

Analysis of Regional Financial Capacity: Case Study of 62 Local Governments in Indonesia

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Abstract

The ability of local government to finance their administration is one of the main characteristics of regional financial independence. Unfortunately, there are still many regions that depend on the intergovernmental fiscal transfers from the central government, instead of optimizing their own regional revenues, even though regional autonomy and fiscal decentralization in Indonesia, which are aimed at making regions become independent, have been running for two decades since 2001. Regional financial capacity is also one of the criteria that determines the success of underdeveloped areas. This study maps the financial capabilities of underdeveloped regions by using descriptive research method. The data sources from the 2020 regional revenue and expenditure budget in 62 underdeveloped regions according to Presidential Regulation Number 63 of 2020. We utilize the financial capability index, analysis of the pattern of relations between the central and local governments, as well as quadrant analysis. The results of the three analyzes showed that most of the underdeveloped regions are still not financially independent because they still depend on central government assistance.

Keywords

Fiscal decentralization; regional financial independence; locally-generated revenue; underdeveloped regions; regional financial performance



I. Introduction

Regional autonomy and fiscal decentralization in the reform era began in 2001 and are currently running for two decades. The regulation of regional autonomy and fiscal decentralization in Indonesia was most recently regulated by Law Number 2 of 2015 concerning the Second Amendment to Law Number 23 of 2014 concerning Regional Government, as well as Law no. 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments.

Financial statements are basically a source of information for investors as one of the basic considerations in making capital market investment decisions and also as a means of management responsibility for the resources entrusted to them (Prayoga and Afrizal 2021) financial performance is a measuring instrument to know the process of implementing the company's financial resources. It sees how much management of the company succeeds, and provides benefits to the community. Sharia banking is contained in the Law of the Republic of Indonesia No.21 of 2008 article 5, in which the Financial Services Authority is assigned to supervise and supervise banks. (Ichsan, R. et al. 2021)

Fiscal decentralization is a form of trust from the central government to regional governments to carry out their authority in all fields outside the authority of the central government, namely in the fields of foreign policy, defense, security, justice, monetary, fiscal and religious (Digdowiseiso et al., 2020). This change in authority also has consequences for local governments to be able to carry out regional financial planning and budgeting to support the success of fiscal decentralization. Regional financial planning and budgeting is reflected in the Regional Revenue and Expenditure Budget (APBD). The

APBD is mandated in the Law. 23 of 2014 concerning Regional Government as a definite source of funding for local governments.

On Law Number 23 of 2014 concerning Regional Government, it is stated that the source of regional income consists of three sources, the first from regional original income which includes regional taxes, regional levies, the results of separated regional wealth management and other legitimate regional original income. The second is from transfer income which includes Central Government transfers and inter-regional transfers. The third is from other legitimate regional income.

In an effort to strengthen fiscal decentralization, the central government annually in the State Revenue and Expenditure Budget (APBN) allocates transfers to regions and village funds (TKDD). TKDD consists of Revenue Sharing Fund (DBH), General Allocation Fund (DAU), Physical Special Allocation Fund (DAK Physical), Non-Physical Special Allocation Fund (DAK Non-physical), Special Autonomy Fund, Additional Infrastructure Fund for Special Autonomy, Special Fund for Region of Yogyakarta, as well as Regional Incentive Funds and Village Funds. As an illustration, TKDD in the 2022 fiscal year reached IDR 769.61 trillion, consisting of transfers to the regions of IDR 701.61 trillion and village funds of IDR 68.00 trillion. The TKDD for the 2022 budget year has decreased compared to the TKDD in 2021, which is IDR 795.48 trillion. The 2021 TKDD consists of transfers to the regions amounting to IDR 723.48 trillion and village funds of IDR 72.00 trillion.

Although regional autonomy and fiscal decentralization have been going on for two decades, the dependence of the regional economy on the center is still very high. Research conducted by Tarnoto & Haryanto (2018) shows that the implementation of fiscal decentralization actually increases the fiscal dependence of local governments on the central government due to the region's inability to finance its regional expenditures through Regional Original Revenue (PAD). Coordinating Minister for Economic Affairs Airlangga Hartarto Hal in the 20th Anniversary of the Monitoring Committee for the Implementation of Regional Autonomy (KPPOD) stated that "Currently, on average, the dependence of regions, both provinces and districts, is still high, namely 80.1 percent of TKDD." On a national average, the dependence of the Regional Revenues and Expenditures Budget (APBD) on TKDD is 80.1%. Meanwhile, the contribution of local own-source revenue (PAD) is only around 12.87%.

