

LOCAL FINANCIAL INDEPENDENCE OUTLOOK TO COPING WITH UNCONDITIONAL SITUATION: EVIDENCE OF MUNICIPAL GOVERNMENT IN INDONESIA

^{*1}Ika Kurnia Indriani,²Agus Widodo,³Henri Prasetyo
⁴V.Ananta Tungga Dewi

¹⁻⁴ Department of Accounting, State Polytechnic of Pontianak, Pontianak, Indonesia

Author's email:

¹ikakurniaindriani@gmail.com; ² widodoagus86@gmail.com; ³ henriprasetyo@polnep.ac.id
⁴vanantawikrama@polnep.ac.id

Corresponding Author: ¹ikakurniaindriani@gmail.com

Abstract. Financial independence has a significant influence on handling unconditional situations. The COVID-19 pandemic, as a true shock situation, brings a new perspective to managing local finances. Indonesia's local government heavily depends on transfers of funds from the central government. The autonomy system has been implemented for twelve years; however, local financial independence has not changed. The central government transferred 86.36 Trillion Rupiah to the local government to help it cope with the pandemic. This research aims to analyze financial independence's responses to shocks from three dimensions: anticipatory capacities (AC), coping capacities (CC), and vulnerabilities. This research used a qualitative approach and archival data analysis from 2014–2021 with 93 samples of municipal governments. Research findings indicate that municipal governments have limited capabilities to anticipate and cope with unconditional situations. The municipal government's budget capacity and financial resilience are low to cope with the unconditional situation. Local financial independence has not changed significantly while fiscal decentralization has been implemented for 20 years

Keywords: Municipal Government, Financial Independence, and Unconditional Situation

1. INTRODUCTION

The Indonesian system of regional autonomy uses local government as a tool for decentralization, deconcentration, and support tasks (Keintjem et al., 2019). Decentralization is the principal instrument for implementing regional autonomy. Decentralization is the transfer of government affairs from the central government to autonomous regions on the basis of the principle of autonomy. Fiscal decentralization is one form of this instrument, in which local administrations manage their economic resources to strengthen fiscal capacity. Regional economic expansion is enhanced by fiscal decentralization (Anggraeny et al., 2017). Since 1994, China, one of the world's greatest economies, has implemented fiscal decentralization. This policy has had a positive effect on the regional economy, public service quality, political participation, and budget efficiency (Fajria et al., 2021) (Lapsley & Miller, 2019)

In 1998, several Latin American nations, including Colombia, Brazil, and Peru, implemented fiscal decentralization in addition to China. This policy had a positive impact on regional economic growth, the quality of public services, and political participation (George & Pandey, 2017). The implementation of fiscal decentralization can increase the authority of regional leaders to determine resource management policies (Holtz et al., 2020). Since the regional autonomy policy was adopted, Indonesia has implemented fiscal decentralization (Elim et al., 2014). In Indonesia, fiscal decentralization is governed by Law No. 28 of 2009 pertaining to Regional Taxes and Regional Levies. The provincial, district, and municipal governments of Indonesia are authorized to administer their entire economic potential. Regional taxes and levies are economic resources that must be managed optimally to strengthen regional fiscal capacity. Increasing regional fiscal capacity will foster regional development and enhance community services (Kurnia Indriani et al., 2022)

In Indonesia, fiscal decentralization has no significant effect on the proportion of APBD realized. Outside of Java Island, the proportion of APBD is still comparatively low. The regional administrations of DKI Jakarta, West Java, East Java, and Central Java have the highest proportion of APBD in Indonesia, based on the realization of the 2022 APBD (I. K. Indriani, 2022a) (I. K. Indriani, 2023).

The APBD conditions influence the degree of regional financial autonomy. The ratio of PAD to APBD remains extremely low. This is the purpose of this study. After 20 years of implementing the regional autonomy system, the condition of the regional fiscal capacity will be described in an evaluation of regional financial autonomy at the city level. Financial autonomy is indicative of effective regional financial administration during the period of autonomy.

2. LITERATURE REVIEW

Financial independence is the condition that ensures that local governments are not vulnerable to national or international sources of funds beyond their control or influence. In calculating the financial independence ratio, PAD is therefore one of the primary categories utilized. PAD will be compared to the local government's total expenditures for one budget period. Regional PAD is comprised of local tax revenues, local retribution revenues, dividends from local government investments, and additional regionally generated revenues (Ritonga, 2015). Financial independence will emphasize the regional budget's capacity to generate local revenue (PAD), DAU, DAK, and total revenue and expenditures. Financial autonomy will provide information about the APBD's capacity to execute all work programs outlined in the Regional Revenue and Expenditure Budget Plan (RAPBD) (Adriana & Ritonga, 2018).

3. RESEARCH METHODS

This research employed a quantitative methodology and archival research. The research is predicated on collecting data by first identifying variables as fundamental notions that will be related to the existing theory and utilizing massive amounts of data (Sugiyono, 2017). Financial independence indicators focused on this study's evaluation of the financial condition. Indicators of financial independence approach to accurately characterize the local government finances of unconditional situation response. To cope with the unconditional situation, some municipal governments devised short-term initiatives (Padovani et al., 2020). The population of this study consists of local governments in Indonesia. This study's sample is the municipal governments of Indonesia. There were 93 municipal governments sampled. The data used in this investigation are secondary data. The information represents the APBD implementation report from 2014 to 2021. This information was gathered from the Directorate General of Monetary Balance of the Ministry of Finance of the Republic of Indonesia.

The initial financial condition study included ratio indicators of financial independence (Ritonga, 2015). Financial independence demonstrates the capacity of the regional budget to be unaffected by national and international sources of funding (Ritonga, 2015).

4. RESULTS AND DISCUSSION

Table 1. Statistic Descriptive Analysis

		Rasio A	Rasio B	Rasio C	Rasio D
N	Valid	744	744	744	744
	Missing	0	0	0	0
Mean		.1936	.1970	.4566	.1036
Median		.1651	.1676	.5143	.1040
Minimum		.02	.02	.00	.00
Maximum		.64	1.23	1.97	.40

For the period 2014–2021, the financial independence of municipal governments in Indonesia is 0.16, 0.16, 0.51, and 0.10. This value is based on the median value derived from descriptive statistics. Consequently, the proportion of PAD to total municipal government revenue during 2014–2021 is expected to reach approximately 16%. The ratio of PAD to total expenditures is only 16%; therefore, the quantity of PAD that could cover total municipal government expenditures is only 16%. Currently, the ratio of DAU to total income has reached 51%. This condition suggests that the municipal government in Indonesia is still highly reliant on the transfer of funds from the central government. 10% of the municipality's total revenue is contributed by DAK. This can be interpreted as an indication that the transfer of funds from the central government to the regions for physical development is relatively modest.

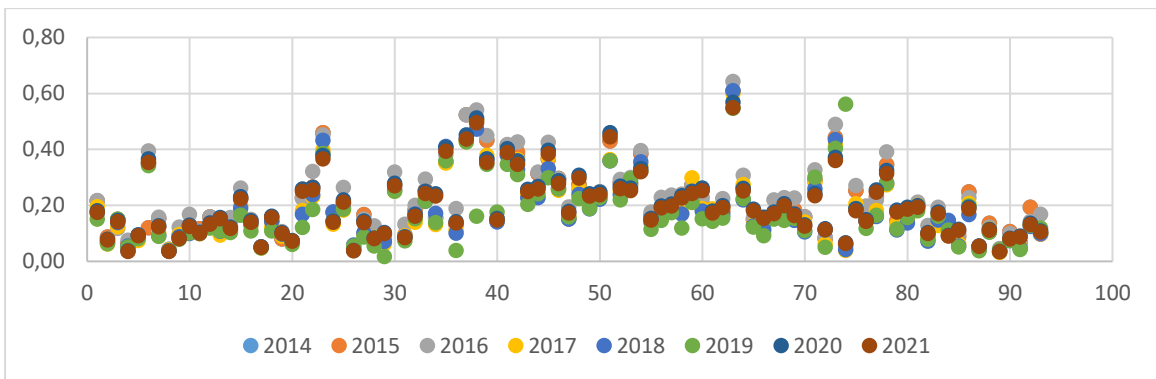


Figure 1. The Proportion of PAD and Total Revenue

According to the results of calculating the ratio a , the proportion of PAD to total regional income remains extremely low. PAD accounts for 10% to 40% of municipal administrations' total revenues in Indonesia. Since 2021, the 20-year implementation of regional autonomy has had little effect on regional financial independence.

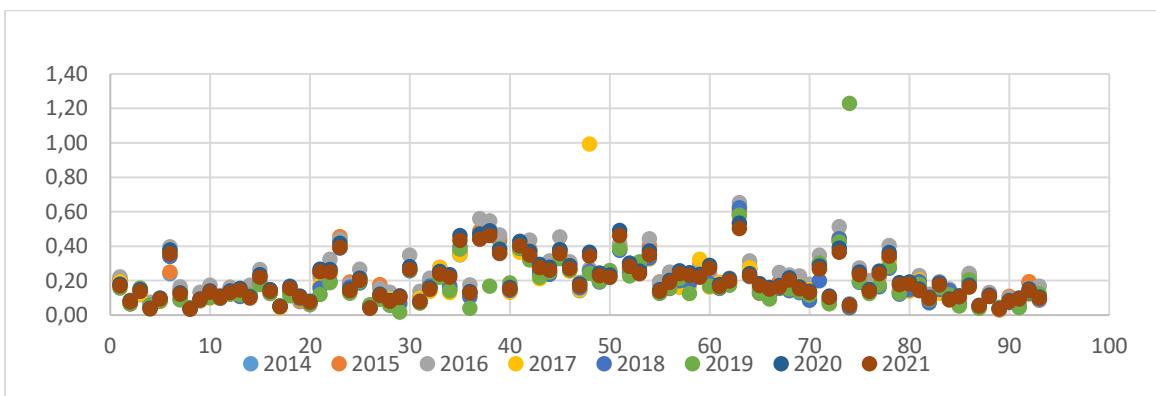


Figure 2. The proportion of PAD and Total Expenditure

As the main instrument of fiscal decentralization, PAD has a small proportion of regional expenditures. Based on these indicators, the assessment of financial independence reveals that PAD accounts for 10% to 40% of total expenditures. The majority of city governments in Indonesia rely on other sources of income to fund their budgets.

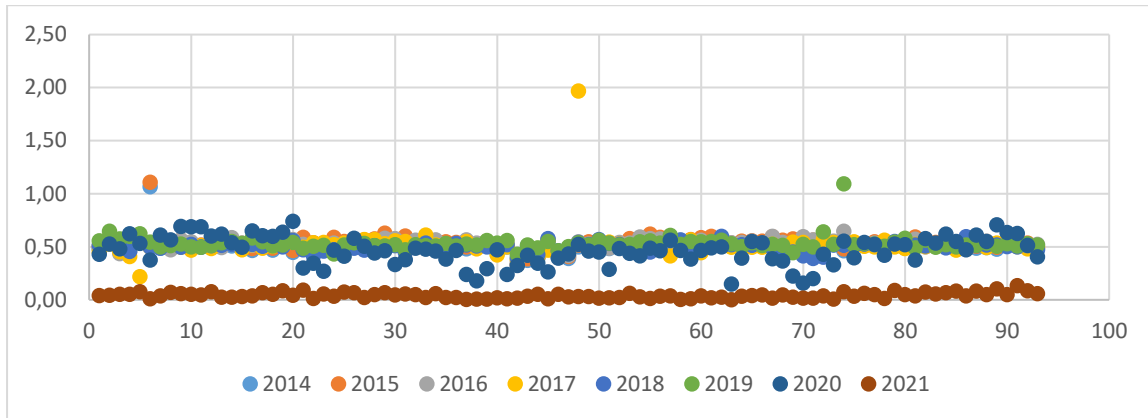


Figure 3. The Proportion of General Allocation Fund and Total Expenditure

The ratio of DAU to regional expenditures is extremely high. In Indonesia, city administrations continue to rely on central government transfers to fund regional expenditures. The APBD of the city administration is 50 percent dependent on DAU. From 2014 to 2021, this condition has remained unchanged.

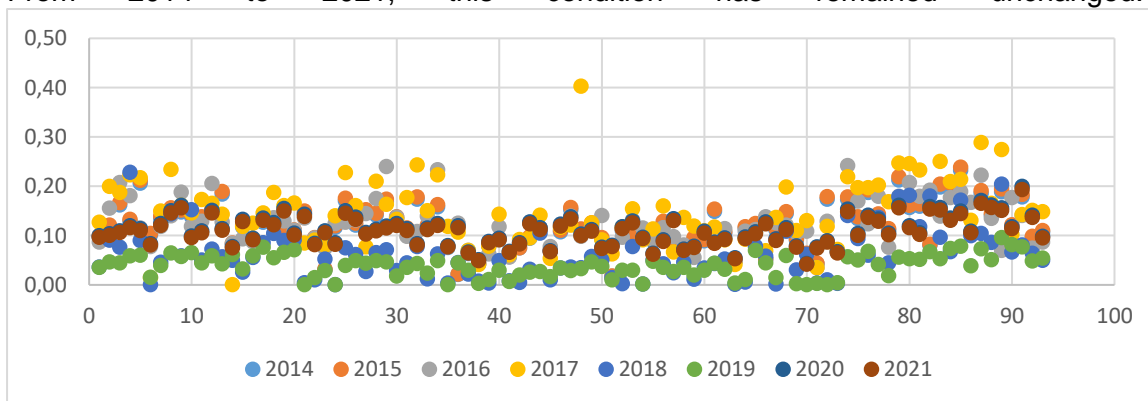


Figure 4. The Proportion of Special Allocation Funds (DAK) and Total Expenditure

During 2014–2021, the level of municipal governments' dependence on DAK remained quite high. 10% to 30% of the municipal budget is dependent upon DAK. DAK is designated for funds for tangible development, such as road infrastructure, schools, hospitals, and other public services.

Local government budgets are impacted by the number of regional revenues and expenditures. Own revenue (PAD) is a form of revenue produced from taxes and levies that significantly impacts the provincial government's budgetary capacity. The government's management structure determines the number of budget realizations. Local governments can cultivate the local capacity to expand PAD (Alfi & Nuraini, 2018). PAD plays a significant role in the regional budget system, yet the proportion of PAD allocated to each APBD is minimal (Harjito et al., 2020). The implementation of PAD will be significantly impacted by the covid 19 pandemic, and it is anticipated that the provincial administration will struggle to implement PAD during the pandemic. The COVID-19 pandemic has decreased revenue as a result of a downturn in the economy, resulting in a decline in taxes (Temenggung et al., 2020). Due to COVID-19, local governments faced a revenue loss. The local budget was affected by a decline in taxes, non-tax fees, and public service user fees (Padovani et al., 2020).

The pandemic reduced tax income for local governments (I. K. et al Indriani, 2022). The decrease in tax revenue will affect the local government budget in the following year (I. K. et al Indriani, 2021). The proportion of PAD realization for the 2019 fiscal year in Indonesian provincial governments varies greatly. Java had the highest PAD realization, while provincial governments outside of Java were quite minor (Kurnia Indriani et al., 2022). This condition is anticipated to hinder the region's ability to combat the pandemic.

The budgetary capacity of PAD can impact a region's capacity to combat a local pandemic. A decline in local government revenues will negatively impact the budget (de Jong & Ho, 2021). Therefore, a financial management strategy is required to prevent the accumulation of debt (OECD, 2020).

Financial independence is an assessment of the local government's ability to handle financial resources, implying that it is accessible to both domestic and international investment (Ritonga, 2015). As a result, the financial condition is expected to be capable of dealing with the COVID-19 pandemic (OECD, 2020).

Local governments saw a drop in revenue as a result of COVID-19. Reduced tax, non-tax, levy, and user fees are causing financial misery. Reduced local government revenue will have a negative impact on the budget. As a result, strong financial management is not required to accumulate debt (Heald & Hodges, 2020). To control the recession and expedite economic recovery, state and municipal governments must change their budgets to lessen the monetary impact of revenues and expenditures (Lucianelli et al., 2017). During the pandemic, local governments lost tax revenues, received deferred tax payments from the public, and decreased taxes (Green & Loualiche, 2021). The local government's financial independence in dealing with COVID-19 is limited (Onimbala, 2021). Increased measures of financial independence enable local governments to explore new revenue streams (Maizunati, 2017). Local governments with greater financial independence may be able to optimize economic growth in promising areas such as construction, manufacturing, and trade (I. K. Indriani, 2022b).

The redistributed funding originates from pandemic-related non-priority and capital expenses (Hasibuan et al., 2020). Local governments have budgetary challenges as a result of COVID-19, including the need for public programs and services, rising costs, and greater public demand for public services (I. K. Indriani et al., 2019). In dealing with COVID-19, the provincial government in Indonesia primarily relies on funding conditions from PAD and DAK. Meanwhile, the financial condition for capital and operational expenditures represents a genuine effort in dealing with the covid 19 pandemic. Local governments' financial performance in meeting the need for funding for development, social services, and the accomplishment of government activities still has to be improved (Miller, 2020).

Meanwhile, the financial independence of local governments has a considerable impact on how pandemics are handled in provinces. According to the findings of this study, the local government budget plays a significant role in coping with the pandemic. The budget realization of local governments changed during the pandemic (Ashfaq & Bashir, 2021).

CONCLUSION

In Indonesia, fiscal decentralization has had an insignificant impact on regional financial autonomy. With percentages of 50% and 30%, respectively, the city's dependence on central government transfer funds in the form of DAU and DAK remains extremely high. 10% to 40% of expenditures are administered directly by the local government from PAD as a revenue source. 10% to 40% of the total regional income may be allocated to PAD. The majority of municipal governments in Indonesia lack adequate budgetary capacity. This indicates that future regional financial management must be more optimal. The fiscal decentralization system has been effective in a number of nations, thus it can contribute to national economic expansion.

REFERENCES

- Adriana, A., & Ritonga, I. T. (2018). Analysis of Local Financial Management Transparency Based on Websites on Local Government in Java. *Jurnal Dinamika Akuntansi*, 10(1), 13–26. <https://doi.org/10.15294/jda.v10i1.12558>
- Alfi, S. A. F., & Nuraini, I. (2018). Analisis Pengelolaan Keuangan Daerah Terhadap Produk Domestik Regional Bruto (PDRB) Di Kabupaten/Kota Provinsi Kalimantan Selatan. *Jurnal Ilmu Ekonomi*, 2(2000), 500–513.

- Anggraeny, S. N., Kudhori, A., & Lestariningsih, T. (2017). Analisis Kinerja Keuangan dan Alokasi Belanja Modal Pemerintah Daerah (Studi Kasus di Pemerintah Kota Madiun Tahun 2011-2015). *Jurnal AKSI (Akuntansi Dan Sistem Informasi)*, 1(1), 28–35. <https://doi.org/10.32486/aksi.v1i1.102>
- Ashfaq, M., & Bashir, M. (2021). Pakistan: making a “COVID budget” in a struggling economy. *Journal of Public Budgeting, Accounting and Financial Management*, 33(1), 69–77. <https://doi.org/10.1108/JPBAFM-07-2020-0118>
- de Jong, M., & Ho, A. T. (2021). Emerging fiscal health and governance concerns resulting from COVID-19 challenges. *Journal of Public Budgeting, Accounting and Financial Management*, 29(6), 1–11. <https://doi.org/10.1108/JPBAFM-07-2020-0137>
- Elim, I., Saerang, D., & Liando, H. (2014). Analisis Kinerja Keuangan Pemerintah Kabupaten Kepulauan Sangihe Menggunakan Metode Value for Money. *Jurnal Riset Ekonomi, Manajemen, Bisnis Dan Akuntansi*, 2(3), 1686–1694.
- Fajria, Z., Wahono, B., & Farida, E. (2021). Pengaruh Desentralisasi Fiskal, Fiscal Stress, Terhadap Pertumbuhan Ekonomi Dengan Kinerja Keuangan Sebagai Variabel Intervening Di Provinsi Bali Pada Masa Pandemi Covid-19. *E – Jurnal Riset Manajemen PRODI MANAJEMEN*, 1–20.
- George, B., & Pandey, S. K. (2017). We Know the Yin—But Where Is the Yang? Toward a Balanced Approach on Common Source Bias in Public Administration Scholarship. *Review of Public Personnel Administration*, 37(2), 245–270. <https://doi.org/10.1177/0734371X17698189>
- Green, D., & Loualiche, E. (2021). State and local government employment in the COVID-19 crisis. *Journal of Public Economics*, 193. <https://doi.org/10.1016/j.jpubeco.2020.104321>
- Harjito, Y., Nugraha, P. S., & Yulianto, Y. (2020). Analisis Kinerja Keuangan Pemerintah Kabupaten dan Kota Di Indonesia. *Jae (Jurnal Akuntansi Dan Ekonomi)*, 5(1), 19–28. <https://doi.org/10.29407/jae.v5i1.14061>
- Hasibuan, G. L., Dermawan, D., Ginting, H. S., & Muda, I. (2020). Allocation of COVID-19 Epidemic Funding Budgets In Indonesia. *International Journal of Research and Review*, 7(5), 75–80.
- Heald, D., & Hodges, R. (2020). The accounting, budgeting and fiscal impact of COVID-19 on the United Kingdom. *Journal of Public Budgeting, Accounting and Financial Management*, 32(5), 785–795. <https://doi.org/10.1108/JPBAFM-07-2020-0121>
- Holtz, D., Zhao, M., Benzell, S. G., Cao, C. Y., Rahimian, M. A., Yang, J., Allen, J., Collis, A., Moehring, A., Sowrirajan, T., Ghosh, D., Zhang, Y., Dhillon, P. S., Nicolaidis, C., Eckles, D., & Aral, S. (2020). Interdependence and the cost of uncoordinated responses to COVID-19. *Proceedings of the National Academy of Sciences of the United States of America*, 117(33), 19837–19843. <https://doi.org/10.1073/PNAS.2009522117>
- Indriani, I. K. et al. (2021). Pengaruh Kapasitas Anggaran Terhadap Kasus Covid 19 Studi Pada Pemerintah Daerah di Kalimantan Barat. *Jurnal Ilmu Manajemen Dan Akuntansi Terapan (JIMAT)*, 12(November), 296–321.
- Indriani, I. K. et al. (2022). The Effect Financial Condition on Covid 19 Case (Empirical Study on Local Government in West Kalimantan). *Ilmiah Akuntansi Dan Keuangan*, 4(3), 1394–1410. <https://doi.org/10.1002/9781119558361.ch20>
- Indriani, I. K. (2022a). Kondisi Kapasitas Anggaran Pemerintah Kota di Indonesia-Studi Proyeksi Menghadapi Pandemi COVID-19 Oleh: Ika Kurnia Indriani (Prodi Diploma IV Akuntansi Jurusan Akuntansi Politeknik Negeri Pontianak). *Neraca, Jurnal Pendidikan, Jurnal Ekonomi, Ilmu Volume, Akuntansi*, 6(2), 156–168. <https://doi.org/10.31851/neraca.v6i2.9307>
- Indriani, I. K. (2022b). THE EFFECT OF LOCAL GOVERNMENT BUDGET CAPACITY ON

- COVID-19 CASES HANDLING : STUDY IN DISTRICT GOVERNMENT OF KALIMANTAN ISLAND (PROJECTION IN FACING PANDEMIC) Jurusan Akuntansi , Politeknik Negeri Pontianak , Jalan Ahmad Yani Pontianak , Indonesia THE EF. *Jurnal Ilmu Pemerintahan Widya Praja*, 48(1), 37–54. <https://doi.org/10.33701/jipwp.v48i1.2292>
- Indriani, I. K. (2023). FINANCIAL CONDITION OF LOCAL GOVERNMENT AFTERMATH OF COVID 19 PANDEMIC-ARCHIVAL. *Jurnal Aplikasi Akuntansi*, 7(2), 218–235. <https://doi.org/https://doi.org/10.29303/jaa.v7i2.200>
- Indriani, I. K., Lestari, M. P., & Triani, M. (2019). Analisis Kondisi Keuangan Pemerintah Kabupaten di Kalimantan. *Jurnal Akuntansi*, 3(2), 159–173. <http://e-journal.unipma.ac.id/index.php/inventory/article/view/7675/2970>
- Keintjem, V. A., Murni, S., Saerang, I. S., Keintjem, V. A., Murni, S., & Saerang, I. S. (2019). Analisis Kinerja Keuangan Pemerintah Daerah Kabupaten Banggai Laut Tahun Anggaran 2017- 2019. *Junal Emba*, 10(33), 953–962.
- Kurnia Indriani, I., Widodo, A., Ananta Wikrama Tungga Dewi, V., Akuntansi, J., Negeri Pontianak, P., Jenderal Ahmad Yani, J., & Laut, B. (2022). PENILAIAN KETANGGUHAN KAPASITAS ANGGARAN DAERAH DI MASA PANDEMI COVID 19. *Jurnal Akuntansi Published by Program Studi Akuntansi STIE Sultan Agung*, 8(2), 170–187. <https://financial.ac.id/index.php/financial>
- Lapsley, I., & Miller, P. (2019). Transforming the public sector: 1998-2018. *Accounting, Auditing & Accountability Journal*, 32(8), 2211–2252. <https://doi.org/https://doi.org/10.1108/AAAJ-06-2018-3511>
- Lucianelli, G., Citro, F., Santis, S., Tranfaglia, A. E., & Mazzillo, A. (2017). How to Improve the Financial Conditions of Local Governments in a Period of Crisis: An Explanatory Case Study. *International Journal of Business and Management*, 13(1). <https://doi.org/10.5539/ijbm.v13n1p53>
- Maizunati, N. A. (2017). Analisis Kondisi Keuangan Pemerintah Daerah Kota Magelang Dalam Klaster Kota Di Jawa-Bali. *Jurnal Riset Akuntansi Keuangan*, 2, 140–162.
- Miller, E. A. (2020). Protecting and Improving the Lives of Older Adults in the COVID-19 Era. *Journal of Aging and Social Policy*, 32(4–5), 297–309. <https://doi.org/10.1080/08959420.2020.1780104>
- OECD. (2020). *Initial Budget and Public Management Responses to the Coronavirus(COVID-19) Pandemic in OECD Countries*. April, 1–206.
- Onimbala, A. T. O. R. I. P. R. (2021). *Dampak Pandemi Covid-19 Terhadap Kinerja Keuangan Daerah Kabupaten Minahasa Tenggara*. 22(2), 67–89.
- Padovani, E., Iacuzzi, S., Jorge, S., & Pimentel, L. (2020). Municipal financial vulnerability in pandemic crises: a framework for analysis. *Journal of Public Budgeting, Accounting and Financial Management*, 33(4), 387–408. <https://doi.org/10.1108/JPBAFM-07-2020-0129>
- Ritonga, I. T. (2015). Developing a Measure of Local Government’S Financial Condition. *Journal of Indonesian Economy and Business*, 29(2), 142–164. <https://doi.org/10.22146/jieb.6206>
- Sugiyono. (2017). Metode Penelitian Bisnis (Pendekatan Kuantitatif, Kualitatif, Kombinasi dan R&D). In *Metodelogi Penelitian*.
- Temenggung, Y. A., Moenek, R., Suwanda, D., & Mulyadi, M. (2020). The Fiscal Capacity of the New Autonomous Region (DOB) in Increasing Economic Growth and Eradication of the Poor. *Jurnal Bina Praja*, 12(1), 75–87. <https://doi.org/10.21787/jbp.12.2020.75-87>