

# Sula Islands Regency, North Maluku Province; Financial Independence Study

Nurlaila Latupono<sup>1\*</sup>, Abdul Hadi Sirat<sup>2</sup>, Milwan<sup>3</sup>

<sup>1\*,3</sup>Department of Management, Universitas Terbuka, Jl. Cabe Raya, Pondok Cabe, Pamulang, South Tangerang 15418, Banten - Indonesia

<sup>2</sup>Department of Management, Universitas Khairun, Jl. Pertamina Campus II Unkhair Gambesi City of South Ternate.

## ARTICLE INFO



**Correspondence Email:**  
elalatupono@gmail.com

**Keywords:**  
Independence Ratio; Effectiveness Ratio; Efficiency Ratio; Growth Ratio; Harmony Ratio;

**DOI:**  
<https://doi.org/10.33096/jmb.v10i1.490>

## ABSTRACT

This study aims to determine and analyze the regional financial independence of the Sula Islands Regency, North Maluku Province in order to support the implementation of regional development as the implementation of a decentralized system (local government), the contribution of local revenue (PAD) to the APBD of the Sula Islands Regency in 2017-2021. Research informant is Head of Regional Tax and Levy Management Agency. The results show that the ratio of regional financial independence in the Sula Islands Regency is still low or is in a consultative relationship pattern. Effectiveness Ratio and Efficiency Ratio which shows the highly efficient regional financial capacity. The compatibility ratio shows that the results of operational expenditures are greater than capital/development expenditures. Meanwhile, the growth ratio overall experienced positive and negative growth. The contribution of PAD to the APBD of the Sula Islands Regency is still low or lacking. Lack of local government commitment, both executive and legislative, in increasing PAD which affects the amount of increasing regional financial independence, lack of loyalty from both executives and legislatures in managing regional finances from the planning to implementation sector, and lack of local government innovation in exploring the potentials of the Islands Regency. Sula to increase regional financial independence

## ABSTRAK

Penelitian ini bertujuan untuk mengetahui dan menganalisis kemandirian keuangan daerah Kabupaten Kepulauan Sula Provinsi Maluku Utara dalam rangka mendukung pelaksanaan pembangunan daerah sebagai penerapan sistem desentralisasi (local government), kontribusi pendapatan asli daerah (PAD) terhadap APBD Kabupaten Kepulauan Sula pada tahun 2017-2021. Informan kunci dalam penelitian ini menggunakan metode purposive yaitu Kepala Badan Pengelolaan Pajak dan Retribusi Daerah (Kepala BPPRD), Kabid Retribusi BPPRD Kepulauan Sula, Kabid PBB & BPHTP BPPRD Kepulauan Sula, Kabid Pajak BPPRD Kepulauan Sula. Hasil penelitian ini menunjukkan bahwa, rasio kemandirian keuangan daerah dikategorikan masih rendah, rasio efesiensi keuangan daerah sudah efisien, rasio efektivitas PAD tidak efektif, rasio keserasian belanja kurang baik, rasio pertumbuhan pendapatan asli daerah dan pertumbuhan pendapatan masih kurang baik. Kontribusi PAD terhadap APBD Kabupaten Kepulauan Sula masih rendah atau kurang. Kurangnya komitmen pemerintah daerah baik eksekutif maupun Legislatif dalam meningkatkan PAD terhadap besaran peningkatan kemandirian keuangan daerah, dalam mengelola keuangan daerah mulai dari sektor perencanaan hingga pelaksanaan, dan kurangnya inovasi pemerintah daerah dalam menggali potensi-potensi daerah yang ada Kabupaten Kepulauan Sula untuk meningkatkan kemandirian keuangan daerah.



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## INTRODUCTION

Having the ability to regulate and manage local community interests based on regional initiatives informed by community aspirations is known as "regional autonomy." Meanwhile, within the Unitary State of the Republic of Indonesia, an autonomous region is a legal community unit with certain regional boundaries that is empowered to regulate and manage

local interests on its own initiative based on the community's aspirations (Winarna, 2018). According to Pekei (2016), a region's ability to raise and spend its own revenue is the most important indicator of its readiness for autonomy. This necessitates that self-governing areas have the freedom to investigate, develop, and put to use all of the financial resources at their disposal. However, Machmud (2016) argues that maximizing Regional Original Income (PAD) is crucial because doing otherwise would require excessive reliance on central government assistance. As a result, the Regional Government takes on greater responsibilities to exercise autonomy over the respective Regional Governments as a result of regional autonomy (Magdalena & Kurniawan, 2013).

