

Model Of Financial Performance Analysis In Regional Governments

Indah Martati, Besse Asniwaty, Suminto

Abstract : The research objective is to analyze the model of evaluating the effectiveness of regional financial performance in Indonesia within the framework of implementing regional autonomy with a sample of 3 cities and two districts in East Kalimantan. The model adopted was adopted a formula that had been used by previous researchers consisting of an assessment of the effectiveness of regional financial management, the effectiveness of fund transfer management, and measurement of the degree of fiscal decentralization. The data used is the target and realization of the 2011-2016 Regional Revenue and Expenditure Budget and the data are analyzed using a descriptive qualitative comparative method. The results showed the performance of local governments in financial management has been very effective with an average percentage of > 100%. Fund transfers from the Central Government to the Regions have been managed relatively effectively. While the degree of fiscal decentralization is still low with an average percentage of 11.21%. The achievement of criteria is very effective in the management of regional finances and the management of transfer funds is inversely proportional to the low ability of regional finances to carry out decentralization tasks. The influencing factors are the high centralization in the field of taxation; local companies have not contributed to the PAD, and differences in tax rates in each region.

Keyword : effectiveness model, fiscal decentralization, regional financial performance, economic autonomy

1. INTRODUCTION

Accountable and transparent regional finance will be realized with the support of a clear and efficient financial management system. There are four basic functions in management, namely planning, organizing, leadership, and controlling. The basic concept of management can be applied in various types of organizations, including public organizations. This article examines the measurement model of the effectiveness of regional financial performance which is commonly used to determine the ability of local authorities to carry out regional autonomy in Indonesia. Objects are set in 2 districts and 3 cities in East Kalimantan province by taking Regional Budget and Expenditure or better known as APBD data samples for the 2011-2016 periods. East Kalimantan is an area rich in natural resources, especially oil, gas and coal. The results of exploitation of natural resources from this region are the revenues of the Central Government, and subsequently those which will then be distributed to the regions in the form of transfer funds. The size of the transfer fund is regulated in accordance with Law No. 33 of 2004 concerning Financial Balance between the Central Government and the Regional Government. As the largest natural resource producing region, districts and cities in East Kalimantan receive larger transfers from the central government compared to non-producing regions. In fact, it can be said that the main source of income for the regency and city is derived from transfer funds from the Central Government, while other sources come from Regional Original Revenue better known as PAD, and other legitimate Revenues. The purpose of giving transfer funds

is to fund regional needs in the context of implementing decentralization in the era of regional autonomy in Indonesia. The measure of the success of regional autonomy in the economic field in Indonesia is commonly measured by regional financial performance. The financial performance measurement model includes measuring the effectiveness of regional financial management, the effectiveness of the management of transfer funds, and the degree of fiscal decentralization as done by (Ratang, 2016); (Gousario & Dharmastuti, 2015); (Ramadhani, 2016); and (Saputra, 2014). Measuring the effectiveness of financial management in the area of regional autonomy

used model shows results that are effective with a tendency above 100%, but on the other hand the level of dependency with the central government is still high, the degree of fiscal decentralization is low and public welfare is far from expected. Contradictions occur from the measurement results between one model to another, because it is seen from the effectiveness of regional financial management that it has been effective but on the other hand the level of dependence is still high or independence is still low, meaning that regional autonomy in the economic sector has not been achieved. For this reason, it is necessary to conduct further studies on the analysis of models for measuring the effectiveness of financial performance in regional governments in Indonesia in the context of implementing economic autonomy. The problems are:

1. Does the model for measuring the effectiveness of regional financial management provide results that are consistent with the real conditions?
2. What are the determining factors for the realization of autonomy in the economic field?

