



ANALYSIS OF REGIONAL FINANCIAL PERFORMANCE OF EAST JAVA PROVINCE

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East Java Province, as one of the regions with the largest economic and population contribution in Indonesia, plays a strategic role in realizing sustainable and inclusive regional development. In the context of regional autonomy that emphasizes accountability and efficiency of budget management, regional financial performance analysis is important to assess the extent to which provincial governments are able to manage fiscal resources independently, effectively, and sustainably. This study aims to find out the regional financial performance of East Java Province during the period 2016-2022. This study uses a quantitative research method with realized data from regional revenues, government transfer revenues, capital expenditures, regional expenditures, and regional original revenues from the Directorate General of Budget Balance Data Portal for 2016-2022. The ratio analysis method, namely a) fiscal decentralization, b) financial independence, c) financial dependence, d) efficiency and e) financial effectiveness, and f) regional financial compatibility was chosen because it was able to provide a comprehensive and multidimensional picture of the fiscal performance of East Java Province within the framework of regional autonomy, as well as reveal the strengths, weaknesses, and sustainability of its financial management. This approach is relevant for assessing not only the size of the budget but also the quality, impact, and long-term fiscal resilience. The results of fiscal decentralization showed a very good category, financial independence showed a high category with a pattern of delegative relationships, financial dependence showed a high category, financial effectiveness showed a very effective category, and financial efficiency showed a less efficient category. In the harmony of regional expenditure, it is divided into 2. First, the capital expenditure ratio shows a poor category. Second, the operating expenditure ratio shows a fairly good category. The findings of this study provide an empirical basis for local governments to develop fiscal policies that are more efficient, sustainable, and results-oriented, as well as an evaluation material in strengthening regional autonomy. At the academic level, the study enriches discussions about the relationship between fiscal decentralization and regional financial performance, particularly in the context of large provinces with complex fiscal burdens such as East Java.

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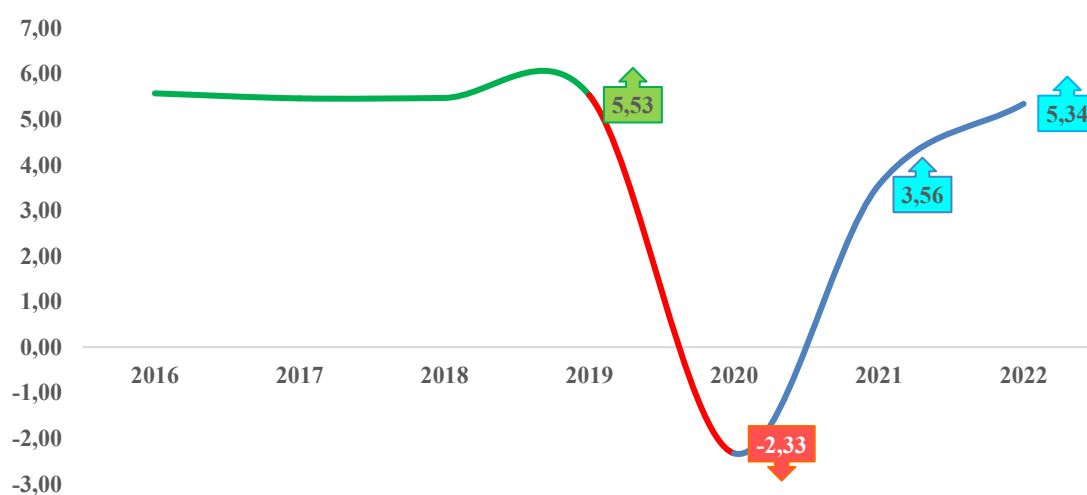
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INTRODUCTION

The success of the regions in implementing regional financial performance in an optimal, balanced, and transparent manner will have an impact on increasing the economic growth of the region, as seen in Figure 1, which shows the economic growth trend of East Java Province. The economic growth of East Java province in 2016-2019 experienced a positive trend of 5

percent, but in 2020, it experienced a decline in growth and even a negative growth. This was due to the COVID-19 pandemic. In 2021, post-COVID-19, the economy strengthened again, which saw a positive improvement in economic growth of 3.56 percent and returned to the pre-pandemic growth point in 2022 of 5.34 percent.

Figure 1. Economic Growth of East Java Province



Source: Central Statistics Agency, 2023

The implementation of regional autonomy is an effort to equalize economic growth and manage sustainable development in the region. The management is based on the ability to manage resources, production, and distribution efficiency, as well as regional financial budget management, so that it is expected to be able to reduce the level of dependence on the central government. (Christia & Ispriyarso, 2019). The reduced dependence on the budget shows that regional financial independence sourced from regional original revenue (PAD) has been able to support all regional spending needs. (Oki et al., 2020). The more regional expenditure allocations that can be used, which come from the ability of the region itself, the higher the level of regional independence, and vice versa (Suhadak et al., 2007). Each region in implementing regional autonomy is challenged, where the regions must

be able to find alternative sources of financing for regional development independently by maximizing PAD, grants, regional exports, and regional loans. (Oki, 2019).

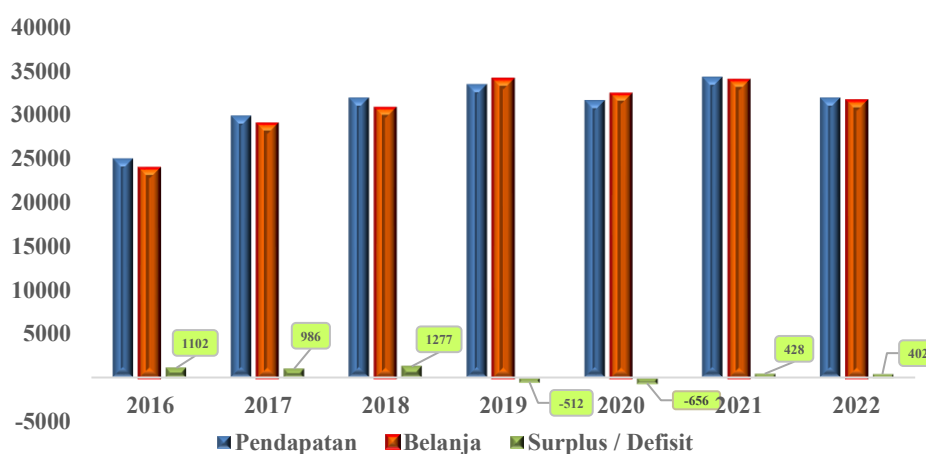
Regional financial performance is an important indicator in assessing the effectiveness and accountability of local governments in managing public resources. In Indonesia, the implementation of regional autonomy since the reform era has given broader authority to local governments to regulate and manage government affairs, including in terms of financial management. In this context, regional financial performance not only reflects the fiscal capacity of a region, but also reflects the capacity of local governments in planning, implementing, and supervising the use of the budget to achieve regional development goals. Therefore, financial performance evaluation is an important step in ensuring that public funds are used efficiently, effectively, transparently, and fairly.

