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Original Article

Financial Performance Analysis of the Regional Government of Sigi Regency for the 2018-2023 Period

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Abstract

The main objective of this research is to assess the Financial Performance of the Regional Government of Sigi Regency from 2018 to 2023 by utilising a financial ratio analysis model including independence ratio, degree of decentralisation, efficiency and effectiveness of Local Own-Source Revenue (PAD), and regional expenditure compatibility ratio. The study relies on secondary data extracted from the Sigi Regency Budget Realisation Report (LRA). A quantitative descriptive approach was adopted for this analysis. The findings indicate that regional financial independence is alarmingly low, with a noticeable trend of reliance on central government funds. The degree of decentralisation is also critically lacking, exemplified by the minimal contribution of PAD to the overall regional revenue. On the other hand, the performance of local revenue sources is relatively positive, with revenue often surpassing the predetermined targets. However, the efficiency of financial management is still an obstacle, especially in the last few years where expenditures exceeded local revenues, thus reflecting the less than optimal use of the budget. The structure of regional expenditure also shows imbalances, with the dominance of operational expenditure being much greater than capital expenditure. These findings emphasize the importance of efforts to strengthen fiscal independence and improve efficiency in budget management to support the sustainability of development in Sigi Regency.

Keywords: Financial Performance, Local Own-Source Revenue, Regional Financial Ratios.

1. Introduction

One of the main elements in driving national progress is the advancement of regional areas. The government has empowered regions to govern themselves in accordance with the regulations stated in Law No. 23 of 2014. Local governments, as autonomous regions, are anticipated to be capable of fulfilling their financial requirements without being overly reliant on support from the central government. A major obstacle for many local governments is the insufficient local revenue contribution to overall income and the continued heavy reliance on transfer funds from the central government (Marliani, 2022).

Local Own-Source Revenue (PAD) refers to income generated by local authorities from sources within their own areas, which are collected based on local laws. PAD can come from various sources such as local taxes, levies imposed by the local government, profits from managing assets specific to the region, and any other legally earned income (Ananta & Erawati, 2024). PAD plays a crucial role in measuring a region's fiscal capacity and serves as a key indicator in assessing local financial autonomy. According to Novianti and Ishak (2022), an increase in PAD has a significant effect on regional fiscal independence, indicating that regions with high PAD have better fiscal flexibility in facing economic challenges and are able to direct spending to strategic sectors such as education and infrastructure. Additionally, Wasil et al. (2020) research also shows that PAD plays a crucial role in enhancing regional financial independence, highlighting the need for effective strategies to strengthen PAD in order to achieve fiscal autonomy and improve competitiveness.

Evaluating the efficiency of resource management and the progress towards development goals in a region heavily relies on the financial performance of local governments. Within the framework of regional autonomy, the level of fiscal independence plays a vital role in determining the effectiveness of financial management at a regional level. The success of regional financial management can be gauged by analysing the ratio of PAD to total regional revenue. Regional autonomy expects each regional government to have greater independence in regional finances, which impacts the improvement of regional financial performance (Harjito et al., 2020).

Measuring financial performance is crucial for evaluating the responsibility of regional governments in managing finances at a regional level. Accountability not only includes the ability to show how public money is used, but also includes the ability to show that the expenditure has been carried out efficiently, effectively, and economically. Efficiency refers to the use of public funds that produces maximum output, effectiveness relates to the achievement of targets or objectives expected for the public interest, and economy relates to the selection and use of resources in certain quantities and qualities at the most optimal price level (Suhaedi, 2019).

Sigi Regency, which is an administrative part of Central Sulawesi Province, faces various challenges in managing regional finances, particularly due to external factors such as natural disasters and pandemics. The 2018 earthquake and liquefaction caused infrastructure damage and hindered economic activity, resulting in a decline in regional revenue and an increase in regional expenditure for rehabilitation and economic recovery. Regional finances are highly vulnerable to external disturbances such as natural disasters and pandemics. This was also stated by Setiawan (2001), who argued that extraordinary events such as disasters can disrupt revenue and expenditure structures and cause deviations from the originally ideal budget plan. After the emergency response period, the central government increased the allocation of Transfer Funds to support post-disaster recovery, but the level of regional fiscal independence remained low.

