ANALYSIS OF REGIONAL FINANCIAL INDEPENDENCE INDRAGIRI HULU DISTRICT 2019-2023

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Abstract

The level of independence of a region can be seen from the region's ability to manage its finances. This study aims to determine regional financial independence in Indragiri Hulu Regency. Therefore, an analysis is needed to measure the financial independence of a region using data on Regional Original Revenue (PAD), Total Regional Revenue and Transfer Revenue of Indragiri Hulu Regency in 2019-2023. The analytical tools used are the analysis of the Degree of Decentralisation Ratio, the Regional Financial Dependency Ratio and the Regional Financial Independence Ratio. The results of the analysis of the Decentralisation Degree Ratio are 7.61% with very poor criteria, meaning that the local government has not been able to take advantage of Regional Original Revenue (PAD) to finance regional autonomy. The Regional Financial Dependency Ratio is 82.15% with very high criteria, meaning that local governments still have dependence on the central government. The Regional Financial Independence Ratio is 9.26% with very low criteria and instructive relationship patterns, meaning that the central government is more dominant than local government independence and the regions are considered unable to implement regional autonomy.

Keywords: Degree of Decentralisation Ratio, Financial Dependency Ratio, Regional Financial Independence Ratio

INTRODUCTION

Law No. 1 of 2022 on Financial Relations between the Central and Local Governments (HKPD) regulates the rights and obligations of local governments. The financial relationship between the central and regional governments includes the provision of revenue sources in the form of taxes and levies, management of Transfers to Regions (TKD), management of regional expenditure, authority to manage regional financing, and implementation of national fiscal policy synergies (BPK RI: 2022). This law is designed to reformulate Revenue Sharing Funds (DBH), General Allocation Funds (DAU), Special Allocation Funds (DAK), Special Autonomy Funds, Special Funds and Village Funds to optimise the performance of local governments so as to realise local governance in providing maximum public services. The sources of regional funding that have been regulated in this Law are expected to increase Regional Original Income (PAD) so that community welfare can be achieved. In order to

realise regional financial independence, local governments can explore and manage local/regional potential effectively and efficiently.

Regional financial independence (Fiscal Autonomy) relates to the ability of local governments to be able to self-finance government activities, development, and services for people who have paid taxes and levies as a source of income needed by the region (Halim in Ramadhani: 2016). One measure of regional financial independence is by looking at the size of the Regional Original Revenue. Regional financial independence is reflected in terms of how local governments manage local revenue by analysing the value of financial ratios. The higher the ratio value indicates that the higher the local government is in its regional financial independence.

A region is said to have good financial independence if the local government can increase local revenue in terms of regulating financial revenues and expenditures or fiscal decentralisation by measuring the contribution of local revenue (PAD) to total local revenue and measuring the contribution of transfer revenue to local revenue (PAD). The financial independence of a region can be said to be independent if the region does not depend on the central government and is able to finance all government operations using funds derived from Regional Original Revenue (PAD).

Research on regional financial independence has been conducted by Frengki Ullo, et al (2023) with the title 'Analysis of Regional Financial Independence in Manokwari Regency', with the result that the regional financial independence of Manokwari Regency is very poor with an average value of 8.71% which means there is financial dependence on the central government. Furthermore, research conducted by Oki, et al (2020) with the title 'Analysis of Regional Financial Independence in Belu Regency', with the results that the financial capacity of Belu Regency from fiscal capacity is very small with an average of 7.8% and the level of dependence on the central government is very high with an average of 84.29%. The financial capability of Belu Regency is very low and falls into the instructive category, meaning that the role of the central government is more dominant than the independence of local governments.