Related studies include that of Haryani (2022), who finds that the average of Medan City's regional financial freedom from 2009–2013 was only 48.96, placing it in the "low" category of values between 25 and 50 percent. According to Puspitasari (2013), revenue growth in Malang City Government was successful and efficient from 2007 to 2011. However, progress is slow and most of the money is still used for necessities. According to Astuti (2018), the Rokan Hulu Regency government's overall financial success was strong, efficient, and increasing. However, autonomy was still quite minimal, and most of the budget went toward operating costs rather than long-term investments. Meanwhile, Puspitasari (2013) demonstrated that between 2007 and 2011, the city government of Malang was financially sound, with higher revenues. But the degree of autonomy is still minimal, and the majority of the money is still spent on necessities.

**Table 1. Realization of Total Income Revenue. Original Area and Regional Expenditure of Sula Islands Regency in 2017 - 2021**

Year	Total income	PAD	Total Spend	Ratio PAD	Ratio Spend
2017	771.152.404.274,77	21.795.189.165,77	659.734.353.950,00	2,83%	85,55
2018	816.468.254.298,10	24.226.118.720,10	663.281.930.613,04	2,97%	81,24
2019	810.842.566.731,22	33.834.314.579,22	691.645.063.166,42	4,17%	85,30
2020	737.183.614.749,71	24.453.262.874,71	655.458.756.812,23	3,32%	88,91
2021	691.327.966.764.89	16.212.822.319.89	660.508.678.069.80	2,35%	95,54
Total	765.394.961.363,74	24.104.341.531,94	666.125.756.522,30	0,03	87,31

*Source: BPK North Maluku*

The growth of Local Own Revenue and Total Regional Revenue in the Sula Islands region from 2017 to 2021 is depicted in Table 1. Average Regional Income is Rp 765,394,961,363.74 and Regional Original Revenue is Rp 666,125,756,522.30 from regional retail sales. Kepulauan Sula Regency's regional financial capability is subpar, as measured by the ratio of regional autonomy to regional spending, coming in at below 10% (on average, 0.03%) and 87.31%. A dependency on the federal government of more than 95% is indicative of a low degree of regional financial capability over the past five years.

In light of this, the study's problem is stated as follows: "How is the financial independence of the Sula Islands Regency for the 2017-2021 fiscal year?" The study's goal is to determine and evaluate this level of regional financial independence.

To the extent that they are not already owned or controlled by the State or other higher regions and other parties by statutory provisions – valid request – all rights and obligations that can be valued in money are included in regional finances. Regional finance is crucial to

state finances in allocating economic resources, distributing development outcomes, and establishing social and political order, as argued by Mauludin (2020). Because of the scarcity of federal funds available for regional grants and aid, regional finance is playing an increasingly crucial role. The intricacy of the issues confronted by regions is also growing, necessitating the engagement of local residents.

Regional Finance is all the rights and obligations of the Region in the context of implementing Regional Government which can be valued in money and all forms of wealth that the Region can own in connection with the rights and obligations of the Region (PP No. 12 of 2019). Furthermore, according to Nuzullestary (2021), an autonomous region is expected to be able or independent in financing the activities of its regional government with a decreasing level of dependence on the center. Therefore, it is only natural that PAD is used as a benchmark in the implementation of regional autonomy; in order to increase regional self-reliance, local governments must strive to explore and increase their financial resources continuously. To support efforts to increase own-source revenue, it is necessary to measure or evaluate PAD sources to collect them continuously without rushing the allocation of production factors. The increase in Regional Original Income gives a good indication of the financial capacity of the region in managing its household, especially in carrying out community service tasks, as well as increasing development. Regional finances are all regional rights and obligations that can be valued in money and everything in the form of money and goods owned by the region related to implementing these rights and obligations (Pusdiklat BPKP Supervision, 2011).

Taxes and other fees levied within a region are considered original regional revenue because they are collected in accordance with regional statutes. Regional Regulations are the legal framework within which the regions receive their own revenue, known as Local Own Revenue (PAD). Local Own Revenue is defined by Mardiasmo (2011) as income earned from regional sources, such as taxes on regionally owned businesses, levies on regionally owned companies, asset management results from regional investments that are kept separate from national results, and so on.

According to Postanarchy (2021), local revenue is just one component of sources of state financial receipts, along with balancing funds, regional loans, other legal receipts, and the remainder of the previous year's budget, which can be added as a source of financing for regional governance. The total revenue share is accounted for in the regional budget that is created every year. The percentage of total revenues that come from the region's original sources is an indicator of fiscal autonomy, even if those revenues are insufficient to fully fund the region's income and spending budgets. It is anticipated of regional governments that they will be able to fully explore financial resources, within the confines of relevant laws, in order to meet the financing requirements of government and original regional development. While looking into ways to expand regional revenue, many issues were uncovered.

Regional Original Revenue, as defined by Halim (2012), is money gathered by regions from activities occurring entirely within their borders and in accordance with local law. It is necessary to raise Regional Own Revenue as a source of regional revenue to offset the rising cost of government administration and development activities in order to realize genuine and accountable regional autonomy (Ayu, 2014).

