Financial Performance of The Province of Riau Archipelago in The Context of The Degree of Independence, Degree of Dependence, and Fiscal Decentralization

Norman Syah Putra

Faculty of Economics and Bussiness, Universitas Padjadjaran, Bandung, Indonesia

Abstract. Riau Archipelago is one of the provinces established in the regional autonomy era. The province is enforced to well manage its local own-resources in realizing regional autonomy. This study is aimed at analyzing the degrees of independence, dependence, and fiscal decentralization of the province. Through the ratio analysis, it is expected that this study can give some references to the Provincial Government taken as the subject of the study, i.e. related to decision making aimed at increasing its regional independence as well as decreasing the dependency towards the Central Government. This study uses the Report on Local Government Finances of the Province of Riau Archipelago for the financial year of 2014-2020 as the research data. This study uses quantitative descriptive analysis method based on the local government finance ratios including regional financial independence ratio, regional financial dependence ratio, and regional fiscal decentralization ratio. This study shows that from regional independence aspect, the financial performance of the province is in medium fiscal capacity (55.84%) with participative relational pattern. Based on the degree of regional dependence aspect, it is in very high category (64.17%) while due to regional fiscal decentralization degree, its regional financial performance is in good category with an average of 35.69%. In running the autonomy, the government of the Province of Riau Archipelago is required to explore financial resource potentials such as tax, tourism, creative economy and investment in order to fund the development plan to run well, make some policies to decrease dependency from central government and implement all established policies.

INTRODUCTION

Government decentralization and regional autonomy was started by the stipulation of Law No. 22 of 1999 on Local Government and Law No. 25 of 1999 on Fiscal Balance of the Central and Local Governments. Either the central or the local one has marked the expansion of decentralization in governance sector that the central government gives a wider authority to the local government in planning, managing and evaluating the development of its own territory. However, since the two sets of Laws have been found to be not flawless, the government revised the Law into Law No. 32 of 2004 on Local Government and Law No. 33 of 2004 on Fiscal Balance of the Central and Local Governments that has been amended for several times into Law No. 9 of 2015 on Local Government.

The Law came as a result of a condition that the local government is deemed to know more about the condition of the people in its territory than the central one. Regional autonomy is also expected to improve the efficiency and effectiveness in social service delivery. Besides, it is also crucial for decision making process that it is not necessary for the local government to perform any coordination with the central government where they do not need to wait for the central government's policies/approval. It is in that context that the development will be faster to conduct compared to the centralistic model one.

However, one of the consequences the local government may get from this regional autonomy is that they may have a bigger responsibility particularly in managing any development in its territory. It has been alredy known that any development is possible to

happen if the local government has an adequate fiscal capacity. One of the factors that can increase the fiscal capacity is by expanding fiscal decentralization (BPK, 2020).

BPK (the Audit Board of the Republic of Indonesia) reported that in Provincial Government level, the fiscal capacity index (IKF) of the 33 provinces in majority has remain in Pre-Independent status (16 provinces or of 48.49%) followed by non-Independent (10 provinces or of 30.30%) and Independent ones (7 provinces or of 21.21%). (BPK, 2020).

Further, since 2013 to 2020, most of IKFs of the provincial governments analyzed (23 out of 33 provinces or of 69.70%) show a flat trend (without any changes in the status) Most of the provinces with a flat trend are still dominated by those in Pre- Independent status (11 out of 23 provinces or of 47.82%), while those in Non-Independent and Independent statuses have an equal proportion (6 out of 23 provinces or of 26.09%).

The calculation of IKF conducted by BPK using hunter formula (1997) and fiscal independence category compiled and grouped by Sampurna (2018). IKF consists of 4 (four) categories based on conditions of fiscal independence, namely a) Non Independent ($0,00 \leq$ IKF $< 0,25$), b) Pre Independent ($0,25 \leq$ IKF $< 0,50$), c) Independent ($0,50 \leq$ IKF $< 0,75$), d) and e) Very Independent ($0,75 \leq$ IKF $\leq 1,00$).

In 2020, there were only two local governments with independent statuses, namely the Municipalities of Medan and South Tangerang (2.17% of 92 municipality financial reports analyzed). In the case of very independent category, before the pandemy (2013-2019), Badung came as the only region of which the IKF was in very high category.