The COVID-19 pandemic in 2020-2021 further worsened the regional economy, with social restrictions and reduced business activity putting pressure on regional tax and levy revenues. Local governments implemented various strategies to maintain financial stability, including reallocating budgets for pandemic management and economic recovery. Entering 2022-2023, economic recovery trends began to emerge with the optimisation of regional revenue sources, the digitalisation of the taxation system, and increased investment in the agriculture and SME sectors as regional priority sectors. The financial performance of Sigi Regency during the 2018-2023 period showed fluctuations influenced by various external and internal factors. The development of Sigi Regency's Local Own-Source Revenue (PAD) during this period shows a fluctuating upward trend. PAD increased from IDR 50.86 billion in 2018 to IDR 86.48 billion in 2022, and increased again to IDR 96.21 billion in 2023. Although there has been an increase in nominal terms, the contribution of PAD to total regional revenue is still very low.

This indicates that the region's ability to finance development independently is not yet optimal, as indicated by the low ratio of independence and degree of decentralisation. The low contribution of PAD reflects that the local economic structure of Sigi Regency is not yet sufficiently developed to support fiscal independence. The dominance of the informal sector, limited investment, and the suboptimal utilisation of regional potential are the main obstacles to increasing PAD. Efforts such as the digitalisation of regional taxes and the strengthening of the collection system have been made, but the results have not been able to have a significant impact on increasing the PAD ratio structurally.

The main focus of this research is to investigate how well the financial performance of the Sigi Regency Government has been between 2018 and 2023, considering factors like local financial independence, degree of decentralisation, effectiveness of revenue collection, local financial efficiency, and consistency in expenditure. Through the use of different financial indicators, this study aims to assess the financial performance of the Sigi Regency Government over the specified period. The evaluation process will involve analysing financial ratios to gain a better understanding of the region's financial situation and to offer recommendations to enhance financial management practices in the future.

2. Literature Review

2.1. Local Government Financial Performance

Local financial capacity is a way to measure a region's ability to have control over its own affairs. Local governments, who are in charge of running the government and providing public services, must report on their financial performance to show they are doing their job properly. People expect these reports to be clear and provide a true reflection of how well the local government is doing. To make sure this happens, local governments need to submit their financial reports on time and follow the right accounting rules. This will help increase transparency and allow the public to keep an eye on how the local government is managing its money (Rahayu et al., 2019). According to Setiawan (2001), the financial performance of local governments can be evaluated based on three main aspects, namely effectiveness, efficiency, and economy. Effectiveness measures the achievement of established goals, efficiency looks at how inputs are converted into outputs at minimum cost, while economy assesses whether inputs are obtained at the lowest possible cost and in accordance with the required quality.

2.2. Local Financial Independence Ratio

The financial independence ratio is defined as the ratio of Local Own-Source Revenue to external funds received by local governments, indicating their capacity to fund local expenses (Putri & Munandar, 2021). The regional financial independence ratio is calculated by comparing the amount of local revenue received to the total transfer revenue from the central and provincial governments, as well as regional loans (Miharja et al., 2020).

2.3. Local Revenue Effectiveness Ratio

The Effectiveness Ratio reflects the extent to which local governments are able to realise local revenue in accordance with what has been planned, by comparing the realisation with the target established based on the actual potential of the region. The higher the value of this ratio, the more it indicates that the region has performed well in achieving its revenue targets (Amin, 2015). The local revenue success rate is determined by assessing how the actual local revenue corresponds to the planned local revenue goal (Marliani, 2022).

2.4. Efficiency Ratio

This ratio measures how efficiently a local government generates revenue in comparison to the costs incurred. A ratio below 1 or less than 100% indicates efficient financial performance in revenue collection. The efficiency of a local government's financial performance improves as the ratio decreases. It is therefore crucial for local governments to accurately determine the costs associated with revenue generation to evaluate the efficiency of the collection process. Even if the revenue target has been achieved, this success becomes less meaningful if the costs incurred to achieve it exceed the amount of revenue received (Sartika, 2019).

2.5. Harmony Ratio

Harmony analysis is a ratio that shows how the government manages budget allocation priorities between routine expenditure and capital expenditure efficiently. When the proportion of the budget allocated to routine expenditure increases, the portion of the budget available for investment expenditure, particularly in the provision of economic facilities and infrastructure for the community, will decrease (Suhaedi, 2019). Analysis of the expenditure consistency ratio is crucial in understanding the balance between expenditure components. To ensure that the budget functions optimally as a tool for distribution, allocation, and stabilisation, local governments need to adjust budget expenditures through expenditure consistency analysis (Maulina & Rhea, 2019)

2.6. Decentralisation Ratio

One of the ways to assess the transfer of authority and responsibility from the central government to local governments in development is through the measure of decentralisation ratio. This ratio also indicates the significance of Local Own-Source Revenue (PAD) in total local revenue. A higher contribution of PAD suggests a stronger capability of local governments in managing decentralisation.

