

FINANCIAL INDEPENDENCE AND DEPENDENCE RATIO OF CITY GOVERNMENT IN SOUTHERN SUMATRA REGION 2020-2022

Neri Susanti¹, Wagini², Zelinda Prasetya³

Faculty of Economics and Business, Dehasen University, Bengkulu ^{1,2,3}

*nerisusanti@unived.ac.id*¹, *wagini@unived.ac.id*², *zelindaprasetya0@gmail.com*³

Abstract

This study aims to analyze the financial independence and dependency ratio of city governments serving as provincial capitals in Southern Sumatra with a case study of 5 (five) city governments, namely Bengkulu City, Palembang City, Jambi City, Bandar Lampung City, and Pangkal Pinang City. This study was conducted using secondary data from the website www.djpk.kemenkeu.go.id in the form of APBD data for the 2020-2022 period to determine the level of financial independence and dependency ratio of these local governments. The financial independence of local governments indicates the extent to which a region can rely on local revenue sources without relying on transfers from the central government. This study uses a quantitative approach by measuring the ratio of regional financial independence and the ratio of dependency on transfer funds. The results of the study indicate that the financial capabilities of the five city governments are on average still not independent and still depend on transfer funds from the central government. For the city government that is at the lowest level of independence is the Bengkulu City Government with an average ratio of 15.29%, while the city government that is at a medium level of independence is the Palembang City Government with an average of 27.09% and the Bandar Lampung City Government at 31.33%. For the lowest financial dependence ratio of the regional government, the ratio is the Bandar Lampung City Government, which is 48.83%, meaning that the level of dependence of the Bandar Lampung City Government is in a medium position. While the highest level of dependence is the Bengkulu City Government, which is 75.71%. The limitations of this study are because the researcher only studied five city governments in the Southern Sumatra region. So that the results of this study are expected to provide insight into better regional financial management policies to support sustainable regional development.

Keywords: Financial Independence, Regional Original Income (PAD), Dependency Ratio, Regional Financial Management.

1. INTRODUCTION

Regional financial independence is an important indicator for assessing a region's ability to manage its finances and finance its government activities using the resources available in that region. This independence also reflects the efficiency and effectiveness of regional financial management in supporting regional development. One of the main aspects measured in financial independence is the region's level of dependence on funds. transfers from the central government such as general allocation funds (DAU), revenue sharing funds (DBH), and other sources of income from the central government.

One of the regions on the island of Sumatra is Southern Sumatra (SUMBAGSEL), which consists of five provinces, namely South Sumatra Province, Jambi Province, Bengkulu Province, Lampung Province and Bangka Belitung Province. This is very interesting for researchers because the provinces in the SUMBAGSEL region are the result of the expansion of the South Sumatra Province. In this study, only the independence ratio and dependency ratio were examined using data from the realization of the APBD of the city governments that are the provincial capitals in the five provinces,

namely the Palembang City Government, Jambi City Government, Bengkulu City Government, Bandar Lampung City Government and Pangkal Pinang City Government

2. LITERATURE REVIEW AND DEVELOPMENT HYPOTHESIS

1. Independence Regional Finance

Independence finance area is ability government area in fulfil financing spending area without high dependency to source of funds from government center. According to Mardiasmo (2018), performance finance area can assessed through a number of indicators that reflect aspect independence, effectiveness, efficiency, and growth finance area. This theory lots used in analysis finance areas in Indonesia because its relevance with context management finance area . The following is indicators main according to Mardiasmo (2018):

1. Ratio Independence Regional Finance (Local Financial Autonomy Ratio) is indicators used for measure to what extent a area capable finance expenditure his government alone through income original regional (PAD) without depends on the transfer from government central government , such as the General Allocation Fund (DAU) or the Regional Allocation Fund Special (DAK). Ratio this reflect level independence fiscal something area .

Formula :

$$\text{Ratio Independence} = \frac{\text{Regional Original Income (PAD) } \times 100\%}{\text{Total Regional Income}}$$

$$\text{Ratio Independence} = \frac{\text{Total Regional Income} \times 100\%}{\text{Regional Original Income (PAD)}}$$

Explanation :

Ratio This measure to what extent the government area capable finance his activities through Local Original Income (PAD). Increasingly tall ratio this , increasingly independent finance area the .