Regional financial capacity is also one of the criteria for determining disadvantaged regions in accordance with Government Regulation Number 78 of 2014 concerning Acceleration of Development of Disadvantaged Regions in addition to 5 other criteria, namely the community's economy, human resources, infrastructure, accessibility and regional characteristics. Regional financial capacity is one way to see the regional capacity in carrying out the delegated authority. Besides that, regional financial capacity can also be seen as an aspect of regional independence. For this reason, this paper will focus on assessing the financial capacity of underdeveloped regions in carrying out the delegated authority.

II. Review of Literature

2.1 Fiscal Decentralization in Indonesia

Since 2001 fiscal decentralization has been rolled out in Indonesia, starting with Law No. 22 of 1999 concerning Regional Government and Law No. 25 of 1999 concerning Financial Balance between Central and Regional Governments (PKPD). The two regulations have now undergone various revisions until the latest regulated in Law No. 2 of

2015 concerning the Second Amendment to Law No. 23 of 2014 concerning Regional Government, and Law No. 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments.

From various perspectives, it is stated that with all the challenges and obstacles faced, the implementation of fiscal decentralization policies in the regions is quite successful and can be used as a laboratory considering the geography of the region and the large number of people with various conditions. However, decentralization in Indonesia is still focused on how expenditures are handed over to autonomous regions, not in terms of how the regions try to obtain revenue or income. Expenditure autonomy that is greater than revenue autonomy can be interpreted as partial decentralization (sometimes referred to as incomplete decentralization or asymmetric decentralization). The neglect of local government revenue autonomy and fiscal responsibilities can lead to many irregularities in the management of public finances and increase local government expectations of funding from higher levels of government. According to the theory of fiscal federalism, the freedom of local authorities in spending decisions must be accompanied by fiscal and political responsibilities (Guziejewska et al., 2021).

The implementation of fiscal decentralization has been implemented for a long time, but one of the things that distinguishes the implementation of fiscal decentralization in the current reform era compared to the new order era is the emphasis on delegation of authority at the district/city level after previously the delegation of authority was only at the provincial level (Mardiasmo, 2018). This is done to shorten the span of control of the bureaucracy. Fiscal decentralization at the district/city level is also intended as one of the central government policies to encourage regional independence in providing welfare to the community through the provision of good public services. For this reason, the authority is given to the regions, in this case the district/city governments, except for the five areas of authority of the central government, namely finance and monetary, defense and security, the judicial system, religion, and foreign policy, which are still the affairs of the central government.

2.2. Local Fiscal Balance

The implementation of fiscal decentralization in Indonesia is also accompanied by different financial balances in each region, this needs to be done because each region has a different fiscal capacity (Firdausy, 2017). The Balancing Fund is one source of regional revenue in addition to PAD, Regional Loans and other legitimate revenues. It originates from the APBN and allocated to regional governments as an effort to finance regional needs. Balancing funds have various types, in accordance with the Act. No. 23 of 2014 concerning Regional Government, the balancing fund consists of the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund (DBH). DAU has a role in inter-regional fiscal balance, the amount of DAU is determined by the size of the fiscal gap of a region where the fiscal gap itself is the difference between the needs of the region and the capacity of the region. DAK has a role as a fund that is based on policies that are both emergency and urgent. Meanwhile, DBH is a fund from the APBN that is allocated to local governments by considering percentage figures in order to fund regional needs in the implementation of decentralization (Swandewi, 2014).

2.3 Regional Finance Independence

According to Halim (2001), regions that have the capacity to implement regional autonomy can be seen from two characteristics. The first characteristic lies in the financial capacity of the region where the region has the ability, authority and creativity in finding,

Optimizing or utilizing their fiscal resources in funding the administration of the regional government. The second characteristic is that the region does not depend on central assistance or balancing funds or central assistance must be kept to a minimum, PAD must be the largest fiscal source in the APBD.