East Java Province has a strategic position in Indonesia's economic and social map. As the province with the second largest population after West Java—more than 40 million people—and a significant contribution to the national Gross Regional Domestic Product (GDP), East Java faces a major challenge in meeting complex and diverse public service needs. This area includes developed cities such as Surabaya, rural areas, and islands that still need intensive development interventions. In this context, good regional financial management is a key prerequisite for ensuring equitable development, improving the quality of basic services (such as education, health, and infrastructure), and strengthening the local economy. Healthy financial performance will enable provincial governments to respond quickly and appropriately to socio-economic dynamics, especially amid fiscal pressures due to fluctuations in regional revenue (PAD), reliance on fund transfers from the central government, and increasing spending needs.

More than that, the analysis of the financial performance of the East Java region is also

important in the context of evaluating fiscal decentralization policies. Since the enactment of Law Number 23 of 2014 concerning Regional Government and its derivative regulations, local governments are not only required to be able to manage the budget, but also to create innovations in improving the efficiency of regional revenue and expenditure. Poor financial performance—such as over-reliance on transfer funds, low PAD to total income ratios, or structural deficits—can hamper regional autonomy and reduce long-term fiscal resilience. On the contrary, good financial performance will strengthen the capacity of regions to innovate, attract investment, and build a responsive public service system. Thus, the evaluation of the financial performance of East Java Province is not only academically relevant but also has real policy implications for governance, fiscal sustainability, and community welfare in the future.

Figure 2. Realization of Regional Revenue and Expenditure in East Java Province



Source: Directorate General of Financial Balance, Ministry of Finance

Sustainable regional economic growth and development are inseparable from the performance of regional financial management and allocation. (Haerani & Munandar, 2022). Figure 2 illustrates the difference in the realization of regional revenue and expenditure in East Java province in 2016-2022. During the 2016-2018 period, the APBD experienced an average surplus of Rp 1.1 trillion. However, in 2019, there was a

deficit of Rp -511 billion. This condition was complicated by the Covid-19 pandemic in 2020, so that regional spending was allocated more for handling the pandemic, resulting in a deficit of Rp -655 billion. The post-pandemic budget revision returned to a surplus in 2021-2022 with an average of Rp 414 billion.

Based on the explanation of the condition of economic growth, which is inseparable from the

realization of regional financial management and allocation, a study is needed that aims to look at the performance of regional financial management in East Java Province in the 2016-2022 period in order to create sustainable development and community welfare. There are several data analysis techniques that describe regional financial conditions, namely 1) Fiscal Decentralization, 2) Regional Financial Independence, 3) Regional Financial Dependence, 4) Regional Financial Harmony, 5) Regional Financial Effectiveness, and 6) Regional Financial Efficiency. (Taufiqurrachman et al., 2024). It is hoped that the research will be able to provide benefits and contribute as a reference in policy-making for the East Java Provincial Budget, as well as material for evaluating financial performance, and for academics and the general public to be used as a source of science and further research development in East Java Province.

Financial performance is a key indicator in assessing the effectiveness, accountability, and capacity of local governments in managing public resources efficiently, transparently, and fairly. In the framework of post-reform regional autonomy, local governments are given broad authority to regulate their own finances, so fiscal performance evaluation is important to ensure that the budget truly supports the achievement of regional development goals. East Java Province, as Indonesia's second-most populous region and a major contributor to national GDP, faces complex challenges in providing equitable public services—from developed cities like Surabaya to rural areas and the archipelago. Sound financial management is critical to its ability to strengthen infrastructure, basic services, and the local economy, while maintaining fiscal resilience amid reliance on central transfers and increasing spending pressures.

This study aims to evaluate the regional financial performance of East Java Province during the period 2016–2022 by analyzing six main indicators—fiscal decentralization, financial independence, financial dependence, efficiency, effectiveness, and regional financial harmony—through financial ratios such as a) fiscal decentralization, b) financial independence, c) financial dependence, d) efficiency and e) financial effectiveness and f) regional financial compatibility. This study aims to understand the

extent to which local governments are able to manage revenues, expenditures, assets, and liabilities efficiently, effectively, and accountably, as well as evaluate the trends in revenues, expenditures, and budget surplus/deficit positions during the period. Academically, this study enriched the literature on the relationship between fiscal decentralization and financial performance in large population areas and a pluralistic economy; practically, providing a comprehensive diagnosis for improving budget governance; and at the policy level, the results are relevant as the basis for the formulation of a fiscal strategy that is sustainable, transparent, and oriented towards improving the welfare of the people of East Java.

This study uses a quantitative approach with a comparative descriptive analysis method, namely by analyzing regional financial data in East Java Province over a certain period through a number of regional financial ratios, such as a) fiscal decentralization, b) financial independence, c) financial dependence, d) efficiency, e) financial effectiveness, and f) regional financial compatibility. Through this method, the research is expected to be able to provide an objective picture of the condition and development of regional financial performance. The expected contribution of this research includes being an evaluation material for local governments in formulating fiscal policies, as well as providing strategic recommendations to increase transparency, accountability, and sustainability in regional financial management to support economic development and the welfare of the people of East Java.

This research has novelty in three main aspects. First, the focus of the analysis covers the post-COVID-19 period (2020–2022), so as to be able to uncover regional fiscal resilience in the face of global economic shocks and significant changes in national fiscal policies. Second, this study does not rely only on one or two financial ratios, but uses a multidimensional approach with six complementary indicators that simultaneously capture aspects of autonomy, dependence, efficiency, effectiveness, and fiscal sustainability—an integration that is still rarely applied in the study of regional financial performance in Indonesia. Third, this study makes a specific contribution in evaluating the extent to which the fiscal autonomy mandated by Law No. 23 of 2014 is actually realized in East Java Province, a strategic region with a complex fiscal burden, so that the results are not only of local value, but also an important reference for

understanding the implementation of fiscal decentralization in other large provinces.

Regional financial performance is a measurement carried out to find out the results of the evaluation in the management of the Regional Revenue and Expenditure Budget (APBD), to see the ability of the region to carry out regional autonomy in terms of delegating regional financial authority from the central government. (Melmambessy, 2022). Fiscal Decentralization is the delegation of authority from the central government to local governments. (Tiyaningsih, 2009). Fiscal decentralization is the division of power in decision-making in the fiscal field, which includes regional revenues and expenditures. (Demora, 2016) This authority requires the autonomous region to have the ability to finance itself from the resources of the region. (Sistiana & Makmur, 2014).