IKF tightly relates to Local Own-Source Revenue (PAD). (Anggara, 2016). Anggara futher states that there are a number issues revealed from the development and improvement of PAD including a) Low and limited tax base and regional service fees and charges, b) PAD showing a small role in total local revenue as a result of a number of aids and subsidies decreasing "efforts" for collecting PAD and relying more on "negotiation" with the central government aimed at having additional aids, c) Low collecting administrative capacity the local government has, d) Weak financial planning and monitoring capacity, and e) Various revenues worsened by the sharing system (the sharing system is a part of the producing region's rights that it may only give some benefit to a particular territories).

The Province of Riau Archipelago is a province born in autonomy era as referred to in Law No. 25 of 2002 on the Establishment of the Province of Riau Archipelago. Based on the Law on Local Government, the Province of Riau Archipelago is also required to be able to manage any resources it has of which one of the aims is to reach regional autonomy.

Mahmudi, (2010) also states that a regional territory is said to be autonomous if it has an ability to manage and organize its Local Own-Source Revenue (PAD). Therefore, each local government should be able to increase its annual PAD to be declared autonomous/not being dependent to the central government.

IKF of the Province of Riau Archipelago since 2014-2020 was consistent in the category of Pre-Independent with range $0,25 \leq$ IKF $0,50$, If sorted per year as follows: a) 2014 (0,36), b) 2015 (0,40), c) 2016 (0,37), d) 2017 (0,33), e) 2018 (0,34), f) 2019 (0,33) and g) 2020 (0,34).

In reference to the index, the province has not yet been capable to rely on its PAD in fulfilling any expenses required for the development in its territory. On the other hand, the goal of

regional autonomy is to make the territory under the autonomy to be not excessively dependent to the local government. (Mahmud, 2010)

The components of PAD are generally known to include, Local Tax, Fees and Charges Given to the Society for Services Given, Local Own-Source Asset and Other Legitimate Local Own-Source Revenue.

PAD of the Province of Riau Archipelago tended to increase along 2014-2020 as we can see that in 2014, the realization of PAD (in IDR) are 1,070,208,288,698.16. In 2019, PAD reached a high of 1,311,704,305,173.32. This figure fell in 2020 by 1,195,637,693,103.26 due to the covid-19 pandemy.

The tendency has not been actually encouraged by the achievement on the PAD target each year. Within the period of 2014-2020, it is known that for the year of 2015-2017, the PAD did not meet the target where the lowest realization was in 2015 of 88.62% of the target, followed by the realization in 2017 of 90.21% and that in 2016 of 95.24% of the target set.

The instability of the PAD achieved (where there had still been any increase and decrease) along with PAD targets that had not been fully achieved year by year indicates that the Local Government has not been fully able to well manage its own revenue in running the regional autonomy.

In order to increase its PAD, the Provincial Government of Riau Archipelago has made some efforts as written in Regional Medium-Term Development Plan (RPJMD) of the Province of Riau Archipelago of 2021-2026 that include adding the number of tax receipt counters in public places like in Malls, installing tapping boxes at different sites like in the Municipalities of Batam and Tanjungpinang and Bintan Regency, as well as implementing e-parking at different places.

Some data reveals that the implementation of tapping boxes with self-assesment system in Batam shows that it has successufly increased Taxpayer obedience. (Candra, Ratnawati, and Mutia, 2018). Related to taxpayer education, once in 3 (three) months, the Municipality of Tanjungpinang regularly hold a socialization as well as a discussion on any difficulties taxpayers face. The government claims that the strategy is fairly effective in increasing the realization of PAD of the Provincial Government of Riau Archipelago.

PAD has also a significant role in increasing economic growth. (Putri, 2015; Anwar, 2016; Utami et al, 2019). Social welfare is, however, one of which influenced by the economic growth. Therefore, PAD has also an important role in increasing social welfare. (Utami et al, 2019). Paat et al, (2019) also emphasizes its role in reducing poverty though their study concludes that the increase in PAD does not significantly increase the economic growth. The Province of Riau Archipelago in their RPJMD of 2021-2016 state that PAD is very important and becomes a concern where it is getting more important when it shows a significant decrease in 2020 due to the COVID-19 pandemy.

Therefore, it is expected that this study may provide some references on financial performance of the Province of Riau Archipelago seeing from the degrees of independence, dependence and fiscal decentralization that may also be taken as a reference for the government in deciding any policies aimed at exploring and optimizing PAD in the future.

There have been similar studies conducted in the level of either Province or Regency/ Municipality. Previous study from Nizwan (2020) on financial performance shows that the financial performance of the Province of Bangka Belitung in 2016-2018 was in low category

with consultative relational pattern. A similar study from Putra and Hidayat (2016) shows that the financial autonomy level of Jambi Province was also in the same category with the Province of Bangka Belitung.