Original Regional Revenue is money gathered by a region in accordance with its own set of rules and regulations enacted by the state or federal government (Halim, 2012). The Article 5 PAD provision of Law No. 23 of 2014 pertaining to Regional Government decentralizes

funding for regional sovereignty to regional potential. A region's capacity to execute decentralization grows in proportion to the PAD it possesses. Funding regional government management and regional development through provincial taxes and regional levies is crucial to establishing broad, honest, and responsible regional autonomy.

Decentralization implementation costs for (independent) areas are covered by Balancing Funds, which come from APBN revenues. Every APBN fiscal year, the sum of the Balancing Fund is set. Transfers and subsidies can be used to achieve a budget balance. Financial and economic disparities between regions inevitably lead to transfers. Furthermore, transfers aim to lessen vertical disparity between the center and the regions, lessen the issue of inter-regional public service effects, and establish stability in regional economic activity. The three types of funds that make up the balancing fund are the profit sharing fund, the general allocation fund, and the special allocation fund (Winarna, 2018).

In order to adopt decentralization, APBN revenues are redistributed to regions to cover regional needs with balancing funds. Foreign governments, foreign institutions, international government agencies, and domestic agencies/institutions/individuals all contribute to the balance fund post in the form of grants, which can be received in the form of foreign currency, rupiah, goods/services (such as labor experts and research), or in-kind contributions (such as land or buildings) (Kusumawati, 2010). Income from the APBN's emergency fund is used to address immediate, unforeseen costs associated with a national disaster or extraordinary event in the case of a solvency crisis, defined as an unresolvable financial crisis that has persisted for two fiscal years. DBH, or the Revenue Sharing Fund, is a subset of the State Revenue and Expenditure Budget that is distributed to regions based on a predetermined proportion of state revenue in order to meet regional needs in the context of decentralization. DAU is a fund derived from APBN revenues that is distributed equitably among regions to meet regional requirements in the course of decentralization implementation. And while DAU is defined as "a fund originating from APBN revenues allocated to equal distribution of inter-regional financial capacity to finance regional requirements in the context of implementing decentralization" in PP 12 of 2019, the term "fund" is used interchangeably throughout this article. Special Allocation Funds (DAK) are revenues from the APBN that are distributed to individual regions for use in supporting special fund operations related to Government Affairs.

Regional spending is defined as defined by Permendagri No. 12 of 2019 on regional financial management "According to Law No. 23 of 2014 regarding Guidelines for Regional Financial Management, "Regional Expenditure" is defined as "all obligations of the Regional Government recognized as a deduction from the value of net worth in the period of the relevant fiscal year."

According to Marihot (2005), regional spending consists of all of the obligations of the local government, which is recognized as a reduction in net worth value. Therefore, regional spending can be understood as all regional cash expenditures that decrease the equity of current funds in the period of the relevant fiscal year, which the regional government will not repay.

The importance of PAD to regional income can be seen in the size of the difference between original regional revenues and regional revenues originating from the central government, provincial governments, and regional loans (Hehamahua, 2014). This is because regional financial independence indicates that the region can finance all government activities, development, and services to the people who obey taxes and fees "The ability of local

governments to fund their own activities, development, and provision of services to taxpayers who have contributed to the region's financial stability.

As a general rule, the more of a region's operational and capital expenditure needs that can be met with original regional income, the greater the region's level of financial independence; conversely, the less of a region's expenditure needs that can be filled with original regional income, the lesser the region's level of financial independence (Rudiyanto & Sasana, 2015). Each region requires more resources to meet its own needs, but regions must be able to finance their own. Because of these disparities, the federal government must intervene to distribute balancing funds, with each area receiving a different share depending on its relative prosperity.

The independence ratio quantifies how much an area relies on money from elsewhere. If the ratio is greater, then regions are less reliant on the federal and state governments for support, and if it is lower, then regions are more self-sufficient (Albasiah, 2012). Taxes and regional fees are the primary sources of income for most municipalities, and the independence ratio defines the extent to which residents contribute to these costs. The more money a community spends in local and regional taxes and fees, the better off its residents will be.

Comparing the actual potential of the existing regions with the goals set, the effectiveness ratio describes the capacity of local government to achieve the planned regional original income. If the ratio is at least 1 (one), or 100 percent, then the region is able to perform its tasks effectively. If the efficiency ratio is high, then the area is relatively effective (Magdalena & Kurniawan, 2013).

When two quantities are compared, the ratio between them reflects the effectiveness of the process. Efficient systems have outputs that exceed their inputs, while ineffective ones have inputs that exceed their outputs (Komariyah & Sugiyanto, 2019). Therefore, the size of the resulting ratio is indicative of both high and poor efficiency. Realizing PAD costs are incurred, the PAD Efficiency Ratio will show how well the government does at bringing in income to cover PAD costs, within acceptable bounds.