In identifying the ability of regional independence in financing regional expenditure by optimizing all resources owned so as to be able to increase local revenue, which is sourced from taxes and levies, to reduce dependence on transfer assistance from the central government in the balance fund scheme (DAU, DAK, and DBH) by the Ministry of Finance (Nggilu, 2016). Financial independence is also assumed to be a large contribution of levies and taxes to increase the total regional original revenue (PAD) (Mahardika & Artini, 2014). The relationship between the central and regional governments in the implementation of regional autonomy is as follows: (Taufiqurrachman et al., 2024), a) Instructive Relationships, namely the role of the central government, is more dominant and very intervening in regions whose level of independence is very low where the regions are unable to maximize regional potential in the form of local original income (PAD), so they must follow all central government policy recommendations. b) Consultative Relationship, namely the role of the central government in providing financial assistance (transfer) to local governments, has begun to decrease because local governments have been able to increase

local original revenue (PAD), so that the central government will only provide consultation regarding the adjustment of local government policies in sustainable development. c) Participatory Relationship, namely, the role of the central government in financial assistance to local governments will be reduced because the amount of local original revenue continues to increase and is even close to the amount of government transfers, so that the role of the central government, which previously provided consultation, will then switch to the role of participation. d) Delegative Relationship, namely the role of the central government in providing balance funds to local governments, is very small; it can even be said that there is no need to get another transfer. This condition is due to the fact that local governments have been able to increase the amount of local original revenue (PAD) exceeding the amount of central government transfers, so that local governments have been able and independent in implementing regional autonomy. The central government is confident that it will delegate full financial autonomy to local governments, and often, the region has become a model for other regions.

This research offers novelty in three main aspects. First, the focus of the analysis is not only limited to the pre-pandemic period, but covers the critical post-COVID-19 transition period (2020–2022), which allows for an evaluation of regional fiscal resilience and adaptation in the face of external shocks. Second, the study uses a dual ratio approach—combining indicators of independence, efficiency, effectiveness, and expenditure and revenue structure—so as to provide a comprehensive picture of regional financial performance that not only measures "how much" revenue is earned, but also "how" the budget is managed and allocated. Third, the study specifically contributes to the literature on regional autonomy in Indonesia by providing an in-depth empirical analysis of the province of East Java, one of the largest and most complex subnational entities, which is often a representation of regional fiscal dynamics outside of major growth centers such as Jakarta.

This study aims to evaluate the financial performance of East Java Province during the period 2016–2022 using six main indicators: fiscal independence ratio, revenue effectiveness, spending efficiency, proportion of capital expenditure, employee spending structure, and post-crisis fiscal resilience. The contribution of this research is multidimensional: academically, this study enriches the discussion on fiscal decentralization with an empirical approach based on regional panel data; Practically, these findings provide a mirror for local governments in assessing the sustainability of their budget policies; And policy-wise, the results of the analysis can be the basis for designing regional fiscal reforms that are more responsive, resilient, and equitable—especially in the face of future economic uncertainty.

RESEARCH METHODS

This research is exploratory and descriptive-analytical, so a hypothesis is not formulated formally. This is based on the main objective of the research, which aims to map and evaluate the regional financial performance of East Java Province during the 2016–2022 period using a series of fiscal indicators, rather than to test the causal relationship between certain variables. The no-hypothesis approach was chosen because the focus of the analysis lies in an in-depth understanding of the patterns, trends, and dynamics of regional financial management in the context of external changes—such as the COVID-19 pandemic—and evolving fiscal autonomy policies. Thus, this study emphasizes contextual interpretation of regional financial data to produce findings that are relevant to improving fiscal governance, rather than testing theory-based statistical predictions that require hypothesis formulation. This approach is commonly used in public policy studies and the evaluation of local government performance, where the complexity of fiscal realities cannot always be reduced to simple variable relationships.

This study uses quantitative secondary data sourced from the APBD Web Portal and Digital Regional Financial Transparency (TKDD) managed by the Directorate General of Financial

Balance, Ministry of Finance of the Republic of Indonesia. The data is an annual time series and covers the period 2016–2022, allowing analysis of the development of fiscal performance in the medium term, including the period before, during, and post-COVID-19 pandemic. The unit of analysis in this study is at the provincial level, with a specific focus on East Java Province as the object of study. The selection of this period was based on the consistent availability of data as well as its relevance in capturing regional fiscal dynamics in the context of significant external shocks.

The first key variable is Regional Revenue, which is operationally defined as total regional financial revenues in one fiscal year, including Regional Original Revenue (PAD), Transfer Funds from the Central Government, and Regional Financing Revenues. This variable is the main indicator of the region's fiscal capacity in financing all its activities. Furthermore, Regional Original Revenue (PAD) is measured as the amount of revenue derived from local sources, including regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate local revenues. PAD is used as the main measure of regional fiscal independence.

On the expenditure side, Regional Expenditure is defined as all regional expenditure in one fiscal year to finance government activities, development, and public services. Regional expenditure is then classified into two main components: Operational Expenditure and Capital Expenditure. Operational Expenditure includes routine expenditures such as expenditure on employees, goods and services, as well as interest and subsidies, which are consumptive in nature and do not produce long-term assets. In contrast, Capital Expenditure refers to expenditures that produce long-term physical or non-physical assets, such as infrastructure, land acquisition, or the construction of government buildings, and is an important indicator in assessing the long-term development orientation of an area.

The last variable is the Central Government Transfer Fund, which includes the General Allocation Fund (DAU), the Special Allocation Fund (DAK), the Revenue Sharing Fund (DBH) for taxes and natural resources, as well as the

Emergency Fund or other incentives. Operationally, this variable is measured as the total fiscal transfer from the central government to the regions in one budget year. The proportion of transfer funds to total regional revenue is used to measure the level of regional fiscal dependence on the central government. All of these variables were analyzed comparatively and trends during the 2016–2022 period to provide a complete picture of the dynamics of East Java Province's fiscal performance in the context of regional autonomy and post-crisis fiscal resilience. The data analysis techniques that will be used are six analyses, namely fiscal decentralization, regional financial independence, regional financial dependence, regional financial efficacy and efficiency, and regional financial harmony. The explanation of each component of regional finance includes: Regional revenue is all money received by the local government in one budget year that comes from sources within the region or from the central government. The main sources include Regional Original Revenue (PAD), transfers from the center, and other legitimate revenues such as regional loans or the proceeds of asset privatization. Regional expenditure is all money expenditure by local governments in one budget year to finance government activities, public services, and development. This expenditure is classified into operational expenditure (routine) and capital expenditure (long-term investment). The central government's transfer is the allocation of funds from the state budget to the regions in the form of Balance Funds (such as DAU, DAK, and DBH), as well as other funds, such as Village Funds or special autonomy funds. This transfer aims to balance the fiscal capabilities between regions and support the implementation of decentralization. Regional Original Revenue (PAD) is revenue derived from local economic sources, such as regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate PAD. PAD is the main indicator of a region's fiscal independence because it reflects the region's ability to explore its own source of income.