Indragiri Hulu Regency is one of the districts in Riau Province that contributes significantly to the economy of Riau Province. Administratively, Indragiri Hulu Regency has 14 sub-districts and 194 villages with a total area of 8,198.71 Km2. Based on Location Quotient (LQ) analysis, there are 10 basic sectors in Indragiri Hulu Regency, namely agriculture, forestry and fisheries; processing industry; water supply, waste management,

waste and recycling; construction; wholesale and retail trade, repair of cars and motorbikes; transportation and warehousing; provision of accommodation and eating and drinking; real estate; education services and other services (Hartika: 2024). Indragiri Hulu Regency has natural resources that can create a source of regional income that can improve the welfare of the community. The authority to explore and manage its own sources of income is expected that the government can maximise the potential that exists for the progress and prosperity of Indragiri Hulu Regency. The following is the financial report data for Indragiri Hulu Regency regarding Regional Original Revenue (PAD), Transfer Revenue and Total Regional Revenue in 2019-2023:

Table 1
Regional Original Revenue (PAD), Transfer Revenue and Total Revenue
Indragiri Hulu Regency Year 2019 – 2023

YEAR	REGIONAL ORIGINAL REVENUE (PAD) (Rp)	TRANSFER REVENUE (Rp)	TOTAL REVENUE (Rp)
2019	118.978.915.053	1.209.058.944.326	1.667.380.277.861
2020	115.523.444.624	1.006.710.435.214	1.475.277.777.361
2021	122.885.367.482	1.321.687.267.887	1.510.173.793.614
2022	120.209.746.158	1.353.445.554.542	1.487.376.159.148
2023	111.774.962.810	1.474.115.542.138	1.607.409.344.684
Total	*589.372.436.127*	*6.365.017.744.107*	*7.747.617.352.668*
Average	*117.874.487.225*	*1.273.003.548.821*	*1.549.523.470.534*
Percentage	*7,61%*	*82,15%*	*-*

Source: Directorate General of Fiscal Balance, 2025

Based on the data in table 1 above, the Regional Original Revenue (PAD) of Indragiri Hulu Regency experienced fluctuations from 2019 - 2023. In the last 3 years, Regional Original Revenue (PAD) has decreased. The average Regional Original Revenue (PAD) is Rp. 117,874,487,225 or around 7.61% of total regional revenue which will be used to finance regional expenditure. While the source of transfer income averaged Rp. 1,273,003,548,821 or about 82.15% greater than the receipt of Regional Original Revenue (PAD).

Figure 1
Contribution of Regional Original Revenue (PAD) and Transfer Revenue
Indragiri Hulu Regency in 2019-2023
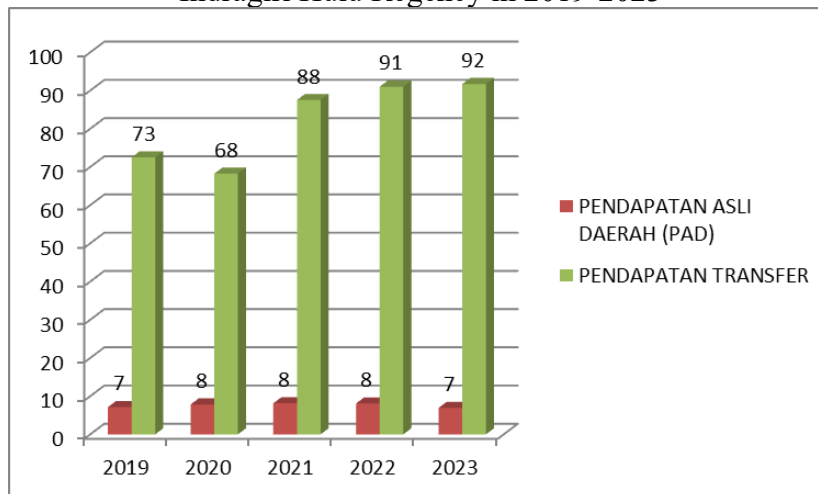
Based on Figure 1 above, the contribution of Regional Original Revenue (PAD) is still small when compared to the transfer revenue sources used for spending and development in Indragiri Hulu Regency. During the last 3 years (2021-2023) Regional Original Revenue (PAD) has decreased and transfer revenues from the central government and inter-regional transfers have increased. This is a problem regarding the financial independence of Indragiri Hulu Regency which is considered still weak in exploring potential sources of Regional Original Revenue (PAD) and relying on transfer revenues from the central government and inter-regional transfers to meet regional spending needs. Therefore, an analysis is needed to determine the financial independence of the Indragiri Hulu Regency region by calculating the ratio of the degree of decentralisation, the ratio of regional financial dependence and the ratio of regional financial independence.