A similar study from Lubis and Hafni (2017) focused on the Regency/ Municipality level also shows a similar result that the autonomy level of the Regency of Labuhan Batu was in a low category. A study on the local government of Gunung Kidul Regency shows that its financial independence ratio was in a very low category with instructive relational pattern. (Fathah, 2017)

Different from several studies above, Sari, Asaari, and Hidayah, (2021) found that the City of South Tangerang was in a very good category in terms of autonomy. It was followed by Medan in medium fiscal capacity with independence ratio average of 72.5% with participative relational pattern. (Junaidi and Anan, 2021).

In the case of the Province of Riau Archipelago, there have been two studies taking the province as the research subject, i.e. from two different researches. However, the studies took different years as the object, namely the study of Candra, Ratnawati and Mutia (2018) who took data population of 2010-2017 focused on comparing the financial performance of the Province of Riau and Riau Archipelago and that of Assyurriani (2005) taking the research object of 2010-2013.

Based on the problematic issues above, the researcher is interested to conduct another study related to the financial performance of the Province of Riau Archipelago using financial ratios of the degrees of independence, of dependence and of fiscal decentralization with data from 2014-2020.

METHOD

This study uses quantitative descriptive study where conclusion is drawn by using financial ratio analysis tools for a local government including: a) independence ratio, b) dependence ratio and c) fiscal independence degree ratio. The subject of the study is the Local Government of the Province of Riau Archipelago, while the Object of the Study is Local Government Financial Report (LKPD) of the Province of Riau Archipelago of 2014-2020 so that the data in this study uses a secondary data resource. The data, however, is collected through documentation and literature study.

This study is limited to only study the financial performance under the three aspects of the degrees of independence, dependence and fiscal decentralization only that it can be widen to also include other financial ratios like efficiency ratio, effectiveness ratio, and other ratios. Besides that, the sample can also be varied to also cover Regency/Municipality in the Province of Riau Archipelago to get a more comprehensive conclusion.

Further details of each financial ratio are as follow: The independence ratio is the ratio used to see the extent to which local governments are able to carry out development activities, government and also services to the community through optimization of regional revenue sources. The Ratio is calculated by comparing Local Own-Source Revenue (PAD) to the Transfer Income which in this case is Tax and Non-Tax Profit Sharing, General Allocation Fund (DAU), Special Allocation Fund (DAK) and Adjustment Fund. From the ratio calculation, the regional autonomy is measured and classified into different categories and

relational patterns of central and local governments. The Formula in calculating the ratio of independence is as follows.

$$Independence\ Ratio: \frac{Local\ Own-Source\ Revenue\ (PAD)}{Central\ Government\ Transfer + Loan}$$

Source: Halim, (2007)

Categories for financial capacity as well as the relational patterns are as can be seen in Table 1 below.

Table 1. Relational Pattern and the Level of Regional Capacity

Fiscal Capacity	Independence (%)	Relation Pattern
Very Low	0-25	Instructive
Low	>25-50	Consultative
Medium	>50-75	Participative
High	>75-100	Delegative

Source: Halim, (2007)

The details on the relational patterns above are as explained below (1) Instructive Relational Pattern: the Central Government takes a bigger portion in terms of instruction (interference); (2) Consultative Relational Pattern: the instruction from the central government starts to decrease since the local capacity starts to increase; (3) Partisipative Relational Pattern: the instruction from the central government decreases more than that in the previous patterns since the regional independence has been quite high; and (4) Delegative Relational Pattern: the central government has far lessened its interference or does not take any interference in terms of regional autonomy.

Dependence ratio is a ratio that measures the extent to which a local government is still dependent with the help of the central government in the form of transfers from the central government. Degree of Dependence Ratio is calculated by comparing the Transferred Revenue Granted from the central government (Pendapatan Transfer) by Total Regional Revenue (Total Pendapatan Daerah). The results are then classified into categories as listed in table 2.

Table 2. The Criteria for Assessment on Regional Finance

Dependence (%)	Category
0-10	Very Low
>10-20	Low
>20-30	Medium
>30-40	Fairly High
>40-50	High
>50	Very High

Source: Bangga, (2017)

Local financial capacity ratio measures the extent to which a local government capable in optimizing its PAD in managing its development program. Fiscal Decentralization Degree Ratio is measured by comparing PAD with Total Regional Revenue. The formula to calculate the local financial capacity, however, is as follow.

$$Capacity\ Ratio = \frac{Local\ Own - Source\ Revenue\ (PAD)}{Total\ Local\ Revenue}\text{x}100\%$$

Source: Mahmudi, (2010)

The results are then classified in an interval scale as in Table 3 below.

