

Analysis of the level of regional financial independence in cities in South Sumatra Province

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Abstrak

This study aims to analyze the level of regional financial independence and examine differences among cities in South Sumatra Province during the 2020–2024 period. The study employs a quantitative method with a comparative descriptive approach using secondary data obtained from regional budget realization reports. Data analysis was conducted by calculating the regional financial independence ratio and testing hypotheses using the One-Way ANOVA test. The results indicate significant differences in the level of regional financial independence among the cities. Palembang recorded the highest average independence ratio of 67.03 percent and was categorized as participatory, while Prabumulih, Pagar Alam, and Lubuklinggau recorded ratios of 12.10 percent, 11.43 percent, and 14.91 percent, respectively, which were categorized as instructive. Furthermore, the statistical test produced a significance value below 0.05, indicating significant differences in regional financial independence among cities in South Sumatra Province.

Keywords: Regional financial independence, PAD, fiscal decentralization, ANOVA

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INTRODUCTION

The 1998 reforms marked the beginning of major changes in Indonesia's governance system through the implementation of fiscal decentralization, which granted broader authority to regional governments to independently manage governmental affairs, regional finances, and regional development. This policy was intended to improve the quality of public services, strengthen the efficiency of resource management, and encourage equitable regional development. In its implementation, local governments are required to optimize regional economic potential in order to strengthen fiscal capacity and support sustainable regional development (Mardiasmo, 2018).

Regional financial independence is a key indicator in evaluating the success of fiscal decentralization because it reflects the ability of local governments to finance governmental administration and development activities through revenue generated from their own regions, particularly Regional Original Revenue (PAD). The greater the contribution of PAD to total regional revenue, the higher the level of regional fiscal independence and the lower the dependence on transfer funds from the central government. Conversely, a low contribution of PAD indicates weak regional fiscal capacity in financing development independently (Halim, 2014).

However, the implementation of fiscal decentralization in Indonesia still faces various challenges. Most regions continue to experience high dependence on transfer funds from the central government because the contribution of PAD to regional revenue remains relatively low. In addition, differences in economic structure, resource potential, and financial management capacity have created disparities in the level of regional financial independence among regions. Regions with well-developed trade, service, and industrial sectors tend to have stronger fiscal capacity, while regions with limited economic potential still face difficulties in increasing PAD and remain dependent on central government transfers (Faguet, 2014).

This condition was further exacerbated by the COVID-19 pandemic that began in 2020, which caused a slowdown in economic activity across many regions. The decline in economic activity directly reduced regional tax and levy revenues, resulting in a significant decrease in PAD. Consequently, many local governments experienced fiscal pressure and became increasingly dependent on financial assistance from the central government to finance regional expenditures. This situation indicates that regional fiscal resilience in Indonesia remains relatively weak in responding to external economic shocks (Directorate General of Fiscal Balance, 2024).

This phenomenon can also be observed in South Sumatra Province, where each city has different economic characteristics and fiscal capacities. Palembang, as the economic center of the province, has relatively high economic activity and PAD contribution, resulting in a better level of regional financial independence compared to other cities. Meanwhile, Prabumulih, Pagar Alam, and Lubuklinggau still face limitations in optimizing regional revenue sources, causing dependence on central government transfer funds to remain relatively high. These differences indicate that the implementation of fiscal decentralization has not yet created equal levels of regional financial independence among cities within the same province.

Previous studies generally indicate that the level of regional financial independence in Indonesia remains relatively low, particularly in regions with limited economic capacity (Nusi et al., 2023; Roychana, 2020). However, most previous studies only employed descriptive analysis in a single region and rarely used comparative statistical approaches to examine differences in regional financial independence among regions. In addition, studies using recent post-pandemic data, particularly in the context of cities in South Sumatra Province, remain very limited.

Therefore, this study emphasizes its novelty through the use of recent regional financial data from the 2020–2024 post-pandemic period, comparative analysis among cities within the same province, and the application of the One-Way ANOVA statistical test to empirically examine differences in regional financial independence. This approach provides a more comprehensive perspective compared to previous studies that generally relied only on descriptive analysis. Thus, this study not only describes the level of regional financial independence but also statistically demonstrates differences in regional financial independence among cities in South Sumatra Province.