How well a government is able to sustain and expand its successes from one era to the next is quantified by the growth ratio. Regional opportunities can be assessed by tracking the expansion of various revenue and expenditure streams. Generally speaking, a municipality's ability to sustain and expand the gains made in any given time period is proportional to the rate of growth seen in its various sources of revenue and spending (Lantang, 2018).

## RESEARCH METHOD

This study is qualitative in nature, and it was conducted by gathering information from the Regional Financial Management Agency of the Sula Islands Regency and presenting it in the form of a Budget Realization Report (LRA) in order to provide a clear enough picture for the author to analyze and compare with preexisting theories. The period of study, from 2017, was analyzed using secondary data in the shape of a time series. The information was collected from the Central Statistics Agency (BPS) of Sula Islands Regency, the Regional Revenue and Retribution Management Agency of Sula Islands Regency, the Commissioner of North Maluku Province, and the Supreme Audit Agency (BPK) of the Republic of Indonesia. The information comes from 1) the Regional Revenue and Expenditure Budget Calculation for 2017–2021, which includes both the budget's projected and actual revenue and expenditures for the Sula Islands District. Second, GDP figures for the Sula Islands Area from 2017 to 2021.



Figures for the Sula Province in 2021 (3). 4) The outcomes of interviews with primary sources. The analysis of regional financial ratios was used in this research.

## RESULTS AND DISCUSSION

Located in the far southern part of North Maluku Province, the Sula Islands Regency (of which Sanana is the capital) was officially established on May 31, 2003 as an autonomous region in accordance with Law Number 1 of 2003 (as published in State Gazette of the Republic of Indonesia Number 21 of 2003). This 25th day of February, 2003: Sula Islands Regency encompasses a total surface area of 13, 732.7 km<sup>2</sup> and is made up of two major islands: Sula Island and Mangole Island. There are a total of 124 villages spread across its 17 middle and small islands and 12 sub-district areas, of which 6 (six) are definitive sub-districts and 5 (five) are expansion sub-districts (PERDA Number 2 of 2006). (Kab. Kep Sula Dalam Angka 2020). One of North Maluku's regencies, Sula Islands' Sanana serves as provincial headquarters. The regency is found in the province's southernmost region. It is possible to travel by plane or sea to get there from Ternate City, the provincial capital, which is located about 284 kilometers away. It's in the ward

### *Analysis of the Independence Ratio*

The regional financial independence ratio for the 2017-2021 fiscal year was calculated, and the findings showed that it was less than 10%. This suggests that the Sula Islands regency's regional financial capacity is at a shallow level of independence, specifically falling within the Instructive relationship pattern. This means that the role of the central government is more prominent than the ability of the local government. a long way from the current monetary norm. Therefore, as shown in table 1, the Sula Islands Regency's regional government continues to rely heavily on balancing money provided by the central government and the provincial government.

**Table 2. Ratio of Independence in Sula Islands Regency for 2017-2021**

Year	Locally-Generated Revenue	Transfer Income	Independence Ratio (%)	Relationship Patterns
2017	21.795.189.165,77	659,776,674,368.00	3,30	Instruktif
2018	24.226.118.720,10	703,436,871,481.00	3,44	Instruktif
2019	33.834.314.579,22	663.978.493.934,00	5,10	Instruktif
2020	24.453.262.874,71	693.630.127.175,00	3,53	instruktif
2021	16,212,822,319.89	649,880,881,807.00	2,49	instruktif

Source: BPK North Maluku & BPPRD Kep Sula has been processed, in 2022

Table 4 indicates that the Sula Islands district had well below 10% financial independence in the five years between 2017 and 2021. In 2018, the percentage of independence was 3.30 percent. In 2019, the percentage went down by 3.44%. Results for 2020 were 3.53%, 2021 was -2.49%, and 2019 was 5.30%.

Based on interviews with Mr. IB, the study concludes that "the regional potential for increasing PAD in the Sula Islands district is from the fisheries sector," while the agricultural sector has not emerged as a prominent sector for increasing PAD. Therefore, we continue to have high hopes that the service industry will boost PAD on its own.

This study's findings are consistent with the view (Ramadhani, 2016) that an area should be financially self-sufficient, or at least less reliant on the federal government, in order to be

considered autonomous. Therefore, PAD is used as a standard in regional autonomy implementation to give local governments more leeway to find and use their own funds to provide essential community services and advance the Sula Islands area.

The findings of this research, according to stewardship theory, suggest that people's hopes and needs can be met, the public can expect quality services from their government, and the public can hold the government to account for the resources it is charged with. The local authority in the Sula Islands is doing its best to administer the district in a way that improves residents' standard of living. If the government is able to accomplish this, the proprietors will be pleased with the results.