2.7. Previous Research

Research on the financial performance of local governments has been conducted by various researchers using financial ratio approaches such as fiscal independence, PAD effectiveness and efficiency, degree of decentralisation, and expenditure consistency. The following are some relevant previous studies that serve as references in this study:

a. Marliani (2022) Examined the financial achievements of the Bandung Regency Government over the period of 2016 to 2020. Findings revealed a minimal level of financial autonomy, primarily relying on funds from transfers. This is in line with the condition of Sigi Regency, which also experiences high fiscal dependence.
b. Putri and Munandar (2021) examined the Financial Performance of the Malang City Government using financial ratio analysis. This study shows that the effectiveness of PAD is relatively good, but fiscal independence remains low. This reinforces the finding that effectiveness does not always reflect fiscal strength.
c. Sartika (2019) conducted a study in Meranti Islands Regency and found that the efficiency of regional financial management was relatively low. This finding is consistent with the results of research in Sigi Regency, which also showed that budget utilisation was not yet efficient.
d. Suhaedi (2019) noted the imbalance in the expenditure structure in several regions, where operational expenditure dominated over capital expenditure. This was also found in Sigi Regency, which showed a low proportion of long-term development investment.

These studies provide a basis for the effective use of financial ratio indicators to assess the fiscal condition of a region. However, local contexts such as natural disasters and pandemics remain important differentiating variables in the evaluation of regional financial performance.

3. Methods

Data collection methods are approaches used by researchers to reveal or collect quantitative information from respondents in accordance with the scope of the research conducted (Ramadhan et al., 2023). Data for this research project was gathered by observing indirectly and examining the Realisation Report of the Sigi Regency Regional Revenue and Expenditure Budget for the years 2018-2023. The information for this study was sourced from BAPPEDA Sigi Regency and other official financial records released by the Government of Sigi Regency.

The approach utilised in this research was a quantitative descriptive method involving financial ratio analysis in order to portray the gathered data accurately. The financial ratios were computed according to the specified formula:

1) Regional Financial Independence Ratio

The ratio of regional financial self-sufficiency gauges how much a region can fund its own requirements without needing assistance from the national government.

$$\text{Regional Financial Independence Ratio} = \frac{\text{Local Own-Source Revenue}}{\text{Transfer Income}} \times 100\%$$

Table 1. Criteria for Regional Financial Independence Ratio

Independence Ratio (%)	Level of Independence	Relationship Patterns
0 - 25	Very low	Instructive
>25 - 50	Low	Consultative
>50 - 75	Moderate	Participative
>75 - 100	High	Delegative

Source: Maulina and Rhea (2019)

2) Degree of Decentralisation Ratio

The degree of decentralisation ratio measures how much Local Own-Source Revenue (PAD) contributes to total local revenue. This ratio shows the level of financial authority that regions have in the era of regional autonomy.

$$\text{Decentralisation Ratio} = \frac{\text{Local Own-Source Revenue}}{\text{Total Regional Revenue}} \times 100\%$$

Table 2. Criteria for the Degree of Decentralisation Ratio

Decentralisation Degree Ratio (%)	Criteria for the Degree of Decentralisation
0,00-10,00	Very poor
10,01-20,00	Poor
20,01-30,00	Fair
30,01-40,00	Adequate
40,01-50,00	Good
>50,00	Very good

Source : Maulina dan Rhea (2019)

3) PAD Effectiveness Ratio

Evaluate how successful local authorities have been in meeting their revenue goals. If the percentage is higher than 100, it means that the local revenue has surpassed the expected target.

$$\text{PAD Effectiveness Ratio} = \frac{\text{PA Realisation}}{\text{PAD Target}} \times 100\%$$

Table 3. PAD Effectiveness Ratio Criteria

PAD Effectiveness Ratio (%) Value	Criteria
Above 100	Very Effective
100	Effective
90 – 99	Moderately Effective
75 – 89	Less Effective
Below 75	Not Effective

Source : Maulina dan Rhea (2019)