These two characteristics will ultimately have an influence on how local governments relate to the central government in terms of implementing regional autonomy and fiscal decentralization. Some patterns of relationship between local government and Central government in terms of implementing regional autonomy and fiscal decentralization as described by Hersey & Blanchard (2004) are as follows:

1. The pattern of instructive relationships, where the central government has a more dominant role than local governments, in this pattern local governments become less independent in utilizing their financial resources;
2. The pattern of consultative relations, in which the central government begins to reduce its role considering that the regions are starting to be slightly more capable in implementing fiscal autonomy and decentralization;
3. The pattern of participatory relations, in this pattern, the central government's role is increasingly reduced because the regions have become more independent in carrying out regional autonomy affairs;
4. Delegative relationship pattern, where the central government no longer intervenes or plays a role because the regions are considered to be truly independent in carrying out regional autonomy affairs.

In the context of implementing regional autonomy and fiscal decentralization, regional governments are expected to have greater independence. However, currently there are still many challenges faced by local governments related to efforts to increase regional revenues as explained by Mardiasmo (2018), including:

1. The high level of regional needs (fiscal need) that is not balanced with the fiscal capacity (fiscal capacity) owned by the region, causing a fiscal gap;
2. The quality of public services is still concerning, causing a negative response to public service products that can actually be sold to the public. This situation also causes people's reluctance to comply with paying local taxes and levies;
3. Weak infrastructure and public facilities; and
4. The potential for PAD that is close to the real potential is not yet known.

In line with Mardiasmo, Sari et al. (2021) mentions two main factors that cause low regional independence, the first is the low PAD in the area and the second is the high burden of the APBD in the era of fiscal decentralization. However, regions that are still dependent on the central government have one thing in common, namely that they have problems in their regional financial capacity. This can happen because the area is not exploring the potential that can be used as a source of revenue (Sari et al., 2021). The source of regional revenue which constitutes PAD is mostly obtained from natural resources such as minerals, forests, plantations, fisheries and tourism. For areas that do not have natural resources, especially those in urban areas, they must optimize other revenues such as levies and local taxes.

The proportion of PAD in the APBD is one of the characteristics of regional financial independence. Local governments are expected to optimize PAD so as to reduce dependence on transfers from the provincial and central governments. This will increase regional discretion (local discretion), because the higher the region's ability to generate PAD, the greater the regional discretion to use the PAD in accordance with the aspirations, needs, and priorities of regional development.

Osborne & Gaebler (cited in Mardiasmo, 2018) state that increasing fiscal capacity does not mean a large budget. Budgets that are made large in number but are not managed properly (do not meet the value for money principle) will actually cause problems, such as budget leakage. The most important thing is budget optimization, because the role of local governments will be more as facilitators and motivators in driving development in the regions.

Regions that are unable to finance their regional expenditures from PAD will rely heavily on transfers from the center. Regional dependence on transfers to the center is not without risks, one of the risks that has the potential to occur is the occurrence of the Flypaper Effect (Digdowiseiso et al., 2020). It is interpreted as an increase in the amount of local government revenue originating from intergovernmental transfers that will lead to the growth of regional spending and the local public sector beyond the optimal scale. This means that local governments will spend more money when the funding source comes from intergovernmental transfers than if the funding comes from local revenues. The Flypaper Effect is often associated as a fiscal illusion in the public financial system.

Walidi (cited in Mulya & Bustaman, 2016) implies that the Flypaper effect will increase local government spending more than the transfer receipt itself and the tendency to wait for assistance from the center instead of managing regional resources themselves. Implicitly there are several implications of the Flypaper Effect on district/city regional expenditures such as:

1. Causing the fiscal gap to remain;
2. Causes inadequacy in the utilization of sources of PAD growth;
3. Causing elements of regional dependence on the central government;
4. There is an excessive response in the utilization of transfer funds;
5. Resulting in a lack of regional financial independence in the district/city concerned.