Table 3. Interval Scale of Fiscal Decentralization Degree

Fiscal Decentralization Degree (%)	Remarks
0-10	Very Poor
>10-20	Poor
>20-30	Fair
>30-40	Good
>40-50	Very Good
>50	Excellent

Source: Hanafi, et.al (2005)

RESULTS AND DISCUSSION

This study is aimed at knowing the capacity of the Province of Riau Archipelago using financial ratios in the Report on Budget Outcomes (LRA) of the LKPD of the Province of Riau audited. The ratios are measured in terms of the degree of dependence, of independence and of fiscal decentralization.

The Degree of Independence

An autonomous Local Government can fund its own governmental activities, without being dependent to the Central Government. Local financial performance of the Province of Riau Archipelago was calculated based on the autonomy degree as can be seen in table 4 below.

Table 4. Independence Ratio of the Finance of the Local Government of the Province of Riau Archipelago of 2014-2020

Year	Local Own-Source Revenue	Transfer Income	Independence (%)
2014	1,070,208,288,698.16	1,848,977,043,176.00	57.88
2015	1,013,226,321,363.58	1,500,306,049,525.00	67.53
2016	1,079,309,741,998.68	1,812,089,029,643.00	59.56
2017	1,094,788,614,304.54	2,156,268,926,062.00	50.77
2018	1,220,768,246,945.10	2,278,002,977,357.00	53.59

Year	Local Own-Source Revenue	Transfer Income	Independence (%)
2019	1,311,704,305,173.32	2,626,462,699,205.00	49.94
2020	1,195,637,693,103.26	2,317,188,590,222.00	51.60

Source: Report on Local Government Finances of Riau Archipelago Audited

From table 4 it is known that the degree of independence of the local finances of the Province of Riau Archipelago in average is of 55.84% or in medium category with participative relational pattern. The lowest point happened in 2020 as of 49.94% with consultative relational pattern but it can be used as outlier since in that respective year, Indonesia faced COVID-19 pandemy.

From the average, it can be said that PAD of the province gave some contribution to the Local Government Budget (APBD) of 55.84%, while 41.15% of the APBD came from the central government.The highest financial performance was reached in 2015 of 67.53% in partisipative relational pattern or in middle financial capacity. Andriani and Wahid (2018) state that PAD performance relies much on the autonomy level of the local financial autonomy. The higher the PAD performance the better financial autonomy level of the area and the vice versa. Within the range of 2014-2020, PAD of the Province of Riau Archipelago was getting higher that can be said that the government continuously managed for the PAD optimization.

This category should be maintained through different efforts like a) Revenue base extensification, b) Strengthening the collecting process, c) improved monitoring, d) improved administrative efficiency and decreasing collection cost, and e) Revenue capacity through a better planning. (Anggara, 2016)

To increase the amount of PAD requires some supporting factors that can encourage the realization of PAD. (Efendi, Erni and Nurul, 2020) They concluded that the Local Tax, DAU as well as Local Taxes and Retributions (Retribusi Daerah) given significantly affect the PAD of the Regency of Padang Pariaman.

In order to optimize its PAD, the Provincial Government of Riau Archipelago has made some innovation, i.e. through the use of e-samsat (electronic one-stop administration service office). However, according to RPJMD of the Province of Riau Archipelago of 2021-2026, it has not been optimum yet since the PAD has only been realized for 3% out of the 20% targetted in 2019.

In tourism sector, the Province of Riau Archipelago has been known for its tourism objects and other tourist attractions related to its nature, people and cultures that may increase the number of vacancies as well as people's income. To the recent time, the development in the tourism sector has been relatively good though there are several tourism objects that should still be developed like those related to culture (history), sea, religion, geopark, nature and others.

The Provincial government should participate in facilitating the quality and quantity of tourism supporting infrastructures like lodging and transportation, insentives given to policy makers in tourism sectors as well as different programs in increasing the promotion of tourism.

To grow the tourism sector, the Provincial Government Riau Archipelago in its RPJMD for 2021-2026 is planning to build tourism linkage networking among regencies/municipalities aimed at increasing the branding for the tourism in the Province of Riau Archipelago.

The number of international tourists visiting the province has not also been optimum yet that according to the data from the Central Bureau of Statistics (BPS), the number of the

international tourists is still fluctuative with a tendency to increase. The details are as can be seen in table 5 below.

Table 5. The Number of International Tourists Coming (Visiting) to the Province of Riau Archipelago

Region	Year	The Number of