4) Local Government Financial Efficiency Ratio

Shows the extent to which local governments use their budgets efficiently in their spending. A smaller ratio indicates greater efficiency.

$$\text{Efficiency Ratio} = \frac{\text{Regional Expenditure}}{\text{Total Regional Revenue}} \times 100\%$$

5) Regional Expenditure Harmony Ratio

Measuring the balance between operating expenditures and capital expenditures. This ratio shows the proportion of regional expenditures used for government operations compared to expenditures for development investments.

$$\text{Capital Expenditure Ratio} = \frac{\text{Total Capital Expenditure}}{\text{Total Regional Expenditure}} \times 100\%$$

$$\text{Operating Expense Ratio} = \frac{\text{Total Operating Expenditures}}{\text{Total Regional Expenditure}} \times 100\%$$

4. Results and Discussion

4.1. Research Results

4.1.1. Results of Regional Financial Independence Ratio

This ratio shows the extent to which a region is able to finance government activities, development, and services to the community without relying on the central government (transfer income). This ratio is calculated by comparing PAD to transfer income. The Regional Financial Independence Ratio of the Sigi Regency Government for the 2018-2023 period is shown in Table 4.

Table 4. Local Government Financial Independence Ratio of Sigi Regency for the 2018-2023 Period

Year	PAD	Revenue Transfers	Independence Ratio (%)	Criteria
2018	50.857.832.638	1.063.483.070.947	4,78	Very low
2019	59.453.574.071	1.097.420.291.807	5,42	Very low
2020	65.935.399.098	1.026.494.998.051	6,42	Very low
2021	78.737.016.212	1.101.049.984.208	7,15	Very low
2022	86.478.763.682	1.065.974.351.509	8,11	Very low
2023	96.209.026.838	1.180.889.116.760	8,15	Very low

Source: Processed Data, 2025

According to Table 4, the financial autonomy ratio of the Sigi Regency Government from 2018 to 2023 consistently falls within the "very low" range. The financial independence ratio started at 4.78 percent in 2018, steadily increasing to 5.42 percent in 2019, 6.42 percent in 2020, 7.15 percent in 2021, and eventually reaching 8.15 percent in 2023. Despite this gradual improvement, the level of autonomy attained remains very low and insufficient to reduce reliance on funding from the central government. This situation highlights that most of the region's financial needs are still reliant on transfer funds, with local revenue contributing very little to regional development. This reliance demonstrates the weak fiscal capacity of the region, and the relationship between the central government and regions is primarily directive.

4.1.2. Results of the Degree of Decentralisation Ratio

The level of decentralization ratio indicates the extent to which PAD contributes to the overall revenue of a region. A higher ratio suggests that the region has more capacity to fund its own financial requirements. Table 5 displays the Sigi Regency Government's Regional Financial Independence Ratio for the period of 2018-2023.

Table 5. Degree of Decentralization Ratio of Sigi Regency Government for the Period 2018-2023

Year	PAD	Regional Revenue	Decentralisation Ratio (%)	Criteria
2018	50.857.832.638	1.143.962.826.713	4,45	Very Poor
2019	59.453.574.071	1.753.883.981.702	3,39	Very Poor
2020	65.935.399.098	1.141.165.481.154	5,78	Very Poor
2021	78.737.016.212	1.212.982.259.488	6,49	Very Poor
2022	86.478.763.682	1.182.841.939.611	7,31	Very Poor
2023	96.209.026.838	1.273.640.919.013	7,55	Very Poor

Based on Table 5, the degree of decentralization ratio of the Sigi Regency Government during the 2018 to 2023 period shows that the contribution of Local Own-Source Revenue (PAD) to total regional revenue is still in the “very low” category every year. In 2018, this ratio was 4.45 percent, then dropped sharply to 3.39 percent in 2019. Although it saw an increase to 5.78 percent in 2020 and continued to rise to 7.55 percent in 2023, this increase was insufficient to change the category or indicate significant fiscal autonomy. This trend indicates that the dominance of transfer income from the central government remains very strong in the revenue structure of Sigi Regency. PAD has not yet become the primary funding source, thereby severely limiting the region's fiscal flexibility in determining its own development direction and fiscal policies. This dependence suggests that Sigi Regency has not yet successfully maximized the potential of its local economy.

