerment of Small and Medium Enterprises (UKM), which can create more business opportunities, reduce unemployment in the region and increase the contribution of PAD
4. Factors causing high Efficiency Ratio: Imbalance between expenditure and income. Limited Infrastructure and Public Services, lack of investment in basic public infrastructure and services, thereby increasing operational costs which can hamper regional economic growth and reduce the efficient use of public funds.

References

- Badan Pengelolaan Keuangan dan Aset Daerah Provinsi Kepulauan Riau, (2023). [BPKAD Provinsi Kepulauan Riau – Badan Pengelolaan Keuangan dan Aset Daerah Kepri \(kepriprov.go.id\)](http://kepriprov.go.id)
- Badan Perencanaan Penelitian Pengembangan Kepri, (2023). [POTENSI KEPRI – BARENLITBANG KEPRI \(kepriprov.go.id\)](http://kepriprov.go.id)
- Hakiki D, Agustina I, Tumija. (2023). Pengaruh Rasio Kemandirian Daerah Dan Belanja Daerah Terhadap Kinerja Keuangan Pemerintah Daerah Kabupaten Sekadau. *JEKP (Jurnal Ekonomi Dan Keuangan Publik)*, 10 (1), 56–78. <https://ejournal.ipdn.ac.id/JEKP>
- Junita, Lubis TA, Zamzami H. (2017). Pengaruh desentralisasi fiskal terhadap kinerja [tesis]. *Universitas Jambi, Magister Ilmu Akuntansi*.
- Keintjem VA, Murni S. (2022). Analisis kinerja keuangan pemerintah daerah kabupaten banggai laut tahun anggaran 2017- 2019. *Jurnal EMBA*, 10 (1), 953–962.
- Koromath PJ. (2020). Analisis Efisiensi dan Efektivitas Pengelolaan Keuangan Daerah di Kabupaten Manokwari. *Lensa Ekonomi*, 11(01), 13–23.
- Melmambessy, D., Manajemen, D. P., Tinggi, S., Ekonomi, I., & Numbay, P. (2022). Analisis kinerja keuangan pemerintah kota jayapura ditinjau dari rasio kemandirian daerah, ketergantungan daerah, desentralisasi fiskal dan efektivitas. *Jurnal ekonomi & bisnis*, 13(2), 10–15.
- Oktrivina A, Siregar D, Mariana I. (2020). Analisis kinerja keuangan pemerintahan (studi kasus: pemerintahan kota depok-jawa barat). In *journal image* (Vol. 9, Issue 1).
- Purwanti Endang NE. (2021). Analisis Kinerja Keuangan Daerah Pemerintah Kota Salatiga Tahun 2014-2018. *Jurnal Among Makarti*, 14–2.
- Sugiyono. (2017). Metode Penelitian Kuantitatif, Kualitatif, dan R&D. Alfabeta.
- V. Wiratna Sujarweni. (2015). Metodologi Penelitian Bisnis & Ekonomi (*Cetakan pertama*). Pt. Pustaka baru press.
- Wulandari, R. (2021). Analisis Kinerja Keuangan Pemerintah Daerah Provinsi Di Indonesia (Vol. 4, Issue 2). *Scientific Journal Of Reflection: Economic, Accounting, Management and Business*, 4(2). 411-420 www.djpk.kemenkeu.go.id.
- Yulitiawati. (2019). Analisis Rasio Derajat Desentralisasi Fiskal, Kemandirian Keuangan Daerah, Dan *Debt Service Coverage Ratio (Dscr)* Dalam Mengukur Kinerja Keuangan Pemerintah Daerah Kabupaten Ogan Komering Ulu Tahun Anggaran 2013 – 2017 [disertasi]. *Prodi Akuntansi Universitas Baturaja*