III. Research Method

This research is a descriptive quantitative study to get an overview of aspects of regional financial capability as measured through three analytical methods, the first method of analysis is through the Regional Financial Capability Index (IKKD), IKKD consists of three forming components, namely PAD share, PAD growth, and PAD elasticity. The three components will form the regional financial capability index (IKKD), the IKKD itself is a method that has been used by the Ministry of National Development Planning / National Development Planning Agency to measure the financial capacity of a region. The second method of analysis aims to determine the pattern of relations between the central government and local governments in fiscal decentralization. The third method of analysis is the quadrant method which aims to map the regional financial capacity based on PAD Share and PAD Growth. The source of the data comes from the 2020 Regional Income and Expenditure Budget (APBD) in 62 districts designated as underdeveloped areas in accordance with Presidential Regulation Number 63 of 2020 concerning the Determination of Underdeveloped Regions for 2020-2024.

IV. Result and Discussion

The map of regional financial capacity illustrates the financial independence of a region in financing the wheels of government in the region. In this study, 62 underdeveloped regions in the 2020-2024 RPJMN period became the object of research. The financial independence of underdeveloped regions reflects the ability of local governments to optimize regional resources and potential to support regional development.

The ratios used in this study are PAD Share, PAD Growth and PAD Elasticity. The PAD Share Ratio is used to provide an overview of the extent to which the region's ability to finance routine activities and development activities uses PAD. The PAD Growth Ratio reflects the PAD growth of a district in a certain year compared to the previous year's PAD, this ratio provides an overview of the local government's efforts to increase PAD. The PAD Elasticity ratio is a ratio that compares PAD growth with GRDP growth in a district with the aim of knowing the sensitivity or elasticity of PAD to regional spending.

Table 1. The Share, Growth, and Elasticity of PAD in 62 Underdeveloped Regions

No.	Districts	PAD Share (%)	PAD Growth (%)	PAD Elasticity (%)
1.	Alor	5,59%	10,29%	-104,76
2.	Asmat	6,59%	-48,50%	-11,87
3.	Belu	9,26%	25,68%	16,44
4.	Boven Digoel	2,59%	18,93%	-76,89
5.	Buru Selatan	4,24%	52,17%	56,42
6.	Deiyai	0,12%	-33,33%	-9,26
7.	Dogiyai	0,97%	87,26%	26,64
8.	Donggala	4,15%	-14,33%	4,44
9.	Intan Jaya	0,81%	42,24%	21,10
10.	Jayawijaya	4,28%	41,36%	-19,69
11.	Keerom	3,39%	80,03%	32,19
12.	Kepulauan Aru	12,18%	-26,02%	-32,30
13.	Kepulauan Mentawai	5,52%	-33,76%	130,55
14.	Kepulauan Sula	3,29%	2,55%	1,81
15.	Kupang	6,58%	23,29%	35,22
16.	Lanny Jaya	1,62%	-56,83%	-9,81
17.	Lembata	10,44%	36,07%	-334,95
18.	Lombok Utara	20,47%	19,06%	-2,93
19.	Malaka	5,99%	3,63%	1,91
20.	Maluku Barat Daya	12,35%	80,12%	52,75
21.	Maluku Tenggara Barat	4,55%	-33,04%	-30,58
22.	Mamberamo Raya	0,76%	24,53%	5,18
23.	Mamberamo Tengah	0,45%	115,91%	26,45
24.	Manggarai Timur	6,15%	20,54%	8,35
25.	Manokwari Selatan	1,26%	46,10%	-29,51
26.	Mappi	1,67%	32,14%	32,79
27.	Maybrat	0,38%	48,86%	-119,72
28.	Musi Rawas Utara	4,99%	2,89%	2,28
29.	Nabire	6,18%	65,99%	63,61
30.	Nduga	2,73%	96,52%	21,75
31.	Nias	7,71%	-29,79%	-5,27
32.	Nias Barat	2,90%	29,80%	5,11
33.	Nias Selatan	1,81%	47,44%	10,74
34.	Nias Utara	15,22%	1066,11%	193,22
35.	Paniai	1,90%	34,75%	13,98