The OPD's stakeholders, leaders, and apparatus are all crucial to the success of the PAD plan. PAD managers exercise their discretion to intercede and encourage regional taxpayers and levies to fulfill their tax and levy payment responsibilities. This level of dedication and consistency is crucial to the success of the approach. Strategies to increase PAD include (a) modifying NJOP and implementing individual and non-standard assessments for PBB-P2, and (b) renewing and adjusting regulations/PERDA/PERBUP/Decree of the Regent linked to regional taxes and regional levies based on the online system. c) Enforcing the PBB-P2 base price. d) fostering cooperation and synergizing the roles and functions of implementing regional tax collection (collecting of taxes in regions outside of the capital), e) speeding up the installation of tax recorders for hotel, restaurant, and entertainment tax objects (online system), and f) campaigning for the tax awareness movement (GESTAPA) and the retribution awareness movement (GARASI), by all stakeholders and elements of society. , among others; a) issue a regional head policy regarding permit requirements for all buildings constructed prior to the issuance of PERDA IMB, b) ensure the availability of relevant regulations/legal basis in accordance with regional characteristics and field conditions, and c) ensure universal awareness for FC officers and communities in managing and collecting regional tax objects and regional levies on a regular, tiered, transparent, and accountable basis (officials and taxpayers/levies). (4) What are the barriers to wider adoption and use of PAD? As a result, a) regional taxpayers and regional retributions are still not widely aware of their obligations, b) regional heads have not fully intervened in their authority to increase PAD, especially for sub-district heads and village heads/village apparatus in encouraging an increase in PAD, c) the collection process has not been maximized in detail and structure PBB-P2, and d) economic growth and development are not evenly distributed, leading to no increase in lo.

It is stated that new PAD objects in the form of levies and regional taxes that can increase the source of PAD are being sought out as part of the strategy done to expand the PAD and intensify it. This is why we are extending our income stream. A better system for keeping track of PAD cases was implemented as a result of objects and local income sources that were previously unknown outside of an intensification context. Thirdly, what reasons exist for PAD's growing popularity? Supporting the growth accomplished by BPPRD associates is the 2019 purchase of Pepingbox by the BPD bank in conjunction with the BPPRD. The PAD is, we are waiting for awareness from the public to the UN sector itself; another factor is that friends who make more use the snap ball method. To collect PAD from the PBB zone, we either use a ball pick-up method or travel to the villages themselves. One of the barriers is the fact that locals still don't fully grasp why this PAD is crucial to the well-being of the area as a whole and therefore must be educated about the need to pay regional fees.

Findings from interviews with several SKPD heads in Sula Islands Regency revealed that the local government could have done more to reach out to the community, particularly in

regards to managing revenue sources from various regional retribution objects. If we want regulation to have any teeth, socialization is essential, particularly for the community's tax payers. The government and affiliated organizations can help the public see the value in fee payment by spreading the word about the significance of different types of fee items.

Tanjungpinang City's ratio of regional independence follows an instructive relationship pattern, as shown by this study and by (Wahyu Tri et al., 2020), indicating that the part of the central government is more dominant than that of the independence of the regional government (regions are unable to implement regional autonomy as a whole financial). According to Hizbullah (2021), the Ngawi district still requires autonomy in the form of self-sufficient monetary resources to fund the operation of the administration. Attracting investors, in this case, industry, has the potential to boost PAD, but cultural differences prevent this from happening. As an added bonus, the tourist industry in Indonesia is still in its early stages of development and introduction to the general public. The results of the ratio of regional financial independence are partially in an instructive condition, and Prakoso (2019) notes that the ratio of regional financial capabilities could be in a better situation. In order to strengthen its financial footing and autonomy, the government must make an effort to increase revenues coming from the potential of each area. According to Setiawan (2021), on the island of Sumatra, the central government's role is more prominent than the independence of the local government. This is because the ratio of regional independence has grown in an instructive relationship pattern (regions are unable to carry out regional autonomy financially).

According to the findings, local governments should not count on a rise in revenue from levies just because regional regulations exist. This verifies that people are not more likely to meet their obligations to pay different regional retribution objects simply because regional regulations were issued without being backed up by supervision. According to the numbers, regional levies add very little to local income compared to taxes collected at the municipal level. Kepulauan Sula Regency's government is anticipated to keep up its efforts of intensification and extensification to raise regional fee income. Other legal PAD have made a negligible impact on the local economy over the previous five years. These results also show the researchers that the public still needs to be made more conscious of their responsibility to actively contribute to development by paying their fair share of taxes and other fees.

Therefore, it is important to create a standard operating procedure (SOP) for acquiring construction permits. In addition, one must learn how to interact appropriately with the society at large. It is possible for the community as a taxpayer and officers in the field to negotiate the amount of the tariff to be paid due to the need for more public knowledge, which includes the presence of opportunistic behavior. Taking into account the taxpayers' conduct, the officers had to adopt a creative stance. It's just that, among other things, it may reduce regional revenues by generating uncertainty about the law's application and undermining public trust in regional regulation.