Capital expenditure is regional expenditure that provides long-term benefits, such as infrastructure development, land acquisition, buildings, equipment, or other fixed assets. This type of spending is important to encourage economic growth, increased productivity, and equitable development between regions. Operational expenditure (or routine expenditure) includes expenditure on the daily needs of the government, such as expenditure on employees, goods and services, debt interest, and subsidies and routine grants. While it is important to maintain the continuity of public services, the dominance of excessive operational spending can reduce fiscal space for long-term investment. The following is an explanation of the six analyses that will be used in this study:

The data analysis techniques that will be used are six analyses, namely fiscal decentralization, regional financial independence, regional financial dependence, regional financial efficacy and efficiency, and regional financial harmony. The selection of six aspects of the analysis of fiscal decentralization, financial independence, financial dependence, efficiency, effectiveness, and regional financial compatibility, is based on its comprehensive ability to describe the multidimensional dimensions of a region's fiscal performance, especially in the context of regional autonomy in Indonesia. Each of these aspects reveals a critical side that cannot be captured in its entirety by a single analysis method, such as conventional financial ratios or a purely accounting approach.

First, the fiscal decentralization analysis provides a normative framework to assess the extent to which fiscal authority delegated from the central government to the regions has been balanced with adequate financial management capacity. This aspect is important because it highlights the alignment between political autonomy and fiscal autonomy—a structural dimension that is often overlooked in studies of financial performance that only focus on budget figures. Fiscal decentralization is the authority to make decisions in local government spending, so it is required to get support from the

central government in the form of subsidies, transfers, and loans. (Alisman & Sufriadi, 2020; Nadeak et al., 2022). Second, financial independence, measured through the proportion of Regional Original Revenue (PAD) to total revenue, reveals how much a region is able to finance its own government activities without relying on external transfers. This indicator reflects regional initiatives in exploring the potential of local economies and is an important measure of long-term fiscal sovereignty. Financial independence represents the level of ability of local governments to maximize their regional potential, which will be compared to external assistance such as government transfer assistance in the form of balance funds (General Allocation Fund, Special Allocation Fund, and Revenue Sharing Fund) (Syam & Zulfikar, 2022). Third, financial dependence, which is the other side of independence, shows the level of regional dependence on transfer funds such as the General Allocation Fund (DAU) and the Special Allocation Fund (DAK). This high dependency can be an indicator of fiscal vulnerability, especially when there is a change in central policy or national fiscal shocks, so this aspect provides a risk perspective that is not seen in income analysis alone. Financial dependence is calculated by comparing the amount of transfer

income (balance fund) received by the local government with the total regional original income (PAD). The higher the ratio, the greater the level of regional dependence on transfer funds from the central government (Melmambessy, 2022).

Fourth and fifth, financial efficiency and effectiveness measure the quality of regional spending. Efficiency assesses the extent to which resources are used sparingly and not wastefully (output per rupiah spent), while effectiveness measures the extent to which the expenditure achieves public policy goals, such as increasing the human development index (HDI) or inclusive economic growth. Both shift the focus from "how much is spent" to "what is generated from that spending"—thus providing results-based performance assessments, not just inputs or processes. Ratio analysis that depicts the ability of local governments to maximize the realization of PAD that has been achieved compared to the previously set PAD targets, efforts to obtain better results, must be complemented by regional financial efficiency ratios. (Trianto, 2016). Ratio that measures how efficient a regional financial management implementation is by comparing the realization of regional expenditure (spending) with total regional revenue (Trianto, 2016)

Table 1. Formulas of Analysis Aspects

Analysis Aspect	Formula	Interval Values	Category
Fiscal Decentralization	$\frac{\text{Fiscal Decentralization Regional Origin Income}}{\text{Regional Revenue}} \times 100\%$	0.00 - 10.00	Very Less
		10.01 - 20.00	Less
		20.01 - 30.00	Quite
		30.01 - 40.00	Moderate
		40.01 - 50.00	Good
		50.01 - more than 50.00	Excellent

Financial Independence	$\text{Financial Independence} = \frac{\text{Regional Original Revenue}}{\text{Government Transfers}} \times 100\%$	0% - 25% 25% - 50% 50% - 75% 75% - 100%	Very Low - Instructive Low - Constructive Keep - Participatory High - Delegative
Financial Dependence	$\text{Financial Dependence} = \frac{\text{Government Transfers}}{\text{Regional Revenue}} \times 100\%$	0.00 - 10.00 10.01 - 20.00 20.01 - 30.00 30.01 - 40.00 40.01 - 50.00 more than 50.00	Very Low Low Quite Moderate High Very High
Financial Effectiveness	$\text{Financial Effectiveness} = \frac{\text{Regional Original Revenue Realization}}{\text{Regional Original Revenue Budget}} \times 100\%$	more than 100% 100% 90% - 99% 75% - 89% less than 75%	Highly Effectiveness Effectiveness Quite Effectiveness Less Effectiveness Ineffectiveness
Financial Efficiency	$\text{Financial Efficiency} = \frac{\text{Regional Spending}}{\text{Regional Revenue}} \times 100\%$	more than 100% 90% - 100% 80% - 90% 60% - 80% less than 60%	Inefficient Less Efficient Quite Efficient Efficient Highly Efficient
Regional Operational Expenditure	$\text{Operational Spending} = \frac{\text{Operational Spending}}{\text{Regional Spending}} \times 100\%$	0% - 20% 20% - 40% 40% - 60% 60% - 80% 80% - 100%	Incompatible Less Compatible Quite Compatible Matching Highly Compatible
Regional Capital Expenditure	$\text{Capital Expenditure} = \frac{\text{Capital Expenditure}}{\text{Regional Spending}} \times 100\%$	0% - 20% 20% - 40% 40% - 60% 60% - 80% 80% - 100%	Incompatible Less Compatible Quite Compatible Matching Highly Compatible