4.1.3. Results of Local Revenue Effectiveness Ratio

The efficiency of local governments in meeting their set targets is demonstrated by the local revenue effectiveness ratio. This ratio is determined by comparing the actual revenue collection with the targets set. Table 6 displays the Local Revenue Effectiveness Ratio of the Sigi Regency Government for the timeframe of 2018-2023.

Table 6. Local Revenue Effectiveness Ratio of the Sigi Regency Government for the Period 2018-2023

Year	PAD	PAD Target	Effectiveness Ratio (%)	Criteria
2018	50.857.832.638	51.652.715.804	98,46	Quite effective
2019	59.453.574.071	53.691.747.758	110,73	Very effective
2020	65.935.399.098	53.484.720.303	123,28	Very effective
2021	78.737.016.212	60.289.756.461	130,60	Very effective
2022	86.478.763.682	71.382.753.718	121,15	Very effective
2023	96.209.026.838	92.953.492.573	103,50	Very effective

Source: Processed Data, 2025

Based on Table 6, the effectiveness of Sigi Regency Government's PAD shows fairly consistent achievements and increases every year. In 2018, the PAD effectiveness ratio was recorded at 98.46 percent and was categorized as "fairly effective", where the realization of PAD was slightly below the established target. However, from 2019 to 2023, the effectiveness ratio is above 100 percent and is classified as "very effective." Despite a slight decline to 121.15 percent in 2022 and 103.50 percent in 2023, the effectiveness remains in the very good category. This annual trend pattern indicates that the Sigi Regency Government has been successful in planning and achieving PAD targets administratively. The ability to exceed targets each year signifies that PAD collection is conducted optimally within the context of budget planning and technical implementation. However, this high effectiveness does not always reflect an increase in fiscal capacity or actual regional economic growth. Although the target was achieved, the nominal PAD obtained is still relatively small compared to the total regional revenue, so its impact on the fiscal structure remains limited.

4.1.4. Results of Regional Financial Efficiency Ratio

The effectiveness ratio calculates the relationship between regional spending and revenue generated. It demonstrates the cost incurred to generate regional revenue. An ideal efficiency ratio is 100 percent or lower. Table 7 displays the Regional Financial Efficiency Ratio of the Sigi Regency Government from 2018 to 2023.

Table 7. Financial Efficiency Ratio of the Sigi Regency Government for the Period 2018-2023

Year	Regional Expenditure	Regional Revenue	Efficiency Ratio (%)	Criteria
2018	916.328.275.315	1.143.962.826.713	80,10	Efficient
2019	1.002.243.589.298	1.753.883.981.702	57,14	Efficient
2020	1.500.624.994.313	1.141.165.481.154	131,50	Inefficient
2021	1.283.553.436.044	1.212.982.259.488	105,82	Inefficient
2022	1.247.162.377.501	1.182.841.939.611	105,44	Inefficient
2023	1.307.795.789.550	1.273.640.919.013	102,68	Inefficient

Source: Processed Data, 2025

Based on Table 7, the financial management efficiency of the Sigi Regency Government experienced significant fluctuations during the 2018–2023 period. In 2018 and 2019, the efficiency ratio was below 100 percent, at 80.10 percent and 57.14 percent respectively, indicating efficient budget management. During this period, local revenue was still able to finance expenditures proportionally. However, from 2020 to 2023, there was a surge in the efficiency ratio above 100 percent, reaching 131.50 percent in 2020, 105.82 percent in 2021, 105.44 percent in 2022, and 102.68 percent in 2023, indicating an inefficient condition. This shows that for four consecutive years, regional spending exceeded available revenue. This phenomenon indicates a fiscal imbalance that could lead to deficits and dependence on external financing such as transfer funds or regional debt. This condition is largely influenced by the need for extra financing to handle the COVID-19 pandemic and post-disaster rehabilitation, especially in 2020. Although the emergency context can justify high spending, long-term budget inefficiency remains a risk to regional fiscal stability.

4.1.5. Results of Regional Expenditure Harmony Ratio

The alignment between operational expenditure and capital expenditure in regional spending is calculated using this ratio. Operational expenditure refers to regular government expenses like salaries, goods, and maintenance, while capital expenditure represents funds designated for long-term projects such as infrastructure. Tables 8 and 9 display the Local Government Expenditure Alignment Ratio for Sigi Regency from 2018 to 2023.