Interpretation :

- Ratio > 50% : Level of independence tall .
- Ratio 25-50% : Level of independence currently .
- Ratio < 25% : Level of independence low .

Factors that influence independence according to Mardiasmo :

1. Potential economy local .
2. Efficiency management taxes and levies area .
3. Ability administration finance area

Whereas according to Mahmudi in his book "*Management Regional Finance* " (2010) states that independence finance area measured based on ability area in finance need his expenses from PAD without too depend on help government center . Indicator independence finance area includes:

1. Ratio independence finance region (comparison of PAD with total income area) .
2. The level of PAD contribution to expenditure development area

Ratio independence finance this describe how much big ability area for funding activity his government with source income the area it self.

$$\text{Financial Independence Ratio} = \text{Total Revenue} / \text{Regional Original Revenue (PAD)} \times 100\%$$

- Income (PAD) is all over income derived from source power that own areas, like tax area, levies, and results riches separated areas.

- Total Regional Income includes all source income areas, both those originating from from PAD, transfer funds from government center, as well as source other.

For measure independence finance, some the ratio used is:

- PAD ratio to Regional Income : Assessing proportion income area of origin from source power local .
- Ratio Dependence to Transfer: Measuring how much big area depends on the transfer funds from center .
- Ratio Decentralization Fiscal : Assess level decentralization in financing development area .

According to Awani and Hariani in their research explain that development level independence area all over districts /cities of Sumatra Island during 2015-2018 was at a low point due to results only by 25% so that for development level efficiency of regional spending management can it is said not enough efficient . And then for development level effectiveness PAD management can it is said Effective that is with an average obtained above 90% while for rate PAD growth is still in conditions fluctuating .

2. Ratio Dependence Regional Finance

Ratio Dependence Regional Finance is one of the indicators used for measure to what extent the government area depending on the source funding from government center (transfer funds) compared with the region's ability to generate its own income through Local Original Income (PAD). This ratio reflect level independence finance area. This ratio used for measure level dependence area on funds received from government center .

Formula :

$$\text{Ratio Dependency} = \frac{\text{Transfer from Central Government}}{\text{Total Regional Income}} \times 100\%$$

Explanation :

This ratio measure to what extent the government area depends on the transfer from government central government, such as the General Allocation Fund (DAU), Regional Allocation Fund (RAF), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH). Increasingly tall ratio this , increasingly low independence finance area .

Interpretation Ratio :

- The more tall ratio (approaching 100%), the more big dependence government area on transfer funds from government center .
- The more low ratio (close to 0%), indicating area more independent because capable finance his needs through PAD.

Category Ratio Dependencies :

1. Low (0-25%): Independence very good area .
2. Moderate (26-50%): Dependence area currently .
3. High (51-75%): Dependence area tall .
4. Very High (76-100%): Dependence very high area .

Ratio Dependency Ratio on Central Transfers is indicators that measure to what extent a area depends on the transfer funds from government center, such as General Allocation Fund (DAU), Allocation Fund Special (DAK), and sources funding other from center , for finance expenditure his government. The ratio is show level dependence fiscal something area to government center .

According to Abdul Halim (2007:231) explains that ratio dependence is an indicator for evaluate level government fiscal independence area, where the more tall ratio dependence show that area still very dependent on the government center in financing operational and development.

Rohmadani, Disma in his research conclude that independence finance area influential positive and significant to sustainability financial, whereas debt to income ratio influential negative and significant to sustainability financially. In terms of simultaneous independence finance region and debt to revenue ratio have significant impact to sustainability financial in the Provinces in Indonesia.

Based on results study from Dani Melmambessy explain that participation society in pay taxes and levies the area which is component main from Local Original Income and government own very high dependence on the funds received preacher government area .