No.	Districts	PAD Share (%)	PAD Growth (%)	PAD Elasticity (%)
36.	Pegunungan Arfak	0,58%	355,37%	48,09
37.	Pegunungan Bintang	1,54%	8,87%	3,09
38.	Pesisir Barat	4,64%	38,45%	177,59
39.	Pulau Taliabu	10,48%	33,76%	12,57
40.	Puncak	0,07%	-84,27%	-31,91
41.	Puncak Jaya	1,48%	0,00%	0,00
42.	Rote Ndao	3,68%	10,57%	9,21
43.	Sabu Raijua	8,64%	-9,85%	-35,07
44.	Seram Bagian Barat	3,18%	18,93%	20,30
45.	Seram Bagian Timur	2,36%	-35,09%	-101,90
46.	Sigi	2,91%	41,84%	178,61
47.	Sorong	4,03%	-11,98%	4,82
48.	Sorong Selatan	2,67%	50,60%	-19,70
49.	Sumba Barat	11,27%	-4,62%	-6,00
50.	Sumba Barat Daya	4,17%	9,48%	25,43
51.	Sumba Tengah	4,97%	21,57%	13,36
52.	Sumba Timur	8,21%	11,06%	691,84
53.	Supiori	4,76%	21,02%	6,43
54.	Tambrau	0,44%	-83,42%	-65,63
55.	Teluk Bintuni	2,27%	9,09%	-8,38
56.	Teluk Wondama	3,33%	10,29%	-6,98
57.	Timor Tengah Selatan	5,83%	4,88%	14,88
58.	Tojo Una-Una	6,19%	10,65%	-5,77
59.	Tolikara	0,40%	202,82%	40,39
60.	Waropen	1,34%	-68,60%	234,71
61.	Yahukimo	2,46%	166,60%	48,04
62.	Yalimo	0,85%	-69,36%	-13,03

Sources: Authors' Calculation (2021)

The table 1 describes PAD Share, PAD Growth, and PAD Elasticity in 62 underdeveloped regions in 2020. North Lombok is the district with the highest PAD share of total regional expenditure, which is 20.47%. Meanwhile, Puncak Regency is the district with the lowest share of PAD to total regional expenditure, namely its PAD is only able to finance 0.07% of regional expenditure. The larger the share of PAD indicates the more independent a region is in financing its expenditures without having to rely on transfers from the central government or provincial governments, while the smaller the share of PAD, the wheels of regional government are very dependent on transfers from the central government and provincial governments.

In the PAD Growth ratio, a comparison of PAD in 2020 with PAD in 2019, North Nias Regency was ranked first with PAD growth of 1066.11% compared to PAD in 2019. While Puncak Regency experienced a decline in PAD of -84.27% in 2020 compared to PAD in 2019. The growth of PAD is a reflection of the ability of the region to optimize regional potential and resources to finance development and public services in the region.

In the PAD Elasticity ratio, a comparison is made between PAD growth and GRDP growth to determine the sensitivity of PAD growth to changes in GRDP. East Sumba Regency got the highest score, which is 691.84, this indicates that there is a high sensitivity to PAD if there is a change in GRDP, while Lembata Regency has the lowest number, which is -334.95, this indicates that changes in GRDP are not directly proportional to changes in PAD.

The ratios of each district are then indexed so that the Regional Financial Capability Index (IKKD) can be obtained.

Table 2. Indices of PAD Share, PAD Growth, and PAD Elasticity in 62 Underdeveloped Regions