LITERATURE REVIEW

Regional Finance

According to Permendagri Number 77 of 2020 concerning Technical Guidelines for Regional Financial Management, Regional Finance is everything in the form of regional rights and obligations carried out in the context of implementing regional government that can be measured using money, including all forms of wealth related to regional rights and obligations, as well as the basis in the form of the Regional Revenue and Expenditure Budget (APBD). Furthermore, the definition of regional finance is all the rights and obligations of local governments in the form of money (Rupiah) and can be used to finance the implementation of regional government affairs (Khusaini in Fahriza, 2023). Regional finance

can also be interpreted as the right of local governments to obtain and determine sources of regional income in the form of levies on local taxes, local levies and various other sources of regional income based on applicable rules and regulations.

The scope of regional finances according to Government Regulation Number 12 of 2019 concerning Regional Financial Management includes regional taxes and levies; regional obligations; regional revenues and expenses; regional assets managed by themselves or other parties, as well as the assets of other parties controlled by the regional government. Meanwhile, regional financial management according to Law Number 01 of 2022 concerning Financial Relations between the Central and Regional Governments is an overall activity that includes planning, budgeting, implementation, administration, reporting, accountability, and supervision of regional finances.

According to the Directorate General of Financial Balance (2025) local government financing sources consist of 3 main components, namely:

a. Regional original revenue (PAD), including local taxes; local levies; results of the management of separated local assets; and other legal from PAD.

b. Transfer Revenue, including central government transfer revenue and inter-regional transfer revenue.

c. Other Legitimate Regional Revenues, including grant revenues and other revenues in accordance with the provisions of the legislation

Regional Financial Independence

According to Muliana in Said and Bakar (2021) explains that regional financial independence is the government's ability to self-finance government activities, development and services to the community who have paid taxes and levies as a source of income needed by the region.

According to Berkat (2011) the level of independence illustrates the level of community participation in paying local taxes and levies which are the main components in Regional Original Revenue (PAD). To find out the financial ability of a region in financing its regional expenditure is to see how much the contribution of each source of PAD is to the total PAD. According to Mahmudi (2010) to measure the financial independence of a local government, three ratio analyses can be used, namely:

1. Degree of Decentralisation Ratio

The ratio of the degree of decentralisation can be calculated based on the ratio

between the amount of Regional Original Revenue (PAD) to Total Regional Revenue.

2. Regional Financial Dependency Ratio

    The regional financial dependency ratio can be calculated by comparing the amount of Transfer Revenue to Total Regional Revenue.

3. Regional Financial Independence Ratio

    The regional financial independence ratio can be calculated by comparing the amount of Regional Original Revenue (PAD) to Total Transfer Revenue.

RESEARCH METHODS

This research was conducted in Indragiri Hulu Regency, Riau Province with descriptive qualitative data. The data source uses publication data from the Directorate General of Fiscal Balance for 2019 - 2023. The data used are Regional Original Revenue (PAD), Transfer Revenue and Total Revenue of Indragiri Hulu Regency. The data analysis technique used is the analysis of the ratio of the degree of decentralisation, the ratio of regional financial dependence and the ratio of regional financial independence.

1. **Degree of Decentralisation Ratio Analysis**

$$Degree\ of\ Decentralisation\ Ratio = \frac{Regional\ Original\ Revenue\ (PAD)}{Total\ Local\ Revenue} x100\%$$

The degree of decentralisation ratio measures are categorised in the following table:

Table 2
Degree of Decentralisation Ratio Category

Degree of Decentralisation (%)	Financial Performance Capability
0,00 – 10,00	Very Less
10,01 – 30,00	Less
30,01 – 40,00	Fair
40,01 – 50,00	Good
> 50,00	Very Good

Source: Research and Development Team of the Ministry of Home Affairs in Oki (2020)