3. RESEARCH METHODOLOGY

This research use approach quantitative with analyzing the realization data of the regional budgets of the Bengkulu City, Palembang City, Jambi City, Bandar Lampung City and Pangkal City governments Pinanguntuk 2020-2022. Data collection in the form of APBD realization published by the Directorate General of Balance and Finance from 2020-2022 through the official website www.djpk.kemenkeu.go.id . Data used covering information about Regional Original Income (PAD), Transfer Funds, and total income area. In analyzing ratio independence and dependence finance area with use formula that includes:

1. Calculation ratio independence finance area

Formula :

$$\text{Ratio Independence} = \frac{\text{Regional Original Income (PAD)}}{\text{Total Regional Income}} \times 100\%$$

Interpretation :

- Ratio > 50% : Level of independence tall .
- Ratio 25-50% : Level of independence currently .
- Ratio < 25% : Level of independence low .

Explanation :

Ratio This measure to what extent the government area capable finance his activities through Local Original Income (PAD). Increasingly tall ratio this, increasingly independent finance area.

2. Measurement ratio dependence area against transfer funds from government center

Formula :

$$\text{Ratio Dependency} = \frac{\text{Transfer from Central Government}}{\text{Total Regional Income}} \times 100\%$$

Category Ratio Dependencies :

1. Low (0-25%): Independence very good area .
2. Moderate (26-50%): Dependence area currently .
3. High (51-75%): Dependence area tall .
4. Very High (76-100%): Dependence very high area

4. RESULTS AND DISCUSSIONS

1. Ratio Independence Regional Finance

For measure level independence area with see percentage PAD contribution to total revenue area . The more tall PAD ratio, increasing independent area in matter finance. The following presented income data regional, PAD and Central Government Transfer Funds for five local city governments in five capital cities provinces in South Sumatra (Bengkulu City Government, Palembang City Government , Jambi City Government, Bandar Lampung City Government and Pangkal Pinang City Government) for 2020, 2021 and 2022.

Table 1. Realization Income Bengkulu City Government, Palembang City Government, Jambi City Government, Bandar Lampung City Government and Pangkal Pinang City Government) for 2020 , 2021 and 2022.

Account	2020					2021					2022				
	Bengkulu	Palembang	Jambi	Bandar Lampung	Pangkal Pinang	Bengkulu	Palembang	Jambi	Bandar Lampung	Pangkal Pinang	Bengkulu	Palembang	Jambi	Bandar Lampung	Pangkal Pinang
Regional Income	1,079.66	3,695.47	1,621.83	2,145.80	843.38	1,145.29	3,690.80	1,652.95	2,127.75	948.31	1,167.22	4,067.46	1,668.66	2,174.12	1,010.52
PAD	155.15	1,032.72	355.67	537.54	140.96	175.33	1,158.87	384.73	564.29	168.86	188.84	1,408.72	436.89	645.97	201.97
Regional Tax	92.05	787.92	216.96	410.46	78.02	98.24	838.14	244.73	416.92	93.46	110.90	1,172.72	301.80	498.95	117.33
Regional Retribution	9.33	35.53	40.48	25.73	12.75	11.16	37.22	51.84	22.10	11.92	11.15	39.18	40.22	20.31	12.07
Management Results Separated Regional Assets	3.22	64.55	9.60	21.28	5.34	3.34	96.39	9.64	22.97	6.03	1.63	26.45	10.53	14.57	6.71
Other Legitimate PAD	50.55	144.72	88.63	80.09	44.86	62.59	187.13	78.52	102.30	57.45	65.17	170.38	84.34	112.14	65.86
TKDD	859.91	1,996.73	1,074.21	1,361.27	594.12	842.47	1,826.79	1,070.42	1,354.85	685.44	862.87	1,747.83	1,083.90	1,396.56	683.9
Central Government Transfer Revenue	859.91	1,996.73	1,074.21	1,361.27	594.12	842.47	1,826.79	1,070.42	1,354.85	685.44	862.87	1,747.83	1,083.90	1,396.56	683.9
Inter-Regional Transfer Revenue	20.42	324.43	118.74	132.57	83.01	83.91	428.17	135.61	108.04	68.41	91.36	517.29	146.98	131.60	92.61
Income Other	64.60	666.02	191.95	246.99	108.3	127.49	705.15	197.80	208.61	94.01	115.51	910.91	147.88	131.60	124.65
Grant Income	44.18	341.59	73.21	114.42	25.28	0.47	116.79	0.70	3.45	0.66	12.57	393.62	0.90	0.00	
Emergency Fund	0.00	0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00		0.00	0.00	0.00	0.00
Other Income In accordance with Provision Regulation Legislation	0.00	0.00	0.00	0.00	0	43.10	160.18	61.49	97.12	24.95	11.58	0.00	0.00	0.00	32.04