Source: processed by author

Finally, regional financial compatibility refers to the balance between revenues, expenses, financing, and asset-liability positions in the short and long term. This aspect reveals fiscal sustainability: whether the regions are able to maintain budget stability without structural deficits, excessive debt accumulation, or pending liabilities. This is a prudential dimension that is often overlooked in annual analysis, but it is critical to maintaining long-term fiscal resilience. Collectively, these six aspects form a holistic lens that assesses not only "how much" the budget is, but also "how self-sufficient", "how wise", "how impactful", and "how sustainable" regional financial management is. This is what distinguishes this approach from conventional methods that tend to be fragmented, because only by combining the structural dimensions, autonomy, dependency, quality of expenditure, and sustainability can we fully and meaningfully understand the fiscal performance of the regions. There are two calculations in analyzing the compatibility ratio, namely the operating expense ratio and the capital expenditure ratio, as follows

a. Operating Expense Ratio

Comparison between the restoration of operating expenditure and the realization of regional expenditure, so that the amount of routine operational expenditure allocation used for consumption in one fiscal year will be known (Saputra et al., 2018).

b. Capital Expenditure Ratio

Comparison between capital expenditure restoration and regional expenditure realization, so that the amount of regional expenditure allocation used for regional development investment in the fiscal year will be known. Capital expenditure will provide medium- and long-term sustainable development benefits. (Saputra et al., 2018). The interpretation in this study will be carried out through a systematic and multidirectional analytical approach, by combining classification, comparison between times, and identification of patterns and trends in regional financial performance in East Java Province. First, regional financial data—including revenues, expenditures, financing, and asset and liability positions—will be classified into the category of fiscal indicators based on six

aspects of the analysis: fiscal decentralization, financial independence, financial dependency, efficiency, effectiveness, and financial compatibility. Each indicator will be calculated using a standard ratio or metric recognized in the regional financial literature, such as the ratio of PAD to total revenue (for independence), the ratio of operating expenditure to capital expenditure (for efficiency), or the ratio of surplus/deficit to total revenue (for compatibility).

Second, the results of the calculation will be analyzed comparatively between years, generally covering the last five to ten years period, to see dynamic changes in fiscal performance. This comparison allows the identification of whether there has been an improvement, stagnation, or decline in certain aspects—for example, whether financial independence has increased in line with regional tax optimization policies, or has declined due to an economic slowdown. Third, from these comparisons, the study will identify long-term trends and patterns, such as the tendency to increase dependence on central transfers or a decrease in spending effectiveness, even though the budget continues to increase.

RESULTS AND DISCUSSION

A. Fiscal Decentralization

The role of the results of the fiscal decentralization analysis is to show the ability of regions to optimize and obtain their own sources of revenue to finance their regional expenditures in carrying out development and running the regional economy. The following are the results of fiscal decentralization in East Java Province for the 2016-2022 period. East Java's fiscal decentralization of 59.40 percent—which is categorized as *Excellent*—shows that the proportion of regional revenue to total revenue (including transfers from the center) is well above the national average, reflecting the region's ability to manage fiscal resources autonomously. These actual results exceed general expectations for provinces with large populations and regional disparities such as East Java, which is usually

more dependent on central transfers. The implication of the policy is that the East Java Provincial Government has sufficient fiscal space to design and implement public policies according to local needs, so it should be able to strengthen accountability, service innovation, and budget responsiveness. However, for fiscal

decentralization to be truly qualified, this achievement needs to be balanced with increased spending efficiency and increased allocation for capital expenditure, so that fiscal autonomy is not only reflected in numbers, but also in the impact of sustainable development.

Table 2: Fiscal Decentralization of East Java

Year	Fiscal Decentralization	
	Result	Category
2016	63.37	Excellent
2017	58.01	Excellent
2018	58.02	Excellent
2019	57.77	Excellent
2020	56.75	Excellent
2021	55.24	Excellent
2022	66.63	Excellent
Average	59.40	Excellent

Source: Data processed, 2024

Table 2 shows the average result of the fiscal decentralization ratio of 59.40 percent. This indicates that the East Java provincial government has been able to carry out its authority and responsibility in maximizing its regional resources (potential), which aims to finance regional development spending. Regional Original Revenue (PAD) is able to contribute more than 50 percent to the total regional revenue. Although it had experienced a decline in 2020-2021 due to the COVID-19 pandemic, it has experienced a forecast of PAD in 2022 because people have been able to return to normal activities, and economic activities have returned to pre-COVID-19 conditions. This condition illustrates that the ability to manage regional finances in East Java province in improving PAD has received a very good category.

In the context of decentralization policy in Indonesia, "excellent fiscal decentralization" describes a condition in which the East Java Provincial Government has an optimal balance between authority, financial resources, and

budget management capacity to carry out government affairs independently and accountably. This is characterized by the high contribution of Regional Original Revenue (PAD) and Revenue Sharing Fund (DBH) to total regional revenues, which reflects the ability to effectively utilize regional economic potential, as well as fiscal policies that are responsive to the needs of local communities. Strong fiscal decentralization provides a number of strategic benefits for East Java's economy and fiscal: first, improving the efficiency of resource allocation because the budget can be directed according to local development priorities, such as industrial infrastructure in the Surabaya-Gresik area or strengthening MSMEs in rural areas; second, encouraging inclusive economic growth through innovative regional policies that support the real sector; third, strengthening fiscal resilience by reducing dependence on central fund transfers, so that development programs are more stable despite national budget turmoil; fourth, increasing accountability and public participation in budget oversight; and fifth, substantially

strengthening regional autonomy without weakening integration within the framework of the Unitary State of the Republic of Indonesia. Thus, excellent fiscal decentralization is not only a technical indicator but also an important foundation for East Java to realize sustainable, fair, and competitive regional development.

In the context of East Java regional finance, there appears to be a duality between independence and fiscal dependence. As one of the largest provinces in Indonesia in terms of population and economy, East Java has a relatively high Regional Own Source Revenue (PDR) – derived from the regional tax sector, levies, and the results of regional asset management. The large value of PAD is often used as an indicator that this province is quite financially independent compared to other regions. However, this independence is relative, because the absolute value of PAD alone is not enough to describe full independence if it is not compared to the enormous regional spending needs, considering the area, the population, and the complexity of public services that must be met.

On the other hand, East Java remains heavily dependent on financial transfers from the central government, especially in the form of General Allocation Funds (DAU) and Special Allocation Funds (DAK). The proportion of central transfers to the total income of the East Java region is usually much larger than the contribution of PAD, often reaching more than 60–70%. This shows high fiscal dependence, even though the PAD is nominally large. Thus, in the context of East Java, "high regional financial independence" refers to the region's capacity to generate significant self-revenue, while "high regional financial dependence" reflects the reality that such revenue is not enough to finance all development and public service needs, so the region still needs a large injection of funds from the central government. These two conditions can go hand in hand without eliminating each other, illustrating the complex dynamics in Indonesia's fiscal decentralization system.