2. **Regional Financial Dependency Ratio Analysis**

$$Regional\ Financial\ Dependency\ Ratio = \frac{Transfer\ Revenue}{Total\ Local\ Revenue} x100\%$$

The size of the regional financial dependency ratio is categorised in the following table:

Table 3
Regional Financial Dependency Ratio Categories

Regional Financial Dependency Ratio (%)	Regional Financial Dependency
0,00 – 10,00	Very Low
10,01 – 20,00	Low
20,01 – 30,00	Medium
30,01 – 40,00	Moderate
40,01 – 50,00	High
> 50,00	Very High

Source: Research and Development Team of the Ministry of Home Affairs in Oki (2020)

3. Regional Financial Independence Ratio Analysis

$$Regional\ Financial\ Independence\ Ratio\ = \frac{Regional\ Original\ Revenue}{Transfer\ Revenue} x100\%$$

The size of the regional financial independence ratio is categorised in the following table:

Table 4
Regional Financial Independence Ratio Categories

Regional Financial Independence Ratio (%)	Regional Financial Independence	Relationship Pattern
0 – 25	Very Low	Instructive
25 – 50	Low	Consultative
50 – 75	Medium	Participative
75 – 100	High	Delegative

Source: Research and Development Team of the Ministry
of Home Affairs in Oki (2020)

Description:

a. Instructive is where the role of the central government is more dominant than the independence of the local government and the region is considered incapable of implementing regional autonomy.

b. Consultative is where there is less interference from the central government because local governments are considered slightly more capable of implementing regional autonomy.

c. Participative is where the role of the central government is diminishing because local governments are considered capable of implementing regional autonomy.

d. Delegative is where government interference is non-existent because local governments are fully capable and independent in implementing regional autonomy.

RESULTS AND DISCUSSION

a. **Degree of Decentralisation Ratio Analysis**

Analysis using the ratio of the degree of decentralisation is one indicator to measure the financial performance of a region. This analysis can describe the ability of a region to manage Regional Original Revenue (PAD) to finance the implementation of regional autonomy. Based on the results of the calculations that have been carried out, the ratio of the degree of decentralisation of Indragiri Hulu Regency can be seen in the following table:

Table 5
Decentralisation Degree Ratio of Indragiri Hulu Regency 2019 - 2023

YEAR	REGIONAL ORIGINAL REVENUE (PAD) (Rp)	TOTAL REVENUE (Rp)	RATIO OF DEGREE OF DECENTRALISATION	DESCRIPTION
2019	118.978.915.053	1.667.380.277.861	7,14	Very Less
2020	115.523.444.624	1.475.277.777.361	7,83	Very Less
2021	122.885.367.482	1.510.173.793.614	8,14	Very Less
2022	120.209.746.158	1.487.376.159.148	8,08	Very Less
2023	111.774.962.810	1.607.409.344.684	6,95	Very Less
Average	*117.874.487.225*	*1.549.523.470.534-*	*7,61*	Very Less

Source: Directorate General of Fiscal Balance, 2025

Calculation of the degree of decentralisation ratio from 2019-2023 with an average ratio of 7.61%. Referring to the criteria for assessing the degree of decentralisation ratio, in this case all ratio values in 2019 - 2023 are included in the scale of 0.00 - 10.00 with the criteria 'Very Lack'. This illustrates that local governments in Indragiri Hulu Regency have not been able to finance the implementation of their government affairs. Local governments have not been able to independently finance the development of facilities and infrastructure, infrastructure development and even in terms of services to their communities. This is due to the lack of efforts to explore and manage the potential that exists in the region optimally.

b. **Regional Financial Dependency Ratio Analysis**

This analysis is used to see how much local government dependence on transfer income provided by the central government, provinces and loan funds from other regions. Based on the results of the calculations that have been carried out, the regional financial dependency ratio of Indragiri Hulu Regency can be seen in the following table:

Table 6
Regional Financial Dependency Ratio of Indragiri Hulu Regency 2019 - 2023