Based on these conditions, this study aims to analyze the level of regional financial independence and examine differences in regional financial independence among cities in South Sumatra Province during the 2020–2024 period. This study is expected to provide academic contributions to the development of fiscal decentralization studies and serve as a consideration for local governments in formulating policies to increase Regional Original Revenue (PAD) and strengthen regional fiscal independence.

METHOD

This study uses a quantitative approach with a comparative descriptive method to analyze the level of regional financial independence in cities in South Sumatra Province. The quantitative approach was used because the data analyzed are in the form of numerical data sourced from local government financial reports, allowing for objective and systematic analysis (Noor, 2014). The descriptive method was used to describe the level of regional financial independence, while the comparative method was used to compare the level of financial independence between cities during the study period.

The data used in this study are secondary quantitative data with a time series approach over the 2020–2024 period and cross-sectional analysis in four cities, namely Palembang, Prabumulih, Pagar Alam, and Lubuklinggau. The data analyzed include the realization of Regional Original Revenue (PAD), transfer funds or balancing funds, and total regional revenue. The data were obtained from official sources, namely the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia, the Central Statistics Agency (BPS) of South Sumatra Province, and reports on the realization of the Regional Revenue and Expenditure Budget (APBD) of each city government. The use of data from official institutions aims to ensure the validity and consistency of the research data.

The data analysis was conducted in several stages. The first stage was calculating the level of regional financial independence using the regional financial independence ratio. This ratio measures the ability of a regional government to finance governmental activities independently without heavy dependence on the central government. The regional financial independence ratio is calculated using the following formula:

$$RKKD = \frac{PAD}{DP} \times 100\%$$

Where:

- RKKD = Regional Financial Independence Ratio
- PAD = Regional Original Revenue
- DP = Transfer Funds or Balancing Funds

The regional financial independence ratio reflects a region's ability to finance governmental activities from its own revenue sources. Therefore, a higher ratio indicates a higher level of regional fiscal independence (Halim, 2014). The results of this ratio calculation were then used to describe the financial independence level of each city during the study period.

Before conducting the One-Way ANOVA test, prerequisite assumption tests were carried out to ensure the validity of the analysis results. The normality test was conducted using the Shapiro–Wilk test to determine whether the data were normally distributed. In addition, the homogeneity of variance test was conducted using Levene's Test to determine whether the variances among groups were homogeneous. The data are considered to meet the assumptions of normality and homogeneity if the significance value is greater than 0.05.

The second stage involved conducting comparative analysis using One-Way Analysis of Variance (ANOVA) to test whether there were differences in the level of regional financial independence between cities. This analysis was conducted by comparing the average financial independence ratio of each city during the study period. Hypothesis testing was carried out at a 5 percent significance level ($\alpha = 0.05$). If the significance value is less than 0.05, then the null hypothesis is rejected, meaning that there is a significant difference in the level of regional financial independence between cities. Conversely, if the significance value is greater than 0.05, then the null hypothesis is accepted, indicating that there is no significant difference.

Through these stages of analysis, this research is expected to provide a clear description of the level of regional financial independence and empirically explain the differences occurring among cities in South Sumatra Province during the 2020–2024 period.

RESULTS AND DISCUSSION

The main results of this study indicate that there are significant differences in the level of regional financial independence between cities in South Sumatra Province during the 2020–2024 period. This is evidenced by a one-way ANOVA test which produced an F-value of 161.394 with a significance value (p-value) of $0.000 < 0.05$. Furthermore, descriptively, it is seen that Palembang City has a much higher level of regional financial independence than Prabumulih City, Pagar Alam City, and Lubuklinggau City. This finding confirms that fiscal capacity between regions is uneven and indicates a significant gap in the ability to finance regional development.

To provide a clearer illustration of these differences, the regional financial independence ratios of each city during the 2020–2024 period are presented in Table 5.1 below.

Table 1. Regional Financial Independence Ratios of Cities in South Sumatra Province (2020–2024) (%)

Year	Palembang	Prabumulih	Pagar Alam	Lubuklinggau
2020	52,50	11,13	13,39	10,88
2021	63,44	10,06	10,04	18,60
2022	80,59	12,33	9,01	11,86
2023	74,10	12,84	11,06	15,58
2024	64,53	14,17	13,69	17,67
Average	67,03	12,10	11,43	14,91

Source: Directorate General of Fiscal Balance (processed by the author, 2026).