2. LITERATURE REVIEW

2.1 Regional Financial Management

A clear and efficient financial management system is needed to realize accountable and transparent regional finance. There are four basic functions in management, namely planning, organizing, leadership, and controlling. The basic concept of management can be applied in various types of organizations. This is in accordance with

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what was stated by (Husnan & Pudjiastuti, 2006) that financial management is the regulation of financial activities and (Riyanto, 2013) that financial management is the overall activity concerned with the effort to obtain funds and use or allocate these funds. Some important principles in regional financial management are: obeying laws and regulations, effective, efficient, transparent, responsible, fairness, propriety, benefits. Effectiveness is the level of achievement of program results with a set target. With simple language, effectiveness is a comparison of outcomes with output.

2.2 Regional Financial Performance

Regional financial performance is one measure that can be used to ensure the ability of the region to implement the rules of financial implementation properly and correctly to maintain the desired service. High financial performance is a demand that must be met so that external parties are interested and decide to invest in the regions. (Mardiasmo, 2009). Financial ratio analysis commonly used to measure financial performance sourced from APBD includes independence ratio (fiscal autonomy), effectiveness and efficiency ratio, and debt service ratio (Bisma & Susanto, 2010). Sources of funding for local government organizations come from PAD, Balancing Funds, and other legitimate Revenues (Law 33, 2004). Regional Income is all regional rights that are recognized as enhancers of net worth in the period of the relevant budget year (Law 23, 2014). PAD aims to provide flexibility to the regions in exploring funding for the implementation of regional autonomy as an embodiment of the principle of decentralization, in which the components consist of regional taxes, regional levies, separated regional wealth management and other legitimate local revenues. This is similar to the definition of PAD that is contained in (RI, 2004) The role of PAD in the era of regional autonomy is very vital, because it is the main source of funds to finance affairs that have become regional affairs. Balancing funds or transfer funds are funds originating from the State Budget and Expenditure or better known as APBN revenues allocated to the regions to fund regional needs in the context of implementing decentralization (Law 33, 2004). Transfers are a consequence of uneven financial and regional economy. The purpose of the balancing fund is to reduce the fiscal gap between the government and regional government and among regional governments. The aim of the transfer is to reduce horizontal finance between regions, reduce the gap between Central-Regional Verticals, overcome the problem of the effects of public services between regions, and to create stability in economic activity in the regions (Halim, 2008). Profit sharing funds come from taxes and natural resources. This means that the urgency of the transfer fund is to improve development and equitable distribution of people's welfare. The importance of PAD and transfer funds as a source of regional income that will be used to finance regional development which is their own business, the effectiveness of management of income sources needs to be regularly evaluated. This is intended to determine the level of regional financial capacity and the accuracy of allocations in revenue management. The accuracy in allocating the budget to priority activities / programs that are synergized with the central government program will have a direct

impact on improving public services and improving community welfare. Financial performance is the output or outcome of an activity or program that will or has been achieved in connection with the use of the budget with measurable quantity and quality (Government, 2005). Based on the results of previous studies (Ramadhani, 2016), states that the level of financial effectiveness of the Tarakan City area is on average 92% with an effective category with a positive trend and tends to increase from 2016 to 2020. Furthermore (Saputra, 2014) said that the PAD effectiveness ratio on average there is a trend of 109.8% with a very effective category from 2004-2011. The average regional financial trend during the 2005-2011 periods was 116.2%. (Setyawan, 2013) stated that the general allocation fund and investments were statistically significantly affecting the economy positively in Lampung Province. Revenue Sharing fund better known as DBH actually has a contrasting effect on economic growth but the magnitude of the three variables is relatively very small for the economy. This indicates ineffectiveness in the use of central transfers in accelerating growth due to budget allocations for consumptive activities compared to investment activities.

3. RESEARCH METHOD

The research data used were secondary data in the form of Allocation and Realization of Regional Budget 2011-2016 in Kutai Kartanegara District (Kukar), Balikpapan City (BPN), Samarinda City (SMD), Panajam Paser Utara District (PPU), and Bontang City (BTNG). Determination of the sample is based on the consideration of the regions receiving large amounts of transfer funds and small amounts from the Central / Provincial Government. Data were analyzed qualitatively descriptive to explain the level of effectiveness of regional financial performance as measured by the analysis of the ratio of effectiveness of regional financial management, the effectiveness of the transfer fund ratio, and the ratio of fiscal decentralization ratio.