Table 8. Regional Government Capital Expenditure Ratio for Sigi Regency for the Period 2018-2023

Year	Capital Expenditure (Rp)	Total Regional Expenditure (Rp)	Capital Expenditure Ratio (%)
2018	194.039.395.735	916.328.275.315	21,18
2019	234.710.153.648	1.002.243.589.298	23,42
2020	148.298.590.535	1.500.624.994.313	9,88
2021	165.119.514.115	1.283.553.436.044	12,86
2022	181.202.514.181	1.247.162.377.501	14,53
2023	225.855.920.636	1.307.795.789.550	17,27

Source: Processed Data, 2025

Based on Table 8, the capital expenditure ratio of the Sigi Regency Government for the 2018-2023 period experienced a drastic decline in 2020 to 9.88 percent. This indicates that physical development and infrastructure investment were hampered by the COVID-19 pandemic. Although it began to increase again afterwards, the allocation has not returned to the ideal level of above 20 percent. This situation highlights the need for improvements in the budget structure to achieve a balance between operational expenditure and capital expenditure, thereby supporting sustainable development in Sigi Regency.

Table 9. Ratio of Regional Operational Expenditure Consistency of the Sigi Regency Government for the Period 2018-2023

Year	Operating Expenses (Rp)	Total Regional Expenditure (Rp)	Operating Expense Ratio (%)
2018	721.045.442.830	916.328.275.315	78,69
2019	765.768.150.880	1.002.243.589.298	76,41
2020	1.135.396.519.583	1.500.624.994.313	75,66
2021	907.187.464.463	1.283.553.436.044	70,68
2022	857.569.118.341	1.247.162.377.501	68,76
2023	851.511.411.141	1.307.795.789.550	65,11

Source: Processed Data, 2025

Based on Table 9, the operational expenditure ratio of Sigi Regency shows a high dominance, ranging from 65% to 78% of total regional expenditure. This reflects that most of the budget is still used for routine government activities. This trend is reinforced by the impact of the earthquake and tsunami that struck Central Sulawesi in 2018, as well as the COVID-19 pandemic, which prompted the reallocation of the budget to emergency needs, basic services, and social assistance. Although there has been a downward trend in the ratio in subsequent years, operational expenditure still dominates the APBD structure, which has the potential to limit fiscal space for long-term development investment. The expenditure structure dominated by operational expenditure indicates that budget priorities remain focused on funding routine government activities.

4.2. Discussions

4.2.1. Regional Financial Independence Ratio

According to the information provided in Table 4, the financial independence ratio of Sigi Regency from 2018 to 2023 was alarmingly low. This suggests that the Sigi Regency Government has a limited capacity to fund its own activities, development projects, and public services independently. The reliance on financial support from the central government far outweighs the revenue generated from Local Own-Source Revenue (PAD). The correlation between PAD and transfer income demonstrates a clear imbalance, highlighting the prevailing dominance of the central government in regional financial matters. The local government does not yet have sufficient fiscal flexibility to determine the direction and priorities of development autonomously.

This condition indicates that fiscal autonomy in Sigi Regency has not been optimally implemented, as the PAD generated has not been able to become the primary funding source for regional activities. From an economic perspective, the low self-reliance ratio reflects the weakness of the local economic structure, particularly in productive sectors such as agriculture, trade, small and medium industries, and services. These sectors should be the main pillars in increasing PAD, but have not been able to make a significant contribution to regional revenue. The high dependence on transfer funds also limits the fiscal space of the regional government, making it difficult to allocate budgets for strategic development programmes and sustainable public investment. As a result, local economic growth is slow and development cannot be maximised.

These findings are aligned with Amin (2015) and Marliani (2022), which found that regions with low independence ratios tend to experience economic stagnation and limitations in utilising local potential. To improve regional financial independence, the Sigi Regency Government needs to diversify sources of PAD, strengthen the local economic base, improve financial management efficiency, and reduce dependence on central government transfers through innovative fiscal policies that prioritise regional potential.

