

**The Influence of Regional Financial Independence  
on Regional Financial Conditions**

Dila Dasma

Universitas Yapis Papua, Jayapura, Papua, Indonesia

[dila250005@gmail.com](mailto:dila250005@gmail.com)

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**Abstract**

This study aims to determine the effect of regional financial independence on the financial condition of the Papua Provincial Government for the 2019-2023 period. This type of research is quantitative research with descriptive analysis methods. The sample was taken using a purposive sampling technique. The sample amounted to 30, with the population used in this study being 1 (one) City and 5 (five) Regencies in Papua Province. The data analysis technique used was the Panel Data Regression analysis using SPSS. The results of this study show that regional financial independence has a positive and significant influence on the financial condition of the Papua Province region for the period 2019-2023. This indicates that the more financially independent an area is, the better its financial condition will be.

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**Introduction**

The implementation of Law Number 23 of 2014 concerning Regional Government and Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Government requires regional governments (Pemda) to carry out decentralization and encourage economic growth in each region. This is to the objectives of implementing regional autonomy, namely, to improve public services and advance the regional economy. However, the decentralization of financial management, which gives regional governments the freedom to manage income, expenditure and financing, has resulted in economic conditions between regional governments. This is because the central government only provides financial management principles, but it is not followed by detailed regulations for local governments to manage their finances (Creswell, 2024).

Differences in budget allocation will result in varying financial conditions between local governments. Financial conditions describe the government's ability to fulfil its obligations, both in the form of debt and the provision of services promptly, describing the financial condition of local governments as conditions that cannot meet standards in operations, debt, and community needs for several years in a row. Good financial conditions will guarantee local governments' desire to provide quality services to the community and

play an important economic role. Introducing 10 measurement indicators known as the "10-point test" (Sartika, 2019).

Indicators of the financial independence of an area are the ratio of Regional Original Income against Balancing Funds and Loans. Thus, PAD and Balancing Funds are a source of government expenditure and positively influence a region's expenditure government. The regional financial independence ratio (fiscal autonomy) shows the regional government's ability to finance its own government activities, development and services to the community who have paid taxes and levies as a source of regional income originating from other sources, such as central government assistance or loans.

One factor that can affect a region's financial condition is the independence of regional finances. Regional financial independence refers to the ability of a region to finance its own needs without excessive dependence on fund transfers from the central government. A high level of financial independence reflects the ability of a region to manage and allocate budgets effectively, increase revenue through local potential, and reduce the fiscal burden transferred from the central government. Thus, regions with high financial independence tend to have better financial stability, are determined in determining development priorities, and have stronger resilience to macroeconomic changes.

Ritonga (2021) stated that regional financial independence is an important indicator in measuring a region's ability to finance its own needs without significantly relying on central government transfer funds. The relationship between regional financial independence and financial conditions is very close, whereas regions with high financial independence tend to show more stable and sustainable financial conditions. Good regional financial conditions allow the region to be more flexible in responding to community needs and fulfilling various development programs. Conversely, high dependence on transfer funds indicates weaknesses in regional financial management, potentially reducing the region's ability to develop local initiatives and face economic challenges independently.

Regional financial conditions significantly affect regional independence because healthy finances allow regional governments to finance various development programs and public services without relying on the central government's assistance. High local revenues, for example, from taxes and levies, reflect regions' ability to manage their own resources and implement policies that are in accordance with local needs. In addition, stable regional finances also allow for infrastructure investment and economic development that can improve the welfare of society as a whole.

However, in some cases, regional financial conditions may not significantly impact regional independence. This can happen if there is a strong dependence on central funding allocations or structural barriers that prevent the effective use of resources. For example, regions with great economic potential but with inefficient bureaucracy or high corruption may still have difficulty achieving independence even though they have sufficient budgets. In addition, suboptimal policy decentralization can also make it difficult for regions to be fully independent even though they are financially capable.

This research was conducted based on the description above. The difference between this research and its predecessors has been widely carried out: This study tries to test the persistence of profits in consumer goods companies in the pharmaceutical sub-sector listed on the IDX in 2018-2022 and tries to add variables based on suggestions from previous researchers, namely (Nurhafifah et al., 2022).

This study uses observations of 30 samples from the population used in 1 (one) City and 5 ( five ) Regencies in Papua Province for 5 years. This study aims to test and analyze the effect of regional financial independence on the financial condition of the Papua provincial government for the 2019-2023 period.

This research is structured to include the first part, the introduction, part two, the literature review, and the hypothesis. The third section presents data and methodology. The fourth section explains and discusses the results. The last section summarizes the study's conclusions.