Source : Ministry of Home Affairs website , processed data

Table 2. Ratio Regional Independence of Cities in West Sumatra 2020-2022

No	Local government	Ratio independence			Average
		2020	2021	2022	
1	Bengkulu City	14.37	15.31	16.18	15.29
2	Palembang City	27.95	31.40	34.63	18.17
3	Jambi City	21.93	23.28	26.18	23.80
4	Pangkal Pinang City	16.71	17.81	19.99	27.09
5	Bandar Lampung City	25.05	26.52	29.71	31.33

Source : processed data author , 2025

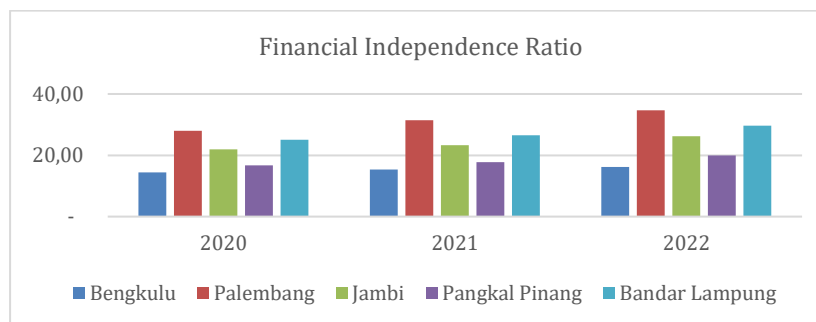
Interpretation :

Ratio > 50% : Level of independence tall .

Ratio 25-50% : Level of independence currently .

Ratio < 25 : Level of independence low .

Figure 1. Graph independence Regional Finances of Cities in West Sumatra 2020-2022



Source : processed data author , 2025

Table 1 above shows Income data area Bengkulu City Government , Palembang City Government , Jambi City Government, Bandar Lampung City Government, and Pangkal Pinang City Government . Based on table 1 above can seen that the highest average PAD is Palembang City Government, while the average PAD is the lowest is Pangkal Pinang City Government.

For ratio independence can seen in table 2 above. Based on table 2 above can seen ratio independence finance area of 5 (five) governments cities in 5 provinces in Southern Sumatra. Of the five government city the can seen that government the city with the highest level of independence is Bandar Lampung City Government with level ratio as big as 31.33% , followed by the Pangkal Pinang City Government at 27.09%, while the very low level of independence is Bengkulu City Government with ratio as big as 15.29% .

With thus based on results calculation ratio independence finance so government city the Not yet someone came in in category level high independence Because Not yet some reach 50%, while those who enter in category independence currently is The Bandar Lampung City Government and the Pangkal Pinang City Government , while Jambi City Government , Palembang City Government and Bengkulu City Government entered to in category low , which means the 5 local governments cities in

South Sumatra still it is said Not yet independent and its meaning still very dependent with source of funds from center.

This is also influenced by several factor affecting independence finance: factors like potential tax area, management asset area , policy fiscal , and management of transfer funds will analyzed For determine how much big its influence to independence finance area . For That government area must do various strategies to be able to make the area for become more independent , so that No depends with central funds . The following some strategies that can carried out by the government area For increase independence finance , namely :

1. Optimizing PAD potential :
 - Increase income from taxes and levies area with expanding the tax base
 - Repair system management taxes and levies For prevent leakage income
2. Increase Efficiency Shopping :
 - Prioritize shopping of a nature productive and giving impact directly to the community .
 - Reduce dependence on loans or government transfers center
3. Innovation in Regional Asset Management :
Manage asset areas that have not been utilized optimally , such as land or building owned by government area
4. Increase Local Investment :
Push investment local through supportive policies perpetrator business and create field Work
5. Increase Collaboration :
Cooperate with sector private in form partnership (PPP - Public-Private Partnership) for utilise source Power area
6. Improvement ratio independence finance area need strong commitment from government area For dig potential local as well as manage finance in a way transparent and accountable .