No.	Districts	Share	Indices Growth	Elasticity	IKKD	Status
1.	Nias Utara	0,74	1,00	0,51	0,75	High
2.	Sumba Timur	0,40	0,08	1,00	0,49	Moderate
3.	Lombok Utara	1,00	0,09	0,32	0,47	Moderate
4.	Maluku Barat Daya	0,60	0,14	0,38	0,37	Moderate
5.	Pulau Taliabu	0,51	0,10	0,34	0,32	Low
6.	Kepulauan Aru	0,59	0,05	0,29	0,31	Low
7.	Sumba Barat	0,55	0,07	0,32	0,31	Low
8.	Belu	0,45	0,10	0,34	0,30	Low
9.	Pesisir Barat	0,22	0,11	0,50	0,28	Low
10.	Nabire	0,30	0,13	0,39	0,27	Low
11.	Pegunungan Arfak	0,02	0,38	0,37	0,26	Low
12.	Sabu Raijua	0,42	0,06	0,29	0,26	Low
13.	Kupang	0,32	0,09	0,36	0,26	Low
14.	Kepulauan Mentawai	0,27	0,04	0,45	0,25	Low
15.	Sigi	0,14	0,11	0,50	0,25	Low
16.	Nias	0,37	0,05	0,32	0,25	Low
17.	Manggarai Timur	0,30	0,09	0,33	0,24	Low
18.	Yahukimo	0,12	0,22	0,37	0,24	Low
19.	Buru Selatan	0,20	0,12	0,38	0,23	Low
20.	Tojo Una-Una	0,30	0,08	0,32	0,23	Low
21.	Timor Tengah Selatan	0,28	0,08	0,34	0,23	Low
22.	Malaka	0,29	0,08	0,33	0,23	Low
23.	Sumba Tengah	0,24	0,09	0,34	0,22	Low
24.	Asmat	0,32	0,03	0,31	0,22	Low
25.	Keerom	0,16	0,14	0,36	0,22	Low
26.	Supiori	0,23	0,09	0,33	0,22	Low
27.	Musi Rawas Utara	0,24	0,08	0,33	0,22	Low
28.	Nduga	0,13	0,16	0,35	0,21	Low
29.	Sumba Barat Daya	0,20	0,08	0,35	0,21	Low
30.	Tolikara	0,02	0,25	0,37	0,21	Low
31.	Waropen	0,06	0,01	0,55	0,21	Low
32.	Jayawijaya	0,21	0,11	0,31	0,21	Low
33.	Lembata	0,51	0,10	0,00	0,20	Low
34.	Rote Ndao	0,18	0,08	0,34	0,20	Low
35.	Donggala	0,20	0,06	0,33	0,20	Low
36.	Seram Bagian Barat	0,15	0,09	0,35	0,20	Low
37.	Sorong	0,19	0,06	0,33	0,20	Low
38.	Alor	0,27	0,08	0,22	0,19	Low
39.	Nias Barat	0,14	0,10	0,33	0,19	Low
40.	Teluk Wondama	0,16	0,08	0,32	0,19	Low
41.	Kepulauan Sula	0,16	0,08	0,33	0,19	Low
42.	Maluku Tenggara Barat	0,22	0,04	0,30	0,19	Low
43.	Sorong Selatan	0,13	0,12	0,31	0,18	Low
44.	Dogiyai	0,04	0,15	0,35	0,18	Low
45.	Mamberamo Tengah	0,02	0,17	0,35	0,18	Low
46.	Mappi	0,08	0,10	0,36	0,18	Low
47.	Nias Selatan	0,09	0,11	0,34	0,18	Low
48.	Paniai	0,09	0,10	0,34	0,18	Low

No.	Districts	Share	Indices Growth	Elasticity	IKKD	Status
49.	Teluk Bintuni	0,11	0,08	0,32	0,17	Low
50.	Intan Jaya	0,04	0,11	0,35	0,16	Low
51.	Pegunungan Bintang	0,07	0,08	0,33	0,16	Low
52.	Manokwari Selatan	0,06	0,11	0,30	0,16	Low
53.	Puncak Jaya	0,07	0,07	0,33	0,16	Low
54.	Boven Digoel	0,12	0,09	0,25	0,15	Low
55.	Mamberamo Raya	0,03	0,09	0,33	0,15	Low
56.	Lanny Jaya	0,08	0,02	0,32	0,14	Low
57.	Seram Bagian Timur	0,11	0,04	0,23	0,13	Low
58.	Yalimo	0,04	0,01	0,31	0,12	Low
59.	Deiyai	0,00	0,04	0,32	0,12	Low
60.	Maybrat	0,01	0,12	0,21	0,11	Low
61.	Puncak	0,00	0,00	0,30	0,10	Low
62.	Tambrau	0,02	0,00	0,26	0,09	Low

Sources: Authors' Calculation (2021)

The table 2 classifies the financial capacity of 62 underdeveloped regions through IKKD whose components consist of Share PAD, PAD Growth and PAD Elasticity. From the table above, it can be seen that of the 62 underdeveloped districts, 58 (93.54%) underdeveloped districts have a low IKKD predicate with Tambrau district being the district with the lowest IKKD achievement. Three districts have moderate achievement, namely North Lombok, East Sumba and Southwest Maluku.

In the second analysis, namely the relationship pattern of regional financial capacity between the central government and local governments in the 62 disadvantaged regions as shown in the table below, it was found that only North Lombok Regency had a consultative relationship pattern while the remaining 61 other regions had an instructive relationship pattern (see Table 3). Thus, it can be concluded that the pattern of fiscal decentralization relations between the central government and local governments in underdeveloped regions is more in an instructive relationship pattern where the central government has a dominant role so that local governments do not have independence or freedom in financial management in their regions.

