

Analysis of Regional Financial Capacity in Sumatera-Indonesia

Dafina Nur Intan^{1*}, Azansyah²

Management major, Faculty of Economic, Bengkulu University

Corresponding Author: Dafina Nur Intan intandafina14@gmail.com

ARTICLE INFO

Keywords: Ratio of Financial Ability, Financial Ratios, Main Region, Expansion District

Received : 12, September

Revised : 17, October

Accepted: 23, November

©2023 Intan, Azansyah: This is an open-access article distributed under the terms of the [Creative Commons Atribusi 4.0 Internasional](https://creativecommons.org/licenses/by/4.0/).



ABSTRACT

The objectives of this research are: (1) To analyze the financial capability of the Regency/city in the region of southern Sumatra and (2) the compare of financial capability of the district/parent city with the expansion in the region of Sumatra. This research is a quantitative study with a sample of district/parent city and expansion in the region of Sumbagsel. The data analysis methods used are analysis of financial ratios and descriptive analysis. The results show The District/parent city and District/city expansion has a ratio of self-reliance, degree of fiscal decentralization and a fluency index of routine capabilities, were.

INTRODUCTION

The nature of regional autonomy is related to the delegation of authority to make policy decisions, manage public funds and regulate activities in the context of governance and community services, so the role of regional financial data is needed to identify sources of regional financing as well as the type and amount of expenditure that must be incurred so that financial planning can be carried out effectively and efficiently. Regional financial data that provides an overview of budget development and realization, both revenue and expenditure and analysis of it is important information, especially for making policies in regional financial management and seeing the ability or level of regional independence.

Halim (2001) explains that the main characteristics of a region capable of implementing autonomy, namely (1) regional financial capacity, meaning that the region must have the authority and ability to explore financial resources, manage and use its own finances that are sufficient to finance the administration of its government, and (2) dependence on central assistance must be as minimal as possible, so that local revenue (PAD) can become the largest part of the financial resources so that the role of local government becomes greater.

In contrast to the real and broad autonomy system (Law No. 32 of 2004), with low PAD, the regions are faced with complicated problems. In addition to increasing revenue, regions must also spur the productivity of local governments by building supporting facilities and infrastructure for the growth and development of investment, which is the driving force in the process of economic development in a region. Regional fiscal autonomy is one of the important aspects of regional autonomy as a whole, because the definition of regional fiscal autonomy describes the ability of local governments to increase PAD such as taxes, levies and others. However, it must be recognized that the degree of regional fiscal autonomy in Indonesia is still low, meaning that the regions have not been able to finance their routine expenses. Therefore, regional autonomy can be realized only if accompanied by effective finance. Local governments must be financially independent of the central government by exploring sources of PAD as much as possible (Halim, 2001).

Local own-source revenue is seen as one of the indicators or criteria for measuring the level of regional dependence on the centre. The high PAD of a region causes the region to be able to carry out government and development activities in the region without assistance from the central government through balancing funds. In other words, the independence of the region is increasing. The extent of the local government's ability to maintain and improve the success achieved from one period to another is illustrated in its growth ratio. This growth ratio is seen from various components of the APBD preparation consisting of the ratio of regional original income, the ratio of total regional income, the ratio of routine expenditure and the ratio of development expenditure (Rahman, et al. 2014).

So far, the source of regional income funds for the Regency / Parent and expansion in the Southern Sumatra region is still mostly derived from

government balance funds (transfers) consisting of tax revenue sharing, non-tax revenue sharing / natural resources, DAU and DAK and other revenues consisting of grant income, emergency fund income and other revenues. This shows that the Regency / Parent and expansion in the Southern Sumatra region still do not have an optimal level of local revenue, so they are not yet independent. This can be seen from the comparison of regional own-source revenues of regencies/parent and expansion in the Southern Sumatra region with central government balancing funds (transfers), where the realization of PAD is smaller than the central government balancing funds.

To measure the ability and independence of regional finances reflected in the APBD, the ability ratio, independence ratio, growth ratio and trend analysis are analysed. Trend analysis of regional financial capability and independence needs to be done. Because it is possible that the level of ability and financial independence of the parent district / city and the expansion has not shown a good percentage, but has a tendency or trend towards positive development.