4.2.2. Decentralisation Ratio

The degree of decentralisation ratio is an important indicator for assessing the extent to which a region has fiscal autonomy, namely through the contribution of Local Own-Source Revenue (PAD) to total regional revenue. Based on Table 5, the decentralisation degree ratio of the Sigi Regency Government during the 2018–2023 period shows a very low figure, ranging from 3.39 percent to 7.55 percent. According to the criteria used, this value falls into the 'very poor' category. This low ratio indicates that most of Sigi Regency's regional revenue is still supported by transfer funds from the central government. This means that PAD has not yet been able to play a significant role in the regional revenue structure. This situation shows that the region's fiscal capacity to finance development needs, public services, and other expenditures is still very limited, which directly impacts the effectiveness of regional autonomy implementation. Economically, the small contribution of PAD indicates that the potential of the local economy has not been optimally utilised. Sectors such as micro, small and medium enterprises (MSMEs), local industries, agriculture, and services have not developed to their full potential and therefore have not been able to contribute significantly to PAD. The weakness of the local economic base has resulted in minimal regional revenue from taxes and levies, as well as limited diversification of regional revenue sources.

The low degree of decentralisation also limits the fiscal flexibility of local governments in determining the direction of their own economic development, including budget allocation, programme priorities, and fiscal policy innovation. This aligns with the findings of Putri and Munandar (2021), who state that regions with low decentralisation ratios tend to face limitations in fiscal innovation and have low flexibility in driving economic growth independently. Therefore, increasing the decentralisation ratio is important and urgent. The Sigi Regency Government needs to optimise the potential of PAD through strengthening the productive economic sector, reforming the regional taxation and retribution system, and encouraging partnerships with local businesses. With these steps, it is hoped that the contribution of PAD to regional revenue can increase, so that regional fiscal independence can be achieved gradually.

4.2.3. Local Revenue Effectiveness Ratio

The Local Own-Source Revenue (PAD) effectiveness ratio is an indicator used to measure the extent to which PAD realisation is able to meet the targets established by the local government. Based on the data in Table 6, the effectiveness of PAD in Sigi Regency during the 2018–2023 period shows excellent performance, as PAD realisation consistently exceeds the targets set almost every year. This performance is categorized as 'very effective', which means that the Sigi Regency Government is not only able to achieve the PAD target, but also exceeds it. This high effectiveness indicates that the local government has good planning and an efficient collection system for existing PAD sources.

This reflects fairly optimal fiscal administration performance in the context of managing and implementing regional revenue targets. PAD effectiveness in terms of ratio does not always reflect the substantial economic strength of the region. Although the target may be achieved or exceeded, the nominal PAD of Sigi Regency is still very small compared to total regional revenue, as illustrated by the low decentralisation ratio. Thus, this high effectiveness more reflects success in internal management and fiscal administration, not the result of significant economic expansion or growth. According to Sartika's research (2019), the effectiveness of PAD should not only be seen from the success of achieving administrative targets, but also from its contribution to real regional economic growth. If effective PAD only comes from stagnant and undeveloped types of revenue, then this achievement will not have a significant impact on regional fiscal momentum or the welfare of the wider community. This can be achieved through the development of local economic potential, the enhancement of productive sectors, and policy innovations that support sustainable increases in regional revenue. With these steps, the effectiveness of PAD will be more meaningful as it is accompanied by increased contributions to total regional revenue and local economic growth.

4.2.4. Local Government Financial Efficiency Ratio

The efficiency ratio is an important indicator used to assess how efficiently local governments manage public spending relative to their revenue. This ratio is calculated by comparing local government spending to local government revenue. Ideally, the efficiency ratio should be ≤100 per cent, indicating that local government spending does not exceed revenue, or in other words, that the budget is being used economically and effectively. Based on Table 7, the efficiency ratio of Sigi Regency shows varying financial performance during the 2018–2023 period. In the first two years, namely 2018 and 2019, the efficiency ratio was still within the ideal range, indicating that local financial management was carried out efficiently. However, from 2020 to 2023, the efficiency ratio exceeded 100 percent. This means that regional expenditure exceeded the revenue received, thus falling into the inefficient category. The inefficiency in those years was caused by a significant increase in expenditure, particularly for addressing the impacts of the COVID-19 pandemic and post-earthquake and liquefaction infrastructure recovery. Expenditures were directed towards important sectors such as health, social assistance, education, and clean water supply, which, although crucial socially, did not contribute directly to regional revenue. This put pressure on regional finances and potentially caused budget deficits, prompting the government to seek alternative sources of financing such as loans or grants.

From an economic perspective, fiscal inefficiency can have a negative impact on the quality of development. When expenditure is not commensurate with revenue, this reflects suboptimal resource allocation, which risks causing budget waste and reducing the effectiveness of public spending. As stated by Sartika (2019), inefficiency in regional finances can weaken the impact of public spending on economic growth, because funds that should support development investment are instead absorbed by routine spending and emergency response.