Table 3. The Relationship Pattern of Regional Financial Capacity in 62 Underdeveloped Regions

No.	Districts	RKKD	Relationship Pattern
1	Lombok Utara	27,84%	Consultative
2	Nias Utara	18,51%	Instructive
3	Kepulauan Aru	16,02%	Instructive
4	Maluku Barat Daya	15,36%	Instructive
5	Sumba Barat	13,33%	Instructive
6	Pulau Taliabu	12,32%	Instructive
7	Lembata	12,20%	Instructive
8	Sabu Raijua	11,38%	Instructive
9	Belu	11,12%	Instructive
10	Sumba Timur	9,43%	Instructive
11	Nias	8,54%	Instructive
12	Kupang	7,57%	Instructive
13	Asmat	7,13%	Instructive
14	Manggarai Timur	7,01%	Instructive
15	Tojo Una-Una	6,96%	Instructive

No.	Districts	RKKD	Relationship Pattern
16	Malaka	6,85%	Instructive
17	Timor Tengah Selatan	6,61%	Instructive
18	Donggala	6,36%	Instructive
19	Kepulauan Mentawai	6,24%	Instructive
20	Nabire	6,17%	Instructive
21	Alor	6,04%	Instructive
22	Musi Rawas Utara	5,55%	Instructive
23	Sumba Tengah	5,43%	Instructive
24	Supiori	5,27%	Instructive
25	Pesisir Barat	5,15%	Instructive
26	Maluku Tenggara Barat	4,92%	Instructive
27	Sumba Barat Daya	4,83%	Instructive
28	Sorong	4,79%	Instructive
29	Buru Selatan	4,69%	Instructive
30	Jayawijaya	4,66%	Instructive
31	Sigi	4,60%	Instructive
32	Rote Ndao	4,02%	Instructive
33	Keerom	3,74%	Instructive
34	Kepulauan Sula	3,66%	Instructive
35	Teluk Wondama	3,51%	Instructive
36	Seram Bagian Barat	3,41%	Instructive
37	Nias Barat	3,36%	Instructive
38	Teluk Bintuni	2,87%	Instructive
39	Sorong Selatan	2,72%	Instructive
40	Yahukimo	2,72%	Instructive
41	Boven Digoel	2,64%	Instructive
42	Seram Bagian Timur	2,48%	Instructive
43	Nduga	2,38%	Instructive
44	Paniai	2,11%	Instructive
45	Nias Selatan	2,10%	Instructive
46	Mappi	1,86%	Instructive
47	Lanny Jaya	1,76%	Instructive
48	Pegunungan Bintang	1,56%	Instructive
49	Puncak Jaya	1,53%	Instructive
50	Manokwari Selatan	1,34%	Instructive
51	Waropen	1,14%	Instructive
52	Dogiyai	1,05%	Instructive
53	Yalimo	0,89%	Instructive
54	Mamberamo Raya	0,83%	Instructive
55	Intan Jaya	0,81%	Instructive
56	Pegunungan Arfak	0,59%	Instructive
57	Mamberamo Tengah	0,48%	Instructive
58	Tolikara	0,41%	Instructive
59	Tambrau	0,39%	Instructive
60	Maybrat	0,38%	Instructive
61	Deiyai	0,12%	Instructive
62	Puncak	0,08%	Instructive

Sources: Authors' Calculation (2021)

From the mapping of the regional financial capability analysis using the quadrant method, it is known that in general the number of districts in each quadrant is relatively even (see Figure 1).