B. Financial Independence

Financial independence in table 9 is known by looking at the difference from the realization of regional original revenue (PAD) with grants/transfer assistance from the central government to local governments which is better known as the balance fund which is divided into three schemes, namely the Revenue Sharing Fund (DBH), the Special Allocation Fund (DAK) and the General Allocation Fund (DAU). The results of the calculation of Table 2 show that, on average, in the period 2016 – 2022, the financial independence of East Java province was 149.57 percent, so it is included in the high category. Although in the 2020-2021 period there was a decrease in independence due to a decrease in tax revenue and regional levies due to the Covid-19 pandemic, it remained in the range above 100 percent (high).

East Java's financial independence of 149.57 percent—which far exceeds the threshold of 100 percent and is included in the High category—shows that the region's original revenue (PAD) is able to cover all routine expenditures, even leaving a significant surplus. These actual results far exceed general expectations, considering that many regions in Indonesia are still heavily reliant on central transfers to finance basic operations. This condition forms a pattern of *delegative relations* with the central government, where East Java tends to take policy initiatives independently without waiting for direction or intensive fiscal support from the center. The implication of its policy is that the province has a great opportunity to become an innovative and responsive local policy laboratory to the needs of the community; However, for this independence to have an optimal impact, fiscal surpluses must be allocated strategically—especially for increased capital expenditure and equitable distribution of development between regions—so that it reflects not only fiscal strength, but also the fairness and sustainability of development.

Table 3: Financial Independence of East Java

Year	Financial Independence		
	Result	Category	Relationship Patterns
2016	173.80	High	Delegative
2017	138.58	High	Delegative
2018	138.57	High	Delegative
2019	137.90	High	Delegative
2020	132.23	High	Delegative
2021	124.69	High	Delegative
2022	201.22	High	Delegative
Average	149.57	High	Delegative

Source: Data processed, 2024

Financial independence, which is always consistently high, will form a pattern of regional financial relations between East Java Province and the central government, namely, delegative. The pattern of delegative relations, where the central government only plays a role in providing balanced funds with a reduced percentage /, is because the local government of East Java Province has been able to increase PAD beyond the amount of central government transfer value, so that it is stated that it has been able to implement regional autonomy independently.

One of the indicators of the success of the implementation of regional autonomy is that the regions have been able to fully finance the implementation of development without any assistance or intervention from the central government from the financial side, which is called the level of regional dependence. Table 10 shows the level of regional financial dependence of East Java province during the 2016-2022 period at 40.35 percent, so that it is included in the high category. Looking at the conditions in 2020-2021, the level of financial dependence experienced the highest increase of 42.92 percent to 44.30 percent, which was caused by the COVID-19 pandemic conditions.

The COVID-19 pandemic has had a significant impact on the revenue structure and spending patterns of the East Java Provincial Government. In terms of revenue, regional levies—such as public service levies, market

levies, terminals, and tourist attractions—have decreased sharply due to mobility restrictions, temporary closures of public facilities, and sluggish community economic activities. Meanwhile, regional taxes, especially motor vehicle taxes and fuel taxes, also contracted due to a decrease in consumption and community movements, although not as deep as the decrease in levy posts. This shows that sources of income that are highly dependent on people's daily activities and the utilization of public services are the most vulnerable to external shocks such as the pandemic. On the expenditure side, there has been a drastic shift in budget priorities: spending allocations are significantly shifted to the health sector—for patient care, medical device procurement, and vaccination—as well as to social protection, such as direct cash assistance, basic necessities, and subsidies for vulnerable groups. Capital expenditure and routine non-essential activities are being refocused or delayed to ensure a rapid response to health and social crises. These changes reflect regional fiscal flexibility in emergency situations, while underlining the need for anticipatory budget reserves and responsive reallocation mechanisms in the regional financial system to deal with future crises.

C. Financial Dependency

East Java's financial dependence of 40.35 percent—which is in the High category—shows

that almost half of the total regional revenue still comes from central government transfers (such as DAU, DAK, and DBH), although the province records very high financial independence (149.57%). These actual results appear to contradict the initial expectation that areas with large PAD would have low dependencies; however, in the context of Indonesia's decentralized but still centralistic fiscal system in resource distribution, this figure reflects the reality that central transfers remain an important

structural component of the APBD. The implication of the policy is that East Java needs to make strategic use of these transfers—not to cover the operational deficit, but to strengthen investment in infrastructure development and public services—while continuing to encourage diversification and optimization of PAD so that dependency does not become an obstacle to quality fiscal autonomy.

Table 4. Financial Dependency of East Java

Year	Financial Dependency	
	Result	Category
2016	36.46	Quite
2017	41.86	High
2018	41.87	High
2019	41.89	High
2020	42.92	High
2021	44.30	High
2022	33.11	Quite
Average	40.35	High

Source: Data processed, 2024

The Central Government provides additional transfers to all provinces, including East Java Province, to prevent and overcome the transmission of the COVID-19 outbreak in terms of health, business, and income of the affected communities. This indicates that the East Java Provincial Government is still very dependent on the central government's transfer assistance to finance all development programs and activities in East Java. The problem of high regional financial dependence is caused by the fact that there are still many natural potentials that have not been managed, natural and artificial tourism potentials that have not had a significant impact on the addition in terms of taxes and levies. And exacerbated by the high inequality between districts/cities, especially in the horseshoe area, Madura Island, and the isolated outer islands in Sumenep Regency, which causes a very high need for development financing.

Regional financial effectiveness provides an overview of the management and acquisition of PAD, which has been targeted at the beginning, with the realization of PAD achieved in a certain period. The achievement of regional financial effectiveness in East Java province can be seen in Table 11, which shows that in the 2016-2022 period, the effectiveness ratio was 112.88 percent, which is included in the category of very effective because it is above 100 percent. This condition indicates that the East Java regional government has always succeeded in exceeding the target in realizing the achievement of PAD by maximizing the potential of regional taxes and levies.

D. Financial Effectiveness

East Java's financial effectiveness of 112.88 percent—which is included in the *Very Effective* category—shows that the realization of regional

spending has successfully exceeded the performance targets set in planning documents (such as RKPD and APBD), both in the provision of public services and in the achievement of development indicators. These actual results exceed general expectations, given that many regions often struggle to meet performance targets due to bureaucratic bottlenecks, capacity constraints, or misalignment between budgets and priorities. The implication of the policy is that the East Java Provincial Government has been able to manage

the budget in a responsive and results-oriented manner, so it is necessary to maintain an integrated planning and budgeting system with clear performance indicators. However, this high effectiveness must be balanced with increased efficiency and adjustment of the composition of expenditures—in particular, increased allocation for capital expenditures—so that performance achievements are not only short-term, but also support sustainable development.