From the explanation above, it is known that financial independence is very important in the implementation of regional autonomy, because independence means that a region is empowered or not in the implementation of regional autonomy, so that regions that are independent or empowered, it means that the region can support its own needs in the implementation of regional autonomy. This raises the question of what causes the Regency / Parent and expansion in the Southern Sumatra region to not be able to realize its regional independence? Does the central government deliberately allow this condition to continue the dependence of local governments on transfer funds or due to the inability of the Regency / Parent Government and expansion in the Southern Sumatra region itself in realizing regional independence?

THEORETICAL REVIEW

Fiscal Decentralization Theory

According to Sidik (2001), fiscal decentralization is a tool to achieve one of the state's objectives, which is primarily to provide better public services and create a more democratic public decision-making process. According to Saragih (2003), fiscal decentralization can briefly be interpreted as a process of budget distribution from higher levels of government to lower levels of government, to support government functions or tasks and public services in accordance with the amount of authority in the field of government delegated.

Regional Capacity for Autonomy

The Ministry of Home Affairs (1991) states that to determine the style of regional autonomy, one of the main variables used is regional financial capacity. Furthermore, regional financial capacity can be seen from the ratio of PAD to APBD. Thus, the amount of PAD is a very important element in measuring the level of regional capacity to implement regional autonomy. According to Saragih (1996), the role of PAD as a source of financing regional development is still low. Even though the acquisition of PAD each year is relatively increasing, it is still unable to boost the rate of regional economic growth. For some regions that are relatively minus with the small role of PAD in the APBD, the only effort is to

attract domestic private investment to minus districts. This approach is not easy to do because the private sector is more oriented towards districts that are relatively profitable in economic terms.

Measurement of Regional Financial Capability

The Ministry of Home Affairs (1991) states that to determine the style of regional autonomy, one of the main variables used is regional financial capacity. Furthermore, regional financial capacity can be seen from the ratio of PAD to APBD. Thus, the amount of PAD is a very important element in measuring the level of regional capacity to implement regional autonomy. According to Saragih (1996), the role of PAD as a source of financing regional development is still low. Even though the acquisition of PAD each year is relatively increasing, it is still unable to boost the rate of regional economic growth. For some regions that are

1. Regional financial independence ratio

The Regional Financial Independence Ratio (RFIR) shows the ability of the Regional Government to finance its own government activities, development and services to the people who have paid taxes and levies as a source of income needed by the region (Mahmudi, 2007). Regional independence is indicated by the size of the Regional Original Revenue (PAD) compared to total revenue.

2. Degree of fiscal decentralization

The Degree of Fiscal Autonomy (DOF) is a calculation that shows the ability of the local government to finance its own government activities, development and services to the people who have paid taxes and levies as a source of income needed by the region. Meanwhile, this is in accordance with what was stated at the beginning of this chapter about regional finance and regional autonomy.

3. Routine capability index

The Routine Capability Index (RCR) is a measure that illustrates the extent to which the ability of a region's PAD can finance its routine expenditures.

This study analyses regional financial capability in the Southern Sumatra region. Regional financial capability is measured by 3 ratios, namely the ratio of regional financial independence, the ratio of the degree of fiscal decentralization and the ratio of routine capability. Observations were made during 2015-2018. Schematically, the research analysis framework is described as follows.

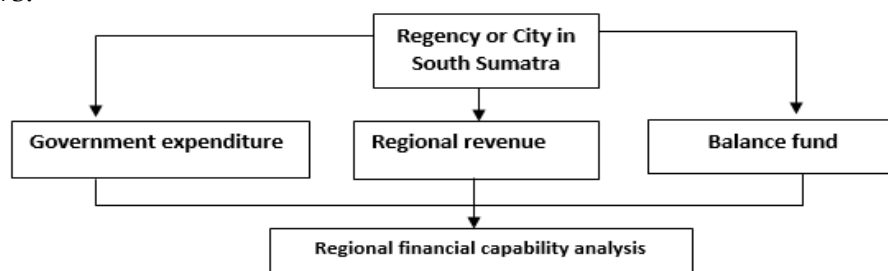


Figure 1. Conceptual Framework

METHODOLOGY

The type of data used in this research is secondary data. The data in this study were obtained through the documentation method which was carried out by collecting and recording various data that had been published by the government. The data in this study are generally sourced from the APBD of the parent Regency / City and expansion in the Southern Sumatra region from 2019 to 2022 which are accessed on the page <http://www.djpk.kemenkeu.go.id>.