Empirically, Palembang City's high level of financial independence reflects the substantial contribution of Locally Generated Revenue (PAD) to total regional income. This indicates that the Palembang City Government has a relatively strong capacity to optimize local revenue sources, such as local taxes and levies. Conversely, the low independence ratios in Prabumulih City, Pagar Alam City, and Lubuklinggau City indicate that regional revenue structures are still dominated by transfer funds from the central government. This condition indicates that these regions' fiscal capacity is still limited and they are unable to independently support development financing.

These differences in levels of financial independence are inextricably linked to the economic characteristics of each region. Palembang, as the center of government, trade, and services in South Sumatra Province, has a more complex and dynamic economic activity. This impacts the breadth of the regional tax base and the high potential for local revenue (PAD). Conversely, other cities, such as Pagar Alam, which is more oriented towards the agricultural and tourism sectors, and Prabumulih and Lubuklinggau, which have smaller economies, tend to have limited access to local revenue sources. Therefore, local economic structure is a significant factor influencing the level of regional financial independence.

This finding aligns with the theory proposed by Halim (2014), which states that the regional financial independence ratio is an indicator of a region's ability to independently finance government activities. The higher the independence ratio, the lower the dependence on the central government. Furthermore, Mardiasmo (2018) emphasized that the potential for local revenue (PAD) is strongly influenced by regional economic conditions, including the level of development of the trade, services, and industrial sectors. In the context of this research,

Palembang City, with its stronger economic base, has been shown to achieve a higher level of independence than other regions.

When compared with previous research, this study's results are consistent with those of Nusi et al. (2023), who showed that the contribution of local revenue (PAD) to total regional revenue in most regions remains relatively low, resulting in suboptimal levels of regional financial independence. Roychana's (2020) research also found that most regions in Indonesia still rely on central government transfers to finance regional expenditures. These similar findings suggest that low fiscal independence is a common phenomenon, particularly in regions with limited economic bases.

However, this study provides an additional contribution by demonstrating that even within the same province, there are significant differences between cities. This suggests that fiscal decentralization does not automatically result in an even level of independence, but rather depends heavily on each region's ability to manage its own economic and financial potential. In other words, regional autonomy provides equal opportunities, but the results achieved remain variable depending on regional capacity.

Besides economic factors, differences in regional financial independence are also influenced by institutional factors and regional financial governance. Local governments with better tax administration systems, accurate databases, and innovations in tax and levy collection tend to be able to more optimally increase their local revenue (PAD). This explains why Palembang City's better performance is not only due to economic factors but also due to more effective regional financial management.

Furthermore, this difference can also be linked to the effectiveness of regional fiscal policies in managing revenue and expenditure. Regions with greater independence tend to have greater flexibility in determining development priorities, allowing them to allocate resources more efficiently. Conversely, regions with a high dependence on transfer funds have more limited fiscal space because their fiscal policies are largely influenced by the central government.

Overall, the results of this study reinforce the theory of fiscal decentralization, which states that there is an imbalance in fiscal capacity between regions due to differences in economic potential, population, and administrative capacity (Mardiasmo, 2018). Therefore, more targeted and specific policies are needed for each region, particularly in increasing regional financial independence through optimizing local revenue (PAD), strengthening the local economic base, and improving regional financial governance on a sustainable basis.

CONCLUSION

This study aims to analyze the level and differences in regional financial independence in cities in South Sumatra Province during the 2020–2024 period. The results show that the level of regional financial independence is not evenly distributed among cities. Palembang City has the highest level of independence with an average of 67.03 percent and is included in the participatory category, reflecting a relatively strong fiscal capacity through the optimization of Regional Original Income (PAD). In contrast, Prabumulih, Pagar Alam, and Lubuklinggau City have a relatively low level of independence with an average of 12.10 percent, 11.43 percent, and 14.91 percent, respectively, which are included in the instructive category, so they are still highly dependent on central government transfer funds. The results of the One Way ANOVA test show a significance value of less than 0.05, which means there are significant differences in the level of regional financial independence between cities.

These findings indicate a fiscal capacity gap influenced by differences in economic structure, regional revenue base, and the effectiveness of financial management in each region. Therefore, more targeted policies are needed to increase regional financial independence, particularly for regions with low levels of independence, through optimizing local revenue (PAD), strengthening local economic potential, and improving the quality of regional financial governance. Furthermore, innovations in digital-based tax and levy collection systems need to be developed to increase the efficiency and transparency of regional revenue, thereby gradually reducing dependence on transfer funds.

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