#### *Effectiveness Ratio Analysis*

Measured against goals established in light of the actual potential of the area, the effectiveness ratio describes the extent to which local governments can realize the planned PAD. If the achieved ratio is at least 1 (one) or 100 percent, the region's capacity to carry out its duties can be considered effective. The Sula Islands Regency's efficacy ratio is high, which is good because it indicates the area's relative competence.



**Table 3. Effectiveness Ratio of Local Own Revenue for 2017 - 2021**

Year	PAD Revenue Target	Realization of PAD receipts	Effectiveness Ratio (%)	Info
2017	20.918.188.000,00	21.795.189.165,77	104.19	Very effective
2018	25.438.406.700,00	24.226.118.720,10	95,23	Effective enough
2019	23.750.919.919,70	33.834.314.579,22	142.45	Very effective
2020	28.258.251.694,00	24.453.262.874,71	86,53	Less effective
2021	29,604,095,641.00	16,212,822,319.89	54.77	Less effective

*Source: BPK North Maluku & BPPRD Kep Sula has been processed, in 2022*

Table 3 shows the effectiveness ratio of Sula Islands Regency in the last five years (2017 - 2021), where in 2017, the effectiveness ratio was 104.19%. In 2018 the effectiveness ratio was categorized as quite effective, namely 95.23%; in 2019, the effectiveness ratio was 142.45%. % very effective category, but in 2020 and 2021, the effectiveness ratio is categorized as less effective because the ratio is less than 100%

The results of calculations from the Effectiveness Ratio of Regional Original Income (PAD) for the 2017 - 2021 fiscal year (Table 5) illustrate that the Sula Islands district has reached the target, which means it is very effective by the effectiveness criteria reached more than 100%, even though in the 2018 period it was included in the sufficient criteria effective and 2020 the criteria are less effective. This achievement shows that the realization of Regional Original Revenue (PAD) is greater than the budget/target set for the year. Suppose you look at the achievement that the realization of Regional Original Revenue (PAD) has decreased. In that case, the Regional Original Revenue (PAD) budget is lower than the achievement/realization of Regional Original Income (PAD) in the year concerned, so the government's financial condition is categorized as only quite effective.

Based on the effectiveness ratio, the average effectiveness of PAD in Kepulauan Sula Regency is still low; this shows that the average collection of regional taxes, regional fees, and other legal PAD has not been practical because for three years -other legitimate PADs have an effectiveness rate of less than 100%.

This study's results align with the opinion (Mahmudi, 2016; Mardiasmo, 2011) stating that effectiveness is the relationship between output and goals or objectives that must be achieved. It is likely effective if the activity process achieves the final goals and objectives of the policy. Effectiveness is also related to the degree of success of an operation in the public sector. Hence, an activity is likely effective if the activity significantly influences the ability to provide community services which is a predetermined target.

This research is in line with research conducted by Agel (2022) that the level of effectiveness of the regional finances of Agam Regency for three fiscal years was very effective in realizing the PAD that had been targeted according to the calculation scale which showed very effective criteria, namely being at a percentage of > 100% in the 2008 and 2009 fiscal years but not effective in for the 2010 fiscal year, and Haryani (2022), found that the average value of the effectiveness of the financial performance of Bireuen Regency was an average of 54.91%, which was declared ineffective because the value obtained was less than 100%. Research (Vurry et al., 2018), the results of the study of the regional financial effectiveness ratio of Tarakan City in 2010-2015 on average were at a 92% tendency with the effective category, and the trend of regional financial effectiveness showed a positive trend with an increasing trend from 2016 to 2020. Research (Putri, 2018) results show that the average ratio of regional

financial effectiveness is 90.495% in the practical category, with the trend of regional financial effectiveness at 70.814% during the 2008-2017 period.

This shows that the Sula Islands district, in reaping the PAD that has been targeted, indicates that it still has many sources of PAD, which, if properly optimized, can help with government and development tasks in the Sula Islands Regency. However, the target set by the regional government still needs to be bigger; every year, the target for PAD revenue is not increasing; it is decreasing. This is unfortunate because, from the calculation of the effectiveness ratio, there are three periods, namely 2016, 2017, and 2019, which were at very effective ratios. Khaerati (2022) shows that the level of regional financial capacity in Wajo Regency is still low, especially during the five fiscal years, namely from 2016-2020, with an average ratio of the degree of fiscal decentralization of 8%, the ratio of the degree of regional financial dependence is 70%, the ratio of financial independence is 11, 9%.

### Efficiency Ratio Analysis

The efficiency ratio compares the costs incurred to obtain revenue with the income received. Local government performance is considered efficient if the ratio is less than 1 (one) or below 100 percent. The smaller the efficiency ratio indicates the better regional capacity – Sula Archipelago Government efficiency ratio.