3.1 Regional Financial Management Effectiveness Ratio

Effectiveness is a measure of the success or failure of an organization to achieve its objectives. The analysis of the effectiveness of regional financial management is measured by using the ratio between the realization and target of PAD set in the APBD (Mahmudi, 2010). Effectiveness of Regional Financial Management =

$$\frac{\text{PAD Realization}}{\text{PAD Receipt Target}} \times 100\%$$

3.2 Transfer Fund Effectiveness Ratio

The effectiveness of transfer funds is a measure of the success or failure of an area to budget and allocate transfer funds in overcoming disparities between regions. The transfer fund effectiveness ratio is measured by using the ratio between the realization of transfer fund receipts and the target of receiving transfer funds. Transfer Fund Effectiveness Ratio=

$$\frac{\text{Transfer Fund Receipt Realization}}{\text{Transfer Fund Receipt Target}} \times 100\%$$

The effectiveness criteria can be categorized as shown in Table 1.

Table 1.
The Effectiveness Criteria Ratio

Performance Percentage	Effectiveness Criteria
>100%	Extremely Effective
100%	Effective
90% - 99%	Fairly effective
75% - 89%	Less effective
< 75%	Not Effective

Source: (Mahmudi, 2010)

3.3 Degree of Fiscal Decentralization Ratio

The degree of fiscal decentralization is measured by the comparison of PAD with Total Regional Revenue (Mahmudi, 2010). This ratio shows the degree of contribution of PAD to total regional revenues. The higher the ability to produce PAD, the higher the regional capacity in realizing decentralization. Degree of Fiscal Decentralization =

$$\frac{\text{Regional Generated Revenue}}{\text{Total of Regional Income}} \times 100\%$$

Criteria for assessing the degree of fiscal decentralization can be categorized as shown in Table 2.

Table 2.

Percentage of PAD to Total Regional Revenue	Degree of Fiscal Decentralization
0,000-10,00	Extremely low
10,01-20,00	Low
20,01-30,00	fair
30,01-40,00	Enough
40,01-50,00	high
>50,00	Extremely high

Source: Tim Litbang Depdagri-Fisipol UGM, 1991 in (Bisma & Susanto, 2010)

4. FINDING

4.1 Level of Effectiveness of Regional Financial

Performance

The level of effectiveness of regional financial performance measured by dividing the realization of PAD with the target of PAD from each region during the period 2011-2016 as shown in Table 3.

Table 3

Level of Effectiveness of Regional Financial Management in East Kalimantan (%)

Year	Kukar	BPN	SMD	PPU	BTNG
2011	134.93	82.06	107.89	85.02	144.68
2012	117.67	121.39	124.68	73.79	138.08
2013	156.05	142.90	137.28	85.89	148.36
2014	93.13	167.08	129.95	80.93	158.21
2015	80.52	114.01	96.49	92.68	117.46
2016	91.58	100.80	82.76	305.76	125.55
Average	112.31	121.37	113.18	120.68	138.73

Source: Data that has been processed

The information in Table 3 shows the level of effectiveness of financial management from year to year in each region in different percentages, but seen from its tendency during the