Descriptive analysis was used to answer the second research objective. Descriptive analysis is used to provide an interpretation and logical thinking for all research results using frequency distribution tables, averages, and percentages. Descriptions of research data were carried out based on research variables. In addition to descriptive analysis, data analysis also uses an independent sample t-test. The goal is to analyze the differences in the financial capacity of the parent and expansion regions in the Southern Sumatra Region.

RESULTS

Regional Financial Capability Ratio

From the results of the research, the regional financial capability of the parent regencies in the South Sumatra region was obtained as described below

Table 1. Regional Financial Independence Ratio (RFIR), Fiscal Autonomy Degree (DOF), and Routine Capability Ratio (RCR) of Parent and Expansion Regions in South Sumatra

	District	Mean	Std. Deviation	t-value	p-value
RFIR	Parent district	9.4442	3.91066	3,090	0,002
	Expansion district	6.5278	4.02512		
DOF	Parent district	8.4426	10.95275	3,516	0,001
	Expansion district	5.0562	2.74251		
RCR	Parent district	0.0771	0.08958	1.049	0,298*
	Expansion district	0.0660	0.10404		

*) Non-significant

Based on the research results, it is known that:

1. The ratio of regional financial independence (RFIR) of the parent and expansion districts in general is still in the "low" category. This is because the acquisition of the independence ratio is still in the interval 0% - 25%. The p-value is smaller than alpha 0.05, indicating that the average independence of the expansion districts is greater than the independence of the parent districts.
2. The ratio of the degree of fiscal decentralization of the parent and expansion districts in general is still in the "low" category. This is because the DOF ratio is still in the 0% - 10% interval. The low DOF ratio indicates that the parent and expansion districts still have a high dependence on the central government. However, from hypothesis testing, the DOF ratios of the parent

districts/municipalities and the expansion regions are significantly different.

3. The average value of the RCR of parent districts/municipalities is 0.077% and the RCR of expansion districts/municipalities is 0.066%. From these average RCR values, it can be seen that the RCR ratios for parent and expansion districts show different ratios. However, when viewed from the RCR ratio for parent or expansion districts, both are classified as low RCR ratios (RCR < 10%). The p-value is smaller than alpha 0.05, indicating that the average of RCR the parent and expansion districts not significant deferent.

DISCUSSION

Descriptive statistics of the first research variable is the regional independence ratio. The independence ratio (RFIR) is the ability of the region to finance government activities, development and services to the community from taxes paid by the community. The greater the independence ratio, indicating that the region has the ability to obtain PAD as a source of regional revenue. The overall sample average is 9.44%. This means that out of one hundred percent of total regional aid and loans, 9.44% comes from total PAD revenue. The average value of the RFIR of the parent district / city was 3.911% and the RFIR of the expansion district / city was 4.025%. From the average value of RFIR, it can be seen that the RFIR ratio for the parent district / city and the expansion shows a different ratio. However, judging from the RFIR ratio for parent districts or expansion, both are classified as low self-reliance ratios.

The descriptive statistics of the second research variable is the ratio of the degree of fiscal decentralization (DOF). The DOF ratio is the ability of the region to finance government activities, development and services to the community from taxes paid by the community. The greater the DOF ratio, indicating that the region has the ability to obtain PAD as a source of regional revenue. The average value of the DOF of the parent district/city is 8.44% and the DOF of the expansion district/city is 5.056%. From the average value of the DOF, it can be seen that the DOF ratio for the parent districts and expansion districts shows a different ratio. However, when viewed from the DOF ratio for parent or expansion districts, both are classified as low DOF ratios (DOF < 10%).

The descriptive statistics of the second research variable is the RCR ratio. The RCR ratio is the ability of the region to finance government activities, development and services to the community from taxes paid by the community. The greater the RCR ratio, indicating that the region has the ability to obtain PAD as a source of regional revenue. The average value of the RCR of the parent district / city is 0.077% and the RCR of the expansion district / city is 0.066%. From the average RCR value, it can be seen that the RCR ratios for parent districts/cities and expansion districts show different ratios. However, when viewed from the RCR ratio for parent or expansion districts, both are classified as low RCR ratios (DOF < 10%).