Table 5. Financial Effectiveness of East Java

Year	Financial Effectiveness	
	Result	Category
2016	103.76	Highly Effective
2017	116.27	Highly Effective
2018	118.21	Highly Effective
2019	114.87	Highly Effective
2020	97.41	Quite Effective
2021	116.33	Highly Effective
2022	123.30	Highly Effective
Average	112.88	Highly Effective

Source: Data processed, 2024

Despite experiencing a decrease in PAD achievement in 2020 due to a decrease in community economic activities as a measure to mitigate the transmission of the COVID-19 virus outbreak, it still achieved the realization of PAD of 97.41 percent with a fairly effective category. In 2021-2022, the economy experienced an economic recovery, which had a positive impact on the achievement of PAD back to pre-pandemic conditions, which was very effective for two consecutive years.

E. Financial Efficiency

East Java's financial efficiency, which averaged 98.48% during 2016–2022—classified as *less efficient*—indicates that regional revenues are not fully able to cover all regional spending, resulting in a structural fiscal deficit even on a small scale. These findings seem contradictory

when viewed together with other indicators: East Java recorded very high financial independence (149.57%) and very good financial effectiveness (112.88%), but remained inefficient in the use of resources. This phenomenon is in line with the findings. (Thoha & Novianti, 2024), This shows that the Regional Government of West Java Province, from 2018 to 2022, shows that the ratio of effectiveness and efficiency of regional original revenue does not have a significant effect on capital expenditure. On the other hand, fiscal decentralization has a negative effect, while regional independence has a positive effect on capital spending. These findings indicate that increased fiscal independence encourages long-term investment rather than simply improving revenue effectiveness or efficiency.

In a study conducted by (Marsudi et al., 2019), the results of the influence test showed that

regional independence had no effect on the growth of Regional Original Revenue (PAD), while efficiency had a negative effect and effectiveness had a significant positive effect on the growth of PAD in Regencies/Cities of West Java Province for the 2016–2022 period. The average growth of PAD in the region is relatively low (28.5%) and uneven, with some regions experiencing negative growth, such as Garut Regency (-8.08%), Karawang (-5.04%), and Bekasi City (-2.9%). These findings indicate that increasing the effectiveness of budget management contributes more to the growth of PAD than fiscal independence or efficiency.

Thus, East Java's financial efficiency findings reflect not only budgetary technical problems, but also structural challenges in Indonesia's decentralized system: between autonomy, accountability, and long-term development orientation. Reforms going forward will need to focus on changing fiscal incentives, strengthening performance-based planning systems, and oversight that drives capital allocation—not just

ensuring that money is spent, but that it generates sustainable value for society.

East Java's financial efficiency of 98.48 percent—which is categorized as *Less Efficient*—indicates that the region incurs relatively high costs to achieve certain outputs or outcomes, resulting in waste or suboptimal use of resources. These actual results are contrary to ideal expectations, where areas with a very high level of effectiveness (112.88%) should also be able to achieve good efficiency, meaning that they are able to minimize costs without sacrificing service quality. The implication of the policy is the need for reforms in budget governance, such as the implementation of a transparent procurement system, digitization of procurement processes, continuous performance audits, and training of the apparatus in value-for-money financial management. Without efficiency improvements, high fiscal surpluses and self-sufficiency are at risk of being eroded by structural inefficiencies, thereby hampering the ability of regions to invest in long-term development.

Table 6. Financial Efficiency of East Java

Year	Financial Efficiency	
	Result	Category
2016	95.58	Less Efficient
2017	96.70	Less Efficient
2018	96.00	Less Efficient
2019	101.53	Inefficient
2020	102.07	Inefficient
2021	98.75	Less Efficient
2022	98.74	Less Efficient
Average	98.48	Less Efficient

Source: Data processed, 2024

The solution that must be carried out by the local government of East Java province is, first, to increase Regional Original Revenue (PAD) by maximizing all regional potentials that will contribute to the total increase in the region, so that it will be able to meet all regional financing (spending). *Second*, trying to reduce and prevent budget leakages, including corruption and

excessive imports, if the product can be produced by the people of East Java themselves.

F. Capital Expenditure

The capital expenditure ratio of East Java Province during the period 2016 – 2022 shows an average ratio value of 8.13 percent, with the category of not good. The ratio in 2017 became

the highest peak in implementation because optimal PAD management and capital expenditure will have an impact on equitable economic growth and community welfare. (Utami & Indrajaya, 2019).

East Java's capital expenditure of 8.13 percent—which is categorized as *Incompatible*—is far below the ideal standard (generally at least 20–25 percent of total regional expenditure) and shows a lack of budget allocation for long-term investments such as physical infrastructure, fixed asset procurement, or productive capacity development. These actual results are in contrast to the expectation that provinces with high financial independence (149.57%) and excellent

financial effectiveness (112.88%) should be able to allocate resources strategically to encourage economic growth and equitable development. The implication of the policy is the urgency of a reformulation of budget priorities: The East Java Provincial Government needs to reduce the dominant operational expenditure (40.95%) and divert part of the fiscal surplus to capital expenditure, either through more visionary planning or internal fiscal incentives, so that regional autonomy not only reflects the ability to spend money, but also builds the foundation of sustainable development.

Table 7. Capital Expenditure of East Java

Year	Capital Expenditure	
	Result	Category
2016	9.01	Incompatible
2017	10.70	Incompatible
2018	9.26	Incompatible
2019	8.16	Incompatible
2020	5.90	Incompatible
2021	5.82	Incompatible
2022	8.03	Incompatible
Average	8.13	Incompatible

Source: Data processed, 2024

G. Operating Expenditure

The operating expenditure ratio of East Java province during the period 2016-2022 shows that most of the expenditure funds are allocated to operating expenditure needs, so the capital expenditure ratio is relatively small. (Purwanti & Noviyanti, 2022). The amount of funds allocated for operating expenditures is due to the large amount of employee expenditure, which is more dominant in routine expenditures for the fulfillment of government activities.

Low capital expenditure in East Java Province indicates the lack of investment by local governments in the development of physical infrastructure—such as roads, bridges, irrigation, educational facilities, and health—which is an

important foundation for long-term economic growth. Adequate infrastructure not only improves connectivity and logistics efficiency but also attracts private investment, creates jobs, and expands people's access to basic services. If this trend continues, East Java risks productivity stagnation, widening inequality between regions, and the inability to meet the basic needs of its growing population. In the context of sustainable development, delays in infrastructure investment can also exacerbate vulnerability to the impacts of climate change and natural disasters, given that many areas in East Java are prone to drought, floods, and landslides. Therefore, based on this empirical evidence, local governments need to reorient their budget allocation by

strategically increasing the proportion of capital expenditure, while strengthening the planning and supervision of infrastructure projects to be more effective, on target, and sustainable.