YEAR	TRANSFER REVENUE	TOTAL REVENUE (Rp)	REGIONAL FINANCIAL DEPENDENCY RATIO	DESCRIPTION
2019	1.209.058.944.326	1.667.380.277.861	72,51	Very High
2020	1.006.710.435.214	1.475.277.777.361	68,24	Very High
2021	1.321.687.267.887	1.510.173.793.614	87,52	Very High
2022	1.353.445.554.542	1.487.376.159.148	91,00	Very High
2023	1.474.115.542.138	1.607.409.344.684	91,71	Very High
Average	*1.273.003.548.821*	*1.549.523.470.534-*	82,15	Very High

Source: Directorate General of Fiscal Balance, 2025

From the table above, it can be seen that the regional financial dependency ratio of Indragiri Hulu Regency from 2019 - 2023 generally always increases with the assessment criteria of 'Very High'. The average regional financial dependency ratio in 2019-2023 was 82.15% and was in the interval> 50.00%, meaning that Indragiri Hulu Regency has a very high financial dependence from the central, provincial or other regional governments. The local government of Indragiri Hulu Regency still needs transfer funds from the central government, provincial government and loans from other regions to finance government administration. This condition is caused by the acquisition of Regional Original Revenue (PAD) and other legal revenues that are still insufficient to finance regional expenditures.

c. **Financial Independence Ratio Analysis**

This analysis shows the degree of independence of a region or to show how much independence a region has to meet regional needs by using revenue from the region. Based on the results of the calculations that have been carried out, the financial independence ratio of Indragiri Hulu Regency can be seen in the following table:

Table 7
Financial Independence Ratio of Indragiri Hulu Regency 2019 - 2023

YEAR	REGIONAL ORIGINAL REVENUE (PAD) (Rp)	TRANSFER REVENUE (Rp)	Ratio of Financial Independence	DESCRIPTION
2019	118.978.915.053	1.209.058.944.326	9,84	Instructive
2020	115.523.444.624	1.006.710.435.214	11,48	Instructive
2021	122.885.367.482	1.321.687.267.887	9,30	Instructive
2022	120.209.746.158	1.353.445.554.542	8,88	Instructive
2023	111.774.962.810	1.474.115.542.138	7,58	Instructive
Average	*117.874.487.225*	*1.273.003.548.821*	9,26	Instructive

Source: Directorate General of Fiscal Balance, 2025

Based on data on the ratio of financial independence of Indragiri Hulu Regency in 2019 - 2023, each year is in the interval 0% - 25% with very low criteria and instructive relationship patterns. The average value of the financial independence ratio is 9.26%

where the relationship pattern is instructive which indicates that the role of the central government is more dominant than the independence of the local government and Indragiri Hulu Regency is considered unable to implement regional autonomy properly.

CONCLUSION

The conclusions of this study are as follows:

1. The average value of the decentralisation degree ratio of Indragiri Hulu Regency during the 2019-2023 period was 7.61% with very poor criteria. This shows that the local government has not been able to use Regional Original Revenue (PAD) funds in the implementation of regional autonomy.

2. The average value of the regional financial dependency ratio of Indragiri Hulu Regency during the 2019-2023 period was 82.15% with very high criteria. This shows that local governments have a high dependence on the central government, provinces or loans from other regions.

3. The average value of the regional financial independence ratio of Indragiri Hulu Regency during the 2019-2023 period was 9.26% with very low criteria and instructive relationship patterns. This shows that the role of the central government is more dominant than the independence of the local government and Indragiri Hulu Regency is considered unable to implement regional autonomy properly.

SUGGESTION

The suggestions that can be given to the research are as follows:

1. To the local government of Indragiri Hulu Regency in order to strive to explore and manage regional potential in order to increase Regional Original Revenue (PAD), both revenue from taxes and regional levies.

2. Transfer funds received from the central government, provinces and other regions should be used effectively and efficiently to encourage Regional Original Income (PAD).

3. It is hoped that the Indragiri Hulu Regency government will not always depend on the central government and loan funds. The government must educate the public about the importance of development so that investors can enter and have a good impact on the lives of the community, local government and investors.

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