CONCLUSIONS AND RECOMMENDATIONS

The differences in the regional capabilities of the parent district and the expansion district in the South Sumbagsel region can be summarized as follows: (a) The independence ratio of the parent district/city is higher than that of the expansion district/city; (b) The degree of fiscal decentralization of the parent district/city is higher than that of the expansion district/city and (c) The routine capability index of the parent districts/cities is higher than that of the expansion districts/cities.

This study is limited to only discussing the financial capacity of the parent district / city and expansion in South Sumatra by relying only on secondary data and the research time span is too short, which is only for 5 years, while data collection by direct observation or observation is not carried out. Therefore, the conclusions drawn are only based on these data, which may be different from the actual conditions.

FURTHER STUDY

Based on the results of the analysis of the level of regional financial capacity of districts / cities in South Sumatra is still in the low category. This conclusion is only based on secondary data and the research time span is too short, which is only for 4 years. Therefore, to obtain more representative results, research data should be supplemented with direct observation and observation of the districts/cities studied.

REFERENCES

- Bandyopadhyay, T. (2015) Regional Financial Ratio Analysis in Indonesia.
- Basuki, 2007. Regional Financial Management, creation of Discourse Jogjakarta.
- Bisma, A., & Susanto (2010). Analysis of Regional Financial Ratios in Indonesia.
- Erfiana (2019). Analysis of Regional Financial Ratios in Indonesia. Study of Parent and Expansion Districts
- Halim, Abdul, 2001. Bunga Rampai: Regional Financial Management. First Edition. Yogyakarta: UPP AMP YKPN.
- Halim, Abdul, 2007. Public Sector Accounting Regional Financial Accounting, 3rd Edition.
- Hidayat, et al. (2007). Regional Financial Ratio Analysis in Indonesia.
- Kamaroellah, T. (2017). Analysis of Regional Financial Ratios in Indonesia.
- Koswara, E, 2000, Toward the Implementation of Regional Autonomy Based on Law Number 22 Year 1999: A Review and Concerning Policy, Implementation and Complexity, Central Strategic of Indonesian Studies, XXIX Number 1, 36-53.
- Kuncoro, Mudrajad, 2004. Autonomy and Regional Development: Reform, Planning, Strategy, and Opportunity, Erlangga, Jakarta.
- Law No. 1 Year 2004 on State Treasury

Law No. 17 Year 2004 on State Finance.

Law No. 32 Year 2004 on Local Government

Law No. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments.

Mardiasmo, 2000, New Paradigm of Regional Financial Management to Welcome the Implementation of Regional Autonomy 2001, Seminar Paper. MEP-UGM, Yogyakarta.

Mardiasmo, 2001, Public Financial Planning as a Demand in the Implementation of Clean and Authoritative Regional Government, Paper, Yogyakarta.

Mardiasmo, 2002, Autonomy and Regional Financial Management, Andi, Yogyakarta.

Neuman W. Lawrence. (2000). Social Research Methods: Qualitative and Quantitative, Approaches. Boston: Allyn and Bacon.

Nurhayati (2015). Analysis of Regional Financial Independence Ratio

Permendagri Number 13 of 2006 concerning Regional Financial Management Guidelines.

PP Number: 8 of 2006 concerning Financial Reporting and Performance of Government Agencies Ministry of Home Affairs Training Bandiklat 2007.

PP. Number: 58 of 2005 concerning Regional Financial Management.

Putra, I. & Hidayat, N. (2016). Regional Financial Ratio Analysis in Indonesia.

Ramadhani (2016). Analysis of Regional Financial Ratios in Indonesia.

Rinaldi, K. (2012). Analysis of Regional Financial Ratios in Indonesia.

Sanuari (2015). Analysis of Regional Financial Ratios in Indonesia.

Savitry, P. (2011). Analysis of Regional Financial Ratios in Indonesia.

Setiawan in <http://reviewtesis2.blogspot.com> (2008) Evaluation of Regional Financial Management Performance of Kutai Regency East Kalimantan download 23 September 2010

State Administration Institute, 2004. Guidelines for the Preparation of Performance Accountability Reporting of Government Agencies.

Sugiyono, 2009. Business Research Methods. Bandung: Alfabeta

Triastuti, 2010 <http://reviewtesis2.blogspot.com> (2008) Analysis of Financial Independence of Jogjakarta City. download 24 September 2010

Wahab, A. (2016) Analysis of Regional Financial Ratios in Indonesia.

Wibowo (2006). Analysis of Regional Financial Ratios in Indonesia.