The high operational expenditure in East Java Province—which is largely dominated by employee expenditures, especially salaries and allowances—reflects a rigid and inflexible budget structure to support long-term development investment. This condition limits the regional fiscal space to allocate funds for capital expenditure, public service innovation, or community economic empowerment programs. Based on this evidence, policy reform is needed that aims to rebalance the composition of regional spending. One of the strategic steps is the reform of personnel governance, such as optimizing the number and distribution of personnel according to the real needs of public services, implementing a merit system in recruitment, and increasing productivity through performance-based training. In addition, provincial governments can consider digitizing public services to improve operational efficiency, so that employee spending burden can be reduced without sacrificing service quality. These reforms must be supported by a more disciplined and results-oriented budget policy, including the implementation of *zero-based budgeting* or periodic reviews of the effectiveness of each shopping post. Thus, East Java can shift resources from

consumptive spending to productive investments that drive inclusive growth and long-term fiscal resilience.

The high level of revenue realization in East Java Province—which reflects the region's ability to collect revenue according to the set target—is proof of success in regional revenue management, especially in optimizing Regional Original Revenue (PAD) through an efficient collection system, strict supervision, and the use of technology in tax administration and levies. An important lesson that other provinces can adopt is the implementation of an integrated and digital-based regional revenue system, such as e-tax, e-levy, and a real-time monitoring system that minimizes leaks and increases transparency. In addition, East Java also showed the importance of inter-agency coordination—between the revenue, finance, and technical sectors—in compiling realistic targets and executing them consistently throughout the year. This approach can be replicated by other regions through strengthening the capacity of the apparatus, the preparation of regional regulations that support taxpayer compliance, and incentives for work units that succeed in achieving or exceeding revenue targets. By emulating these good practices, other provinces have the potential to increase their revenue effectiveness, expand fiscal space for development, and reduce over-reliance on transfers from the center.

Table 8. Operational Expenditure of East Java

Year	Operating Expenses	
	Result	Category
2016	31.15	Less Compatible
2017	40.37	Quite Compatible
2018	39.82	Less Compatible
2019	42.54	Quite Compatible
2020	41.86	Quite Compatible
2021	42.21	Quite Compatible
2022	48.71	Quite Compatible
Average	40.95	Quite Compatible

Source: Data processed, 2024

East Java's operational expenditure of 40.95 percent—which is categorized as *Quite Compatible*—shows that the proportion of the budget for routine needs, such as expenditure on employees, goods, and services, is within the tolerance limit, but close to the ideal upper threshold (generally below 40–45 percent). These actual results are relatively in line with expectations for large provinces with a wide public service burden, but become worrying when associated with low capital expenditure (8.13%). The dominance of operational spending, although still in the fairly reasonable category, risks eroding fiscal space for long-term investment and strengthening the pattern of consumptive rather than productive spending. The implication of the policy is the need for strategic measures to reduce the efficiency of routine spending—for example, through the rationalization of employee spending, asset optimization, and digitization of services—so that budget allocations can be diverted to capital expenditure to support economic growth, regional equity, and long-term fiscal resilience.

CONCLUSION

The final conclusion of this study shows the results of the financial performance of East Java Province during the period 2016-2022. The findings on the financial performance of the East Java Provincial Government reveal a complex picture that is important for regional fiscal management. With a fiscal decentralization rate of 59.40% (Superior category) and financial independence of 149.57% (High category), East Java shows a strong autonomous capacity in managing its financial resources. However, this independence forms a pattern of "delegative" relations with the central government—meaning that the regions take their own initiative, while still receiving significant fiscal transfers, reflected in the level of financial dependency of 40.35%. This confirms that independence does not mean being free from national support, but rather operating in a balance between autonomy and fiscal solidarity.

On the other hand, East Java's financial effectiveness is classified as very high (112.88%), indicating that regional spending is able to achieve development and public service performance targets. However, the efficiency of expenditure is low (98.48%, in the category of Less Efficient), indicating inefficiencies in the use of the budget—large expenditures have not been balanced with the optimization of results. Even more worrying, the composition of regional expenditure shows structural inequality: capital expenditure is only 8.13% (Incompatible), while operational expenditure reaches 40.95% (Moderately Compliant). The dominance of routine spending has the potential to hinder long-term investment that is vital for economic growth and equitable development.

The policy implications for East Java are clear: a budget reorientation from consumption to investment is needed. Local governments need to improve efficiency through bureaucratic reform, digitization of budgeting, and strengthening performance-based accountability systems. In addition, efforts to optimize regional original revenue must be directed to increase fiscal space for capital expenditure, not just to cover operational needs. An outcome-based budgeting approach is also important to ensure that already high effectiveness can be followed by adequate efficiency.

These findings help enrich the literature on regional financial performance by revealing a common paradox in autonomy practices: regions can excel in independence and effectiveness, but fail in productive budget allocation. The emerging "delegative" pattern also offers a new typology in central-regional relations, which differs from the cooperative or competitive model that has been dominant in decentralized studies. Furthermore, these findings confirm that fiscal performance indicators must be analyzed holistically—not only through the self-reliance ratio, but also through the composition of spending, efficiency, and long-term development impacts.

In the context of interprovincial comparison, East Java can be used as an important case study. Although it excels in several aspects compared to other provinces—especially in independence and

effectiveness—its weaknesses in capital expenditure reflect the systemic challenges that many regions in Indonesia also face. These findings are also an evaluation material for national fiscal policy: do the incentives that have been in place encourage regions to invest, or do they actually strengthen their dependence on routine spending? Thus, this analysis is not only relevant for East Java but also provides strategic lessons for strengthening regional autonomy nationally. Research on regional fiscal performance, including in East Java, is still open to further development through a more rigorous and data-driven approach. Future research can apply an econometric approach with explanatory (independent) variables and dependent variables (dependent) to analyze the determinants of regional fiscal performance, resulting in stronger and evidence-based causal insights. For example, variables such as regional economic growth, urbanization rate, quality of governance, or transfer allocation from the center can be tested for their influence on indicators of fiscal independence or regional spending efficiency. With this method, the research findings are not only descriptive but also able to uncover more reliable cause-and-effect relationships, which in turn can be the basis for more appropriate and sustainable regional fiscal policy recommendations.

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