As for the challenges in increase independence finance area is as following :

1. Dependence on Central Government Transfers
Many areas in Indonesia, especially those with status districts / cities , are very dependent on the General Allocation Fund (DAU), the Regional Allocation Fund Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH). Dependence This create challenge in develop capacity independent fiscal
2. Limited Local Resources
Not all area own potential large economy . Areas with minimal resources Power natural or industry often have difficulty in increase PAD
3. The low Efficiency Tax and Levy Management
Leakage income from taxes and levies often happen consequence weakness system management , lack of supervision , or corruption

4. Lack of Innovation in Management Finance
Many areas not yet utilise technology or innovative strategies for dig potential income local, such as digitalization tax or work the same with party private
5. The gap Infrastructure
Areas with poor infrastructure own power pull low for investors, which ultimately hinder growth economy local

2. Ratio Dependence Regional Finance

Ratio high dependency show that area still depend on the government center, which can become constraint in implementation autonomy area. Therefore that's important for government area for increase PAD through optimization potential economy local, efficiency management finance and innovation in source income new.

Evaluate level dependence area on funds received from government center. This ratio will show whether area too dependent on central funds or can depend on income local. Following results calculation ratio dependence Bengkulu City Government , Palembang City Government, Jambi City Government, Bandar Lampung City Government and Pangkal Pinang City Government for 2020, 2021 and 2022:

Table 3. Ratio Dependence Regional Governments throughout South Sumatra in 2020, 2021, and 2022

No	Local Government	Ratio Dependence			Average
		2020	2021	2022	
1	Bengkulu City	79.65	73.56	73.93	75.71
2	Palembang City	54.03	49.50	42.97	70.13
3	Jambi City	66.23	64.76	64.96	65.32
4	Pangkal Pinang City	70.45	72.28	67.68	63.78
5	Bandar Lampung City	63.44	63.68	64.24	48.83

Source : processed data author , 2025

Category Ratio Dependencies :

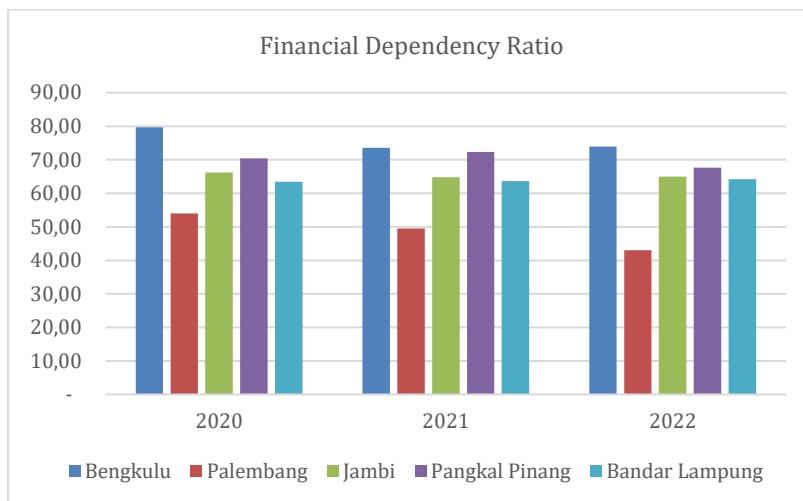
Low (0-25%) : Independence very good area.

Moderate (26-50%) : Dependence area currently.

High (51-75%) : Dependence area tall.