**Table 4. Efficiency Ratio of Local Own Revenue (PAD) 2017 - 2021**

Tahun	Realisasi penerimaan PAD	Realisasi Biaya pemungutan PAD	Rasio Efisiensi (%)	Efisiensi Keu. Daerah
2017	21.795.189.165,77	693,808,900.00	3,18	Sangat Efisien
2018	24.226.118.720,10	723,900,600.00	2,99	Sangat Efisien
2019	33.834.314.579,22	810,230,900.00	2,39	Sangat Efisien
2020	24.453.262.874,71	333.100.000,00	1,36	Sangat Efisien
2021	16.212.822.319,89	194.425.000,00	1,20	Sangat efisien
Rerata	24.104.341.531,94	551.093.080,00	2,23	Sangat efisien

Source: BPK North Maluku & BPPRD Kep Sula has been processed, in 2022

Table 4 shows the results of the study show that the efficiency ratio of regional financial management of the Sula Islands district is very efficient because it is by the Decree of the Minister of Home Affairs, which stipulates a maximum levy fee of 5% for districts/cities, which means that it shows a very efficient performance. The findings of this study's results align with research conducted by (Agel, 2022), showing excellent and efficient performance in collecting revenue sources. Because the realization of the Regional Original Revenue received is greater than the costs incurred to collect the PAD. The results of this study support research conducted by (Rahmayati, 2016), showing that the management of Regional Original Revenue is effective and efficient. Pramono's research (2014) states that the level of efficiency and effectiveness has been running well. Adhiantoko's research (2013), the efficiency ratio still needs to be revised. Research (Muhibtari, 2014) the results of this study showed that the efficiency level is classified as very efficient. However, in contrast to Adhiantoko (2013), the efficiency ratio still needs to be more efficient, and the ratio of spending compatibility is categorized as still unbalanced.

Thus, the Sula Islands Regency's regional government is very efficient in collecting its regional revenue sources. This is thanks to the excellent performance between the Regional Financial Management Revenue Office tax collection officers and each sub-district, who work

together to help the local government collect PAD in the Sula Islands Regency. Because the realization of the PAD received is greater than the costs that must be incurred to collect the PAD, the regional government of the Sula Islands Regency is significantly optimizing the revenue obtained by issuing the minor possible levy.

### Growth Ratio Analysis

The growth ratio (growth ratio) measures how much the local government can maintain and increase the success achieved from period to period. By knowing the growth of each component of income and expenditure sources, regional potentials that need attention can be evaluated. The higher the growth percentage for each component of income and expenditure, the greater the local government's ability to maintain and increase the success achieved from each period. The growth ratio of the regional government of the Sula Islands Regency.

**Table 5. Growth Ratio for 2017 - 2021**

NO	Keterangan	2017	2018	2019	2020	2021
1	PAD growth	-	11,15	39,66	-27,73	-33,70
2	Regional Tax Growth	-	-0,56	18,37	5,83	-21,02
3	Regional Retribution Growth	-	64,68	0,31	-14,00	-25,32
4	Transfer Fund Growth	-	6,62	-5,61	-9,96	8,70
5	Regional Revenue Growth	-	5,88	-0,69	-9,08	-6,22
6	Regional Expenditure Growth	-	0,54	4,28	-5,23	0,77
7	Operations Expenditure	-	8,67	3,77	-3,59	-0,11
8	Capital Expenditures	-	-20,49	6,33	-32,23	-36,95

*Source: BPK North Maluku & BPPRD Kep Sula has been processed, in 2022*

Table 5 shows that the growth of regional income and regional expenditure for the Sula Islands Regency in 2020 and 2021 shows a negative growth rate; this is the impact of covid 19. PAD growth in 2018 was 11.15; in 2019, it grew to 39.66%, but in 2020 the growth rate decreased to -27.73%, and in 2021, it was -33.70% and the average growth rate was IDR 20,861,777,067.96 or -2.12%. To find out the growth of types of regional income and regional spending.

The results showed that the growth of PAD, the growth of Transfer Funds, and the growth of Regional Expenditures indicated that the higher the growth, the higher the regional financial capacity. Growth will create potential local government revenue in the future. Regarding regional income and transfer funds (DAU and DAK), the growth ratio in 2018 before Covid 19 increased from 2017, but from 2019 to 2021; the growth ratio shows a negative ratio. This indicates that the government of the Kepulauan Sula Regency must maximize regional financial management by increasing the effectiveness and efficiency of receiving funds from the transfer of funds from the Sula Islands district. Furthermore, the ratio of regional expenditure increased in 2019 from 2018, but in 2020 the growth ratio is negative, both in operating expenditure and capital expenditure, especially in 2021.

The research results are relevant to previous theories and research, as Nuzullestary (2021) stated. Based on the growth ratio, the average growth is positive, so it can be concluded that the financial performance of the Cilegon City Government for five years (2015 - 2019) has been quite good, even though it has fluctuated annually.