2011-2016 periods the level of effectiveness is fluctuating. The trend of financial management effectiveness in the Kukar Regency and PPU Regency with a pattern of negative-positive-negative and be back to positive. The trends of each city are negative - positive - negative patterns for Bontang City, Samarinda City with positive-positive-negative-negative trends, and Balikpapan City with positive-positive-positive-negative trends. In general, the average effectiveness of financial performance for 6 (six) years of observation showed that the criteria are very effective because they have a percentage above 100%. Kutai Kartanegara Regency with an average percentage of 112.31%, Balikpapan City with an average percentage of 121.37%, Kota Samarinda with an average percentage of 113.18%, PPU Regency with an average percentage of 120.68%, and Kota Bontang with an average percentage of 138.73%. Of the five observation areas, only Bontang City has a very effective of effectiveness ratio every year as evidenced by the highest percentage value compared to other regions. This means that there was consistency in achieving financial performance, even though it fluctuates but the position is still in a very effective category. This is what distinguishes between Bontang and other fluctuating regencies such as Balikpapan, Samarinda, PPU and Kutai Kartanegara Regency. In addition, there was a tremendous surge in effectiveness in PPU in 2015-2016, from 92.68% to 305.76%, indicating a remarkable increase in PAD in that year.

Effectiveness of Transfer Fund Performance

Fund transfers have been the main source of income for districts and cities in East Kalimantan. The effectiveness ratio of transfer funds from each district & city is obtained as listed in Table 4. The effectiveness of the transfer funds in the five districts and cities is volatile and tends to decrease in effectiveness from 2011-2016. The average effectiveness of transfer fund management during the 2011-2016 period in each observation area has different criteria, such as very effective criteria that occur in Kukar, BPN, and Samarinda, while The PPU regency and the City of Bontang are in effective criteria.

Tabel 4

The Effectiveness of transfer fund in East Kalimantan					
Year	Kukar	BPN	SMD	PPU	BTNG
2011	136,75	109,34	115,03	124,73	77,64
2012	146,36	124,62	128,09	113,91	127,33
2013	120,71	109,11	108,69	94,96	99,38
2014	131,14	112,30	100,34	86,86	100,59
2015	75,06	76,35	88,29	60,81	78,36
2016	70,80	70,99	79,13	83,53	68,28
AVG	113,47	100,45	103,26	94,14	91,93

Source: Data that has been processed

The growth of the effectiveness of the transfer fund management ratio in the largest recipient of transfer funds in Indonesia, namely Kukar Regency in 2011-2012 increased by 7.03% then declined in 2012-2013 by -17.52%, and increased again in 2013-2014 by 8.64% and then dropped dramatically in 2014-2015 amounting to -42.77% and -5.68% in 2015-2016. The fluctuating ratio of the effectiveness of the transfer fund management is almost

the same as in Balikpapan City, Samarinda City, PPU Regency, and Bontang City. The difference lies only in the magnitude of the percentage value.

Degree of Fiscal Decentralization

The degree of fiscal decentralization is measured by comparing between PAD and Regional Revenue. The results of the degree analysis of fiscal decentralization for the last 6 years obtained results as shown in Table 5.

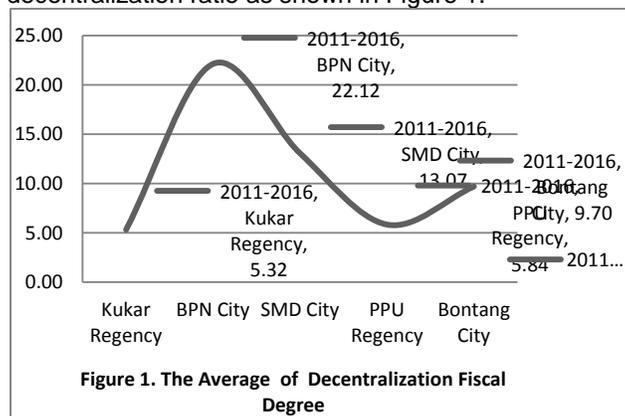
Table 5

Degree of Fiscal Decentralization in East Kalimantan

Year	Kukar	BPN	SMD	PPU	BTNG
2011	3,12	13,14	9,13	2,45	7,07
2012	4,45	15,96	10,09	2,48	6,52
2013	6,38	19,43	13,17	3,85	8,91
2014	5,25	30,12	15,31	4,33	11,02
2015	6,24	25,96	14,68	5,14	10,53
2016	6,47	28,11	16,06	16,78	14,13

Source: Data that has been processed

The ratio of PAD to total regional revenue from year to year is relatively low for all regencies and cities of observation, but the majority has a positive trend from year to year of observations namely 2011-2016. In other words, this percentage shows the degree of fiscal decentralization from each region to grow positively, even though the ratio value is still below 20%. In general, the average fiscal decentralization ratio as shown in Figure 1.