## **Literature review**

### **Fiscal Decentralization Theory**

The Theory of Fiscal Decentralization is a profound concept about the distribution of power and responsibility in financial management between the central and regional governments. The essence of this theory lies in the effort to delegate fiscal authority, which includes budget creation, revenue collection, and spending management, from the hands of the central government to more local government entities, namely regional governments. This decentralization process strengthens accountability and the effectiveness of financial management at the regional level, assuming that regional governments better understand the needs and priorities of local communities (Halim, 2013: 54).

### **Regional Autonomy Theory**

The theory of regional autonomy focuses on understanding the rights, authorities and obligations that regions have in regulating and managing their government affairs and the interests of the local community. This concept aims to divide power from the central government to local governments, enabling them to make decisions more suited to local needs and conditions. In this context, local governments are free to manage resources and take initiatives in various fields, such as education, health, infrastructure, and others, to improve the welfare of the people in the area (Halim, 2013: 48).

### **Regional Finance**

Regional finance or regional budget is a regional government work plan in the form of money (rupiah) in a certain period. Government Regulation Number 58 of 2005 explains that Regional Finance refers to all regional rights and obligations in the context of organizing regional government that can be valued in money, including all forms of wealth related to the rights and obligations of the region. It can be concluded that regional finance is wealth owned and managed by the regional government, where there are rights and obligations in the form of money (rupiah), which are used to finance regional government activities (Kawatu, 2019).

### **Regional Financial Report**

Financial Reports are a form of accountability of the regional government for using regional finances within the framework of implementing regional autonomy and carrying out government operations. This is a benchmark for government performance to be accounted for at the end of each budget year (Arsynata, 2023). The regional financial report is a report that presents regional financial posts obtained in one period. Financial reports are mandatory to be submitted, aiming to find out and provide information about financial performance in a certain period.

### **Regional Financial Conditions**

Financial condition analysis is not to find good or bad values of the financial condition of the region but to assess the development of regional finances from year to year, whether the development trend is getting better or worse by comparing regional finances from time to time or comparing regional finances with other regional finances. The calculation results are seen from the trend value, up or down (Ferica, 2022). Many researchers have developed financial condition analysis models. In Indonesia, there is no agreed model for analyzing

financial conditions in a standard way, even though policymakers need to know the financial conditions of each region in support or as a reference for making further policies. Monica (2023), in her journal, said that local governments and other stakeholders can use the results of the financial condition assessment to improve public accountability, determine the rating of local government bonds, and improve the competitiveness of local governments with other regions.

**Regional Financial Independence**

According to the Regulation of the Minister of Home Affairs Number 19 of 2020, financial independence is the condition of a regional government that is not vulnerable to funding sources beyond its control or influence, either domestic or foreign.

Regional Financial Independence is a condition in which a regional government is not vulnerable to funding sources beyond its control or influence, either from national or international sources. The lower the value of this ratio, the less financial independence there is from the financial condition of the local government. Thus, the greater the value of the two ratios, the more significant the contribution of local revenue in increasing local government activities, and the more significant the ratio value, the better the financial independence of the local government. This is in line with Nirwana's research (2023), which shows that the level of financial independence affects the condition of regional finances. The impact of financial poverty on regional financial conditions is very significant. This is because they have sufficient income from local sources. Second, financial independence allows regions to be more flexible in designing and implementing policies according to the specific priorities and needs of the region. They are less tied to national priorities that may not always align with local conditions and needs.

Previous research results' theoretical explanation and support have revealed that financial independence is related to regional financial conditions. Therefore, this study takes the following hypothesis:

H1. Financial Independence has a positive effect on Regional Financial Conditions

**Research methods**

The purpose of this study is to analyze the effect of regional financial independence on the financial condition of the Papua provincial government for the 2019-2023 period using annual panel data. Panel data, longitudinal data, or times series cross-sectional (TSCS) data consists of observations taken repeatedly from the same unit over a certain period. The data used in this study were collected by downloading LRA data for 2019-2023. Sampling was done using a *purposive sampling technique* and the financial independence ratio formula. The results of this study's calculations from calculating the financial independence ratio are as follows:

**Table 1**  
**Results of Regional Financial Independence Ratio**

City/District Name	The year 2019	The year 2020	Year 2021	Year 2022	Year 2023
Biak Numfor Regency	9%	8%	5%	2%	2%
Jayapura Regency	8%	7%	10%	12%	9%
Keerom Regency	2%	2%	3%	1%	1%
Yapen Islands Regency	5%	4%	5%	2%	2%
Sarmi Regency	1%	2%	1%	1%	2%

City/District Name	The year 2019	The year 2020	Year 2021	Year 2022	Year 2023
Jayapura City	18%	14%	20%	21%	17%

Source: Processed Data, 2024

## Results and Discussion

### Descriptive Statistical Test

**Table 2**  
**Descriptive Statistical Test**

Descriptive Statistics					
	N	Minimum	Maximum	Means	Standard Deviation
Regional Financial Independence	30	.01	.12	.0543	.03191
Regional Financial Conditions	30	.01	.10	.0517	.02640
Valid N (based on list)	30				

Source: data processed by researchers with SPSS, 2024

The analysis of regional financial independence (X) from Table 2 above shows that the minimum value of regional financial independence is 0.01 while the maximum value is 0.12. the average value of the regional financial condition variable is 0.0543, while the standard deviation is 0.03191. The average value, which is higher than the standard deviation value, indicates that there is not too big a gap in the data on regional financial independence.