### Activity Ratio Analysis

The activity ratio (Regional Expenditure Harmony) is a regional financial ratio describing how local governments prioritize allocating their funds to operating and capital expenditure or development optimally. The higher the percentage of funds allocated to operating expenditure, the smaller the percentage of capital expenditure used to provide economic infrastructure for the community. Based on the results of the compatibility ratio calculation.

**Table 6. Development of the 2017-2021 Government Spending Ratio**

No.	Keterangan	2017	2018	2019	2020	2021
1	Ratio of Operations to APBD (operating expenditure/total revenue)	61,45	63,07	65,90	69,88	74,44
2	Ratio of Capital Expenditure to APBD (Capital Expenditure/Total Revenue)	23,98	18,01	19,28	14,37,	9,66

*Source: BPK North Maluku & BPPRD Kep Sula has been processed, in 2022*

Table 6 shows the Sula Islands district government's spending activities over a five-year period, and it's clear that the majority of its budget goes toward operating costs, with only a small portion going toward development costs (capital expenditures) and the area population base district budget (APBD). In the 2017–2019 fiscal years, operating expenses as a percentage of revenue were above 50% and rising, while capital expenditures as a percentage of revenue were below 50% and falling precipitously. Therefore, the district administration of the Sula Islands focuses on operating or indirect spending rather than direct or development spending (capital expenditure). To better the lives of its citizens, the regional authority of the Sula Islands Regency must, therefore, prioritize capital expenditure over operating expenditure.

Ratios of operating and capital expenses still need to be in harmony, as demonstrated by the Expenditure Coherence Ratio. As can be seen from the calculation, running expenditures represent a larger proportion of total costs and have a rising trend. The ratio of capital spending is much smaller. It tends to go down, which indicates that the Sula Islands Regency's regional government is spending less money on actual activity implementation and more on other, less important things. The difference between running costs and capital costs should always be positive. In order to improve output quality and the budget's ability to distribute, allocate, and stabilize resources, local governments should be able to raise their spending on capital expenditures. The local government of the Kepulauan Sula Regency needs to reduce its reliance on aid funds from the Central Government in order to achieve a situation where the level of financial capability is in an ideal position. By maximizing the existing potential to increase local income, the Regional Government of the Kepulauan Sula Regency may be able to reduce its reliance on financial assistance from the Central Government and the provincial government.

Research (Suwandi & Tahar, 2015) confirms that Capital Expenditure Allocation is significantly impacted by the efficacy of Capital Expenditure and Spending Compatibility, but is unaffected by Regional Financial Dependence, PAD Effectiveness, or Degree of Efficiency. According to studies cited in Anim Rahmayati's 2016 research paper, operational expenditures significantly outnumber capital expenditures. According to the Compatibility Ratio, the Kepulauan Sula Regency Government spends more on regional running expenditures than on

average capital expenditures. (Fatiha, 2021). Expenditures for operating activities perpetually rise, while those for capital improvements vary.

## CONCLUSIONS

The following conclusions will be given based on the analysis results and discussion that have been detailed so far: 1) Independence is still very low with the Instructive relationship pattern due to its low average ratio level. Sula Islands district PAD management was very successful in 2017 and 2019 but less so in 2018, 2020, and 2021, according to the effectiveness ratio. If the efficiency ratio of administering the PAD in the Sula Islands district is less than 5%, then the PAD is being managed very efficiently. Fourth, the Sula Islands Regency Government's PAD grew at a positive rate from 2017 to 2019, but shrank at a negative rate in 2020 and 2021. This growth ratio spans the five-year era from 2017 to 2021. 5) The Sula Islands Regency's activity ratio or regional spending harmony has not contributed to a better standard of living for locals, as more money is spent on running and indirect costs than on capital investments.

Based on the findings of this investigation, the following recommendations can be made:

1. It is hoped that the regional government of the Sula Islands Regency will further optimize sources of PAD, such as the intensification and extension of regional taxes, regional levies, as well as building permits and lodging retribution permits, with the increasing number of buildings that stand and the increase in lodging, which will undoubtedly increase the amount of PAD in the sector and other legitimate revenues, namely the receipt of current account services, which are unstable.
2. Revenue from the Sula Islands Regency's fisheries, marine products, farmland and forestry, services, and trade sectors all have the ability to boost per capita income (PPI).
3. Boosting PAD via coordinating bodies to better handle the potential of regional taxes, regional retributions, and other lawful revenues in order to realize the Sula Islands Regency government's plans and visions.
4. Capital expenditures and running or indirect expenditures in Kepulauan Sula Regency should be balanced in order to boost community well-being.
5. In order to more accurately reflect the monetary success of local governments, researchers should expand on the methods and areas of emphasis currently being used in analysis.

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