During the last 6 years the region with the highest average Fiscal decentralization ratio of 22.12% was Balikpapan City, followed by the second highest average of 13.07%, Samarinda City, then 9.70% achieved by Bontang City, and two Regencies namely PPU and Kutai Kartanegara Regency have the lowest average degree of fiscal decentralization with values of 5.84% and 5.32%. Overall, the five regions have a mean degree of fiscal decentralization of 11.21% with low criteria.

5. DISCUSSION

Measuring the effectiveness of regional financial management with a model that is often used by previous researchers shows that all regions have a very high average level of effectiveness because the average ratio is above 100%. This means that the realization of PAD

exceeded the PAD target set in the 2011-2016 period. Likewise, the results of measuring the effectiveness of transfer fund management in Kukar Regency, Balikpapan City, and Samarinda City on average showed a very effective category, while PPU and Bontang Districts showed effective criteria. But on the other hand from the results of the measurement of the degree of fiscal decentralization was still very low in Kukar Regency with an average percentage of 5.32%, PPU Regency which was 5.84%, and Bontang City with 9.70%. While the city of Samarinda is in the low criteria with a percentage of 13.07% and the percentage that occurred in the city of Balikpapan is 22.12% The measurement results between effectiveness are associated with the degree of fiscal decentralization reflecting the finding that there is an inconsistency in the meaning of conditions in achieving the objectives of regional autonomy. In terms of financial management and fund transfer management, it is effective but the regional capacity in implementing decentralization tasks is still low. This is indicated by the low contribution of PAD to total regional revenues. Therefore, it is necessary to look more closely at the factors that influence the un-synchronization of the measurement results. The ratio between the realization of PAD and the target of PAD with very effective criteria means that the acquisition of PAD exceeds the target set. This can be seen from the PAD target setting, is it pessimistic or optimistic? The PAD target is determined pessimistically, meaning that it is prepared not based on the results of a study of the development of local economic potential that allows it to be extracted as a source of PAD, determined by raising a little from the previous year so that it does not require hard work to achieve it. Noting the fluctuating trend of effectiveness during the 2011-2016 period indicates the target of the PAD set to fluctuate (up and down). While the basic concept of regional autonomy from year to year, an area must be increasingly independent, as indicated by an increase in the contribution of PAD to total regional revenues. Therefore the determination of PAD targets from year to year must continue to increase rather than decrease. So in this case it was found that the PAD targets were pessimistic throughout the districts and cities of observation. Why do regions set pessimistic targets? On the other hand there are still much local economic potential that have not been empowered as a source of PAD. The root cause of the problem that was identified was first; in general the regional government had not been able to identify potential sources of income. Second, the limited space for the government of regencies and cities to withdraw taxes and regional levies as stipulated in (RI, Law No.28 Year 2009, 2009) concerning Taxes and Regional Retributions. Because the Regency and City Governments cannot also issue Regional Regulations on Regional Taxes and Retributions before obtaining approval from the Ministry of Home Affairs and the Ministry of Finance. To collect taxes and levies very tightly supervision from the Central Government. This means that even though there are provisions for the source of PAD, at the level of implementation of the collection, it is not easy, because it is still controlled by the Central Government in the form of an approval of Regional Regulations on Collection of Taxes and Regional Retributions. To obtain approval from the Central Government even requires a relatively long time. This has