Therefore, to improve regional financial efficiency, the Sigi Regency Government needs to improve control and efficiency of expenditure, especially on operational spending, and direct a larger budget to productive sectors that can generate revenue. Therefore, to improve regional financial efficiency, the Sigi Regency Government needs to enhance control and efficiency in expenditures, particularly in operational spending, allocate a larger budget to productive sectors that can drive economic growth and increase PAD, and strengthen budget planning and oversight, so that every expenditure provides maximum benefits for public welfare. Thus, regional financial efficiency is not only measured by ratios, but also by the extent to which the use of the budget has a real impact on development and improving the quality of life of the community.

4.2.5. Regional Expenditure Harmony Ratio

The regional expenditure ratio of Sigi Regency during the 2018–2023 period shows an imbalance in budget allocation between operational expenditure and capital expenditure. Based on the data, capital expenditure, which was at an ideal level in 2018 and 2019, experienced a drastic decline in 2020 to 9.88 percent. This decline was due to the COVID-19 pandemic, which prompted the local government to carry out a massive budget reallocation for emergency response and social assistance. Although there was a gradual increase in subsequent years, by 2023 the capital expenditure ratio had not returned to the ideal level, indicating that investment in long-term development such as infrastructure and regional assets remains low. On the other hand, operational expenditure continues to dominate the APBD structure, with a significant portion of the budget focused on financing routine government activities such as employee salaries, procurement of goods and services, and maintenance. This overly heavy operational expenditure structure limits the fiscal space of local governments to invest in productive sectors that have the potential to drive economic growth.

Economically, the dominance of operational expenditure limits the fiscal space for long-term investments such as infrastructure development, public services, and local economic development. Inconsistent fluctuations in capital expenditure, which even fell dramatically in 2020, indicate instability in regional economic development priorities. The meaning of these ratios is not merely a reading of proportions, but reflects the direction of fiscal policy and the managerial capacity of regions in allocating budgets in a visionary manner. The imbalance between operational expenditure and capital expenditure indicates that the APBD has not yet optimised its function as an instrument for economic development and growth. This aligns with the findings by Hidayat & Prabowo (2024) who discover the mismatch between operational expenditure and capital expenditure can hinder the budget's function as an instrument for economic growth and social transformation. Therefore, better budget planning and control are needed to achieve a balance in spending. This step is important to ensure that government spending not only meets routine needs but also has a long-term impact on sustainable development in Sigi Regency.

5. Conclusion

The findings from the study on the financial performance of the Sigi Regency Government from 2018-2023 suggest that the region has a low level of financial independence, showing a heavy reliance on funds from the central government. This reveals a relationship of reliance, underscoring the region's financial constraints in funding its own development. Additionally, the level of fiscal decentralisation is deemed very low, with Locally-Generated Revenue (PAD) making up only a small portion of the total regional income. This highlights a weak fiscal capability and a lack of true local autonomy. Although PAD effectiveness is considered very high, with annual realisation consistently exceeding the target, this achievement mainly reflects administrative success rather than a broadening of the revenue base that would contribute to greater fiscal independence. Financial management efficiency is still suboptimal; over the past four years (2020–2023), regional expenditure has consistently exceeded revenue, raising concerns about inefficiency and the potential for financial deficits. Furthermore, the structure of regional expenditure is unbalanced, with operational expenditure dominating capital expenditure. This suggests that the regional budget is not yet optimally directed towards long-term development investment.

Based on the above analysis and conclusions, several recommendations are proposed for the Sigi Regency Government. First, efforts should be made to enhance regional fiscal independence by optimising PAD. This can be achieved by developing key local economic sectors such as agriculture, MSMEs, and services, as well as by improving tax and levy collection systems to ensure they are modern and accountable. Second, revenue reform is needed to strengthen fiscal decentralisation. The local government should stimulate local economic growth and broaden the tax base to increase the PAD contribution to total revenue. Third, it is important to maintain PAD effectiveness by developing new sources of revenue so that effectiveness reflects real economic expansion rather than mere target fulfilment. Fourth, improving budget efficiency requires strict planning and oversight, with a focus on reducing unproductive spending and directing funds toward priority sectors that directly benefit the community. Lastly, efforts should be made to balance the composition of regional spending by increasing the share of capital expenditure, especially in infrastructure, basic services, and economic development, to ensure that the budget structure supports sustainable development.

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