The analysis of regional financial conditions (Y) from Table 2 above shows that the minimum value is 0.01, while the maximum is 0.10. The average value of the regional financial condition variable is 0.0517, while the standard deviation is 0.02640. The average value, which is higher than the standard deviation value, indicates that there is not too big of a gap in the data on the regional financial condition.

### Classical Assumption Test

#### Normality Test

**Table 3**  
**Normality Test**

One Sample Kolmogorov-Smirnov Test		
		Unstandardized Residues
N		30
Normal Parameters a,b	Means	.0000000
	Standard Deviation	.02015682
The Most Extreme Difference	Absolute	.099
	Positive	.099
	Negative	-.086
Test Statistics		.099
Asymptomatic Sig. (2-tailed)		.200c .dk
a. The test distribution is Normal.		

b. Calculated from data.
c . Lilliefors Significance Correction.
d. This is the lower limit of actual significance.

Source: data processed by researchers with SPSS, 2024

Table 3 above shows that the *2-tailed asymp sig( value* is 0.200 or more than 0.05) shows that the data used in the study are typically distributed.

**Autocorrelation Test**

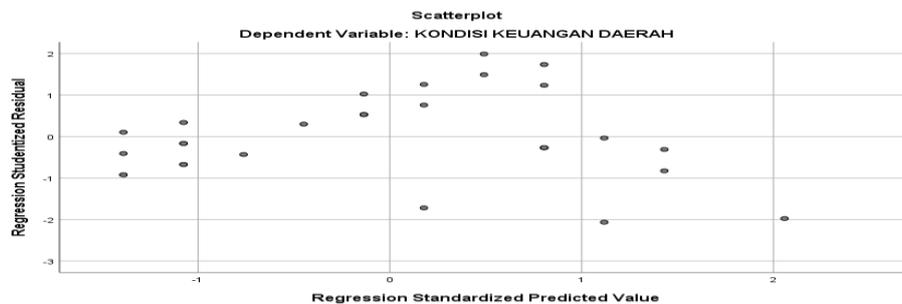
**Table 4**  
**Autocorrelation Test**

Dw	1,746
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Source: data processed by researchers with SPSS, 2024

Table 4 above shows that the Durbin Watson (Dw) value is 1,590 while the Du value obtained by the researcher from the Durbin Watson table is 1,489 so that the 4-Du value is 2,511 so that the following equation can be formed:  $Du (1,489) < Dw (1,746) < 4- Du (2,511)$  so that it can be concluded that there are no symptoms of autocorrelation in this study.

**Heteroscedasticity Test**



Source: data processed by researchers with SPSS, 2024

**Figure 1.**  
**Heteroscedasticity Test**

Figure 2 above shows that the points in the *scatterplot diagram* are spread in all directions and are not only focused on one area, so it can be concluded that the study does not show symptoms of heteroscedasticity.

**Hypothesis Testing**

**Panel Data Linear Regression Test**

**Table 5**  
**Simple Regression Test**

Model		Unstandardized Coefficient B	T	Signature.
1	(Constant)	0.023	3.022	0.005
	Regional Financial Independence	0.534 years	4.477	0.000

Model	Unstandardized Coefficient	T	Signature.
<b>A. Dependent Variable: Regional Financial Conditions</b>			

Source: data processed by researchers with SPSS, 2024

The following is an equation that can be made based on table 5 above:

“Regional Financial Condition = 0.023 + 0.534 Financial Independence”

The constant value is 0.023, which shows the increase or decrease in the variable's coefficient, and then the constant value remains the same. The coefficient value of the regional financial independence variable is 0.534. This shows that regional financial independence positively and significantly influences regional financial conditions. These results explain that if there is a 1% increase in the value of the regional independence variable, the value of the regional financial condition variable will increase by 0.534 or vice versa if there is a 1% decrease in the value of the regional independence variable, the value of the regional financial condition variable will decrease by 0.534.