an impact on the powerlessness of the Regional Government to collect regional taxes and levies before the approval is issued by the Central Government. Third, most regions still cannot optimize local tax revenues, regional levies or even revenues from separated regional wealth according to Law No. 33 of 2004 concerning Balance between Central and Regional Finance. Fourth, the regions still see that the potential for large tax revenues is still regulated by the center, namely Income Tax, Value Added Tax and Cigarette Tax. Fifth, the readiness of Human Resources (HR) in both quantity and quality is still lacking. Therefore, in its implication, it is necessary to have a policy regarding the management of local revenue sources that is more flexible in implementing the rules, the authority to optimize local economic potential, the optimization of regional tax and retribution, and the fairness of tax revenue sharing funds, as well as improving the quality and strength of HR. Each region has different local economic potential, so that each region needs to be given the freedom to maximize the empowerment of local economic potential as an effort to improve the welfare of the community and at the same time as a source of PAD. The success of the region in empowering local economic potential is an indicator of increasing PAD. An area with increasing PAD indicates success in regional development, because PAD determines regional capacity in carrying out government functions in public services and development.

The results of measuring the effectiveness of transfer fund management show criteria very effective and effective. In its implementation, many transfer funds have been allocated to program activities that are not included in the priority scale and are not in favor of improving public services and community welfare. It is evident that the level of effectiveness of regional financial performance is not accompanied by a degree of financial independence. The utilization of transfer funds received from the Central Government has not been optimally used to explore local economic potential as a source of PAD. This happens due to: first, the lack of strict supervision by the Central or Provincial Governments on the priority of using regional transfer funds. Large budget allocations for transfers to regions are not accompanied by improved quality of APBD management. The poor absorption of the regional budget is reflected in the settling of trillions of rupiah in idle funds belonging to a number of Regional Governments in Banking (Widodo, 2018). Secondly, the existence of budget political interests that are less in favor of improving people's welfare. The measurements of fiscal decentralization with an average yield was low, indicating that the contribution of PAD to total regional revenues was low. This means that the ability of each regency and city to finance affairs that are the responsibility of the regions was low. Fiscal decentralization aims to increase regional financial independence and reduce fiscal dependence on the central government (Suci & Asmara, 2014). In the implementation of regional autonomy since it was rolled out in 1999 until now, there is no clarity in the standard time for the regions to be independent. There should be a achievement target per five years by using a percentage of certain criteria for financial independence. For example, the first five years since the implementation of regional autonomy in 2001 with the target of achieving independence was at 0-25%. The second five years the target of independence was > 25% -

50%. The third five-year independence target was > 50% - 75%, and the fourth five-year independence target was > 75% -100%. Thus supervision is easier to see from the achievements of each region. Indicators of achieving financial independence are clear and measurable. The more independent an area shows a balanced proportion between PAD and transfer funds and regional loans. In addition, budget allocations that are not oriented towards efforts to encourage people's economic growth indicate that there is not optimal regional financial management. This has an impact on the low capacity of the region to be independent. Budget politics is a way for the government to use a limited budget so that it can be used optimally for the welfare of the people through targeted programs (PresidenRI.go.id, 2016).

6. CONCLUSION

The model for measuring the effectiveness of regional financial management, managing transfer funds, and the degree of fiscal decentralization in two regencies and three cities in East Kalimantan can illustrate the conditions of other regions in Indonesia as follows:

1. The model of measuring effectiveness by comparing between realization and target is associated with a model of measurement of degree of fiscal decentralization.
2. Very effective criteria for the results of measuring financial management have not reflected the real conditions, due to the pessimistic target setting.
3. Effective criteria for the results of measuring the management of transfer funds do not reflect the real conditions, because the utilization of transfer funds is not optimal for increasing PAD.
4. The regional average has a low fiscal decentralization rate of 11.21%, meaning that regional capacity is low to implement decentralization and has an impact on the slow pace of regions towards autonomy in the financial sector.

Implications to improve financial performance according to real conditions, namely by establishing policies on the application of regulations and authority to increase the potential of the local economy more flexibly, optimizing local companies to contribute to PAD, and setting standard tax rates with other regions, as well as increasing the quality and strength of human power resources.

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