Very High (76-100%) : Dependence very high area

Figure 2. Graph ratio dependence Local government



Based on the data in table 2, the ratio dependence on can seen that ratio highest dependency is Bengkulu City government was 75.71%, while the lowest level its dependency is Bandar Lampung City Government is 48.83%. This is show that area still depend on the government center, which can become constraint in implementation autonomy area . Therefore that's important for government area for increase PAD through optimization potential economy local, efficiency management finance and innovation in source income new.

As for the strategies that can be carried out by the government area in increase ability finance area so that become independent region is as following :

1. Optimization Regional Original Income (PAD)

Through optimizing PAD then can reduce the level of dependency with government center, PAD optimization can done through :

 - Taxes and Levies : Increasing the tax base with register potential must unpaid taxes affordable . Example : Vehicle tax motorized , tax restaurants , and market fees .
 - Regional Assets: Managing asset areas that have not been utilized , such as land and buildings, for produce income addition
2. Digitalization and Transparency
 - Use technology for increase efficiency collection taxes, such as application online tax.
 - Increase transparency in management finance for prevent leakage income
3. Diversification Source Income
 - Push investment local with give convenience licensing and incentives for perpetrator business .
 - Develop tourist local as source income addition
4. Improvement Human Resources Capacity

Practice employee government area for increase ability in management finance and management income area .
5. Collaboration with the Private Sector

Forming partnership public-private partnership (PPP) for development infrastructure or management asset area

6. Management Efficient Shopping

Prioritize shopping productive and impactful directly to the community, such as development infrastructure economy and services public.

5. CONCLUSION

From the results this study can taken conclusion that level independence and dependence of the five governments cities in the South Sumatra region are still very dependent with funds from government center of study this can give description to what extent independence finance area can achieved, as well as factors that need to be considered be repaired so that the government area more independent in finance activity his government. Suggestions that can be given covers improvement PAD management, diversification source income area, as well as policy fiscal that can reduce dependence against transfer from government center.

With approach this research about independence finance government area can help in evaluate effectiveness and sustainability management finance area, which in turn will contribute to development more areas good. With independence finance so will show success for government area in dig potential sources income so that government area no depends with funds from government center for build the area.

Limitation and Study Forward

As for the limitations in this study is because researchers only discuss from side independence and dependence finance government city in the South Sumatra region only, hopefully his research can to be continued with research for all regions in Indonesia.

ACKNOWLEDGEMENT

The author's final words say accept love to all the party that has lots help in the research process this. Because without help from various party naturally writer no will can finish this research with appropriate time.

REFERENCES

- Awani, MF, & Hariani , S. (2021). Ratio Analysis Regional Independence and Ratio Finance On Financial Performance Regional Government . *AKURASI: Journal of Accounting and Financial Research* , 3 (2), 95-102.
- Halim, Abdul. & Kusufi . 2019. Public Sector Accounting Regional Finance Edition 4. Bandung: Salemba Four .
- Halim, Abdul. 2007. Accounting Regional Finance . Yogyakarta: UPP STIM YKPN.
- Melmambessy , D. (2022). Financial Performance Analysis Jayapura City Government Reviewed From the Ratio Regional Independence , Regional Dependence , Decentralization Fiscal and Effectiveness . *Journal of Economics and Business* , 13 (2), 10-15.
- Mardiasmo . 2018. Taxation Edition Revision 2018. Yogyakarta: Andi Publisher

Rohmadani , Suci Disma , Yulsiati , Henny, Sari, Yuliana, Influence Independence Finance and Debt to Equity Ratio Sustainability Financial in Provinces in Indonesia, MANEKSI JOURNAL VOL 13, NO. 3, SEPTEMBER 2024

Sijabat , NID, Susanti, N., & Hidayah, NR (2023). Analysis of the Budget Realization Report (LRA) at the Sub-District Office of Seberang Musi Kepahiang District. *Journal of Economics, Management , Business and Accounting Review* , 3 (2), 371-382.

Sugiyono . 2018. Research Methods Quantitative , Qualitative , R&D Edition 1. Bandung: Alfabeta .

Law no. 23 of 2014 Concerning Local Government. Regulation Government Number 12 of 2019 concerning Management Finance

Law no. 1 Of 2022 Concerning Connection Finance Central Government and Regional Government