**Partial Test**

**Table 6  
Partial Test**

Model		Unstandardized Coefficient	T	P-Value
		B		
1	(Constant)	0.023	3.022	0.005
	Regional Financial Independence	0.534 years	4.477	0.000

**A. Dependent Variable: Regional Financial Conditions**

Source: data processed by researchers with SPSS, 2024

Table 6 above shows the coefficient value of 0.534 while the calculated t value is 4.477 and the t table value obtained from the t table on the internet is 1.697, so it can be concluded that the calculated t value is more excellent than the t table value. The significance value is 0.000 or (sig <0.05). These results indicate that regional financial independence positively and significantly influences regional financial conditions. Thus, H<sub>1</sub> is accepted, and H<sub>0</sub> is rejected.

**Test of determination coefficient (R<sup>2</sup>)**

**Table 7**  
**Determinant Coefficient Test**  
<sup>b</sup> **Summary**

Model	R	R Square	Adjusted R Squared	Standard Error of Estimate
1	.646 <sup>a</sup>	.417	.396	.02051

A. Predictors: (Constant), REGIONAL FINANCIAL INDEPENDENCE

B. Dependent Variable: REGIONAL FINANCIAL CONDITION

Source: Data processed by researchers using SPSS (2024)

Table 7 above shows that the value of adjusted r square is 0.396 or 39.6%. This result shows that the variable of regional financial independence has an influence of 39.6% on the variable of regional financial condition. In comparison, the remaining 50.4% is influenced by other variables used outside the study.

Based on research conducted by researchers, regional financial independence has a positive and significant influence on the regional financial conditions of Papua Province for the 2019-2023 period. This shows that the more financially independent a region is, the better its financial condition will be.

Regional financial independence Refers to the ability of a region or local government entity to manage, organize, and fund its activities and programs independently without relying too much on financial resources from the central government or other parties. Regional financial independence also includes diversification of revenue sources, expenditure efficiency, and administrative and managerial capacity to manage regional finances well (Urahn, 2021, p. 19).

Meanwhile, regional financial conditions refer to the actual situation or condition of a region or local government entity's finances in a certain period. This includes aspects such as regional income, regional expenditure, regional debt, and the level of balance between income and expenditure. Regional financial conditions also include external and internal factors affecting regional finances, such as national economic conditions, central government fiscal policies, regional economic growth rates, and other political and social factors (Kawatu, 2019, p. 29).

The relationship between regional financial independence and financial conditions is very close because regional financial independence directly impacts regional financial conditions. The higher the level of regional financial independence, the better a region's ability to overcome the financial challenges it faces, such as unexpected revenue or expenditure. High regional financial independence can also increase regional financial stability long-term and reduce dependence on external resources. On the other hand, if regional financial poverty is low, the region tends to be more vulnerable to changes in economic conditions or central government policies, which can hurt the overall regional financial condition. Therefore, to achieve a healthy and sustainable regional financial condition, a region needs to increase its financial independence by increasing regional income, diversifying revenue sources, good budget management, and managerial and administrative capacity (Kawatu, 2019, p. 76).

This study's results align with previous research conducted by Arsynata et al. (2023), who concluded that regional financial independence positively affects regional financial

conditions. The relationship between regional financial independence and regional financial conditions is vital in the local economy, affecting various development sectors and community welfare. Regional financial independence refers to the ability of local governments to generate sufficient revenue to finance various development programs and activities without excessive dependence on central transfers or other external resources. Meanwhile, regional financial conditions include various indicators such as regional original income (PAD), regional spending, regional debt, and the level of balance between revenue and expenditure.

However, the results of this study are not in line with the results of research conducted by Putri (2023), which concluded that regional financial independence, which is measured by the ability of regions to finance their own needs without relying on transfer funds from the central government, does not always have a positive correlation with regional financial conditions. This is due to various factors that affect regional financial stability and performance. First, some regions may have limited sources of local revenue (PAD) due to minimal local economic potential, so even though they try to be financially independent, the results are still insignificant in improving their financial conditions.

Second, suboptimal managerial and financial governance capabilities in several regions can also hinder the effectiveness of using existing resources, which does not impact the overall financial condition. Third, variations in budget allocation and utilization between one region and another, often influenced by different development priorities, can disrupt financial management performance, regardless of financial independence. Therefore, regional financial independence cannot be used as the only indicator or determinant that determines a region's financial condition.

## Conclusion

The conclusion of the research results conducted by the researcher is that regional financial independence has a positive and significant influence on the regional financial conditions of Papua Province for the 2019-2023 period. This shows that the more financially independent a region is, its financial condition is better. This can be proven by the coefficient value of 0.534, the calculated t value is 4.477, more significant than the t table value obtained from the t table on the internet, is 1.697, and the significance value is 0.000 or (sig <0.05).

Other factors can affect regional financial conditions, such as regional government policies. Papua Province needs to optimize its Natural Resources to increase Regional Original Income, which can impact people's welfare.

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