1. In quadrant I (ideal conditions) there are 14 districts (22.58%) districts in this quadrant spread evenly from the Western Indonesia (KBI) and Eastern Indonesia (KTI). The districts in this quadrant have the highest share and growth values among all underdeveloped areas which are the loci of the study. Districts in this quadrant have relatively higher independence with good economic development prospects compared to other underdeveloped areas. This condition must be maintained and developed by the regional government, policies that are deemed to increase regional income must be maintained by considering the attractiveness of the region in inviting investment.
2. In quadrant II which has high growth and low share, there are 17 districts (27.41%) mostly located in West Papua Province and Papua Province. The low share in the districts is a sign of the large regional expenditure burden. These districts must make spending savings or allocate spending to priority sectors that are productive in nature which are expected to have an impact on other sectors.
3. In quadrant III, which has high share and low growth, there are 17 districts (27.41%) which are evenly distributed in both KBI and KTI. Districts in this quadrant can be interpreted as areas that are quite independent but lack potential. These districts need to diversify their economy and not just depend on natural resources.
4. In quadrant IV where both share and growth are in the low classification, there are 14 districts (22.58%), in this quadrant all districts are in KTI which includes Maluku Province, North Maluku Province, West Papua Province and Papua Province. More central and provincial government intervention is needed to leverage economic activity in these districts, either by bringing in investors or by adopting more affirmative transfer policies. It is hoped that the stimulants from the central government and the provincial government can be utilized by the regions in a sustainable manner to drive economic activity which in turn will increase PAD and support regional independence.

Growth of PAD (%)		Share of PAD (%)
Quadrant II	Quadrant I	
<ol style="list-style-type: none"> 1. Dogiyai 2. Intan Jaya 3. Keerom 4. Mamberamo Raya 5. Mamberamo Tengah 6. Manokwari Selatan 7. Mappi 8. Maybrat 9. Nduga 10. Nias Barat 11. Nias Selatan 12. Paniai 13. Pegunungan Arfak 14. Sigi 15. Sorong Selatan 16. Tolikara 17. Yahukimo 	<ol style="list-style-type: none"> 1. Belu 2. Buru Selatan 3. Jayawijaya 4. Kupang 5. Lembata 6. Lombok Utara 7. Maluku Barat Daya 8. Manggarai Timur 9. Nabire 10. Nias Utara 11. Pesisir Barat 12. Pulau Taliabu 13. Sumba Tengah 14. Supiori 	
Quadrant IV	Quadrant III	
<ol style="list-style-type: none"> 1. Boven Digoel 2. Deiyai 3. Kepulauan Sula 4. Lanny Jaya 5. Pegunungan Bintang 	<ol style="list-style-type: none"> 1. Alor 2. Asmat 3. Donggala 4. Kepulauan Aru 5. Kepulauan Mentawai 	

Growth of PAD (%)		5
6. Puncak	6. Malaka	
7. Puncak Jaya	7. Maluku Tenggara Barat	
8. Seram Bagian Barat	8. Musi Rawas Utara	
9. Seram Bagian Timur	9. Nias	
10. Tambrauw	10. Rote Ndao	
11. Teluk Bintuni	11. Sabu Raijua	
12. Teluk Wondama	12. Sorong	
13. Waropen	13. Sumba Barat	
14. Yalimo	14. Sumba Barat Daya	
	15. Sumba Timur	
	16. Timor Tengah Selatan	
	17. Tojo Una-Una	

Sources: Authors' Calculation (2021)

Figure 1. Map of Regional Financial Capability Based on Quadrant Method

V. Conclusion

Analysis of regional financial capacity is carried out to measure the ability of regions to exercise their fiscal authority. Analysis of regional financial capacity is carried out to map regional financial capabilities which can be used as a basis for the central government and provincial governments in determining strategies for the realization of fiscal independence in the regions. In this study, three analytical methods were carried out, namely IKKD, relationship pattern method and quadrant method. Of the three methods used, there are similarities in districts that get high scores and get low scores.

Based on the IKKD, only 1 district is in the high category, 3 districts are in the medium category, and most of the 58 districts are in the low category. This indicates that most of the underdeveloped regions have low regional financial capacity. In line with the IKKD analysis, based on the analysis of the relationship pattern of regional financial capacity between the central government and local governments in 62 underdeveloped regions, it was found that almost all underdeveloped regions have an instructive relationship pattern where the regions have a high dependence on central government assistance. In the quadrant method, 14 districts are included in quadrant I (high growth share, high), 17 districts are included in quadrant II (low growth share), 17 districts are included in quadrant III (low growth, high share), and 14 districts are included in quadrant IV (low growth, low share). Thus, the central government and provincial governments must pay special attention to districts in quadrant IV so that they can switch quadrants and become more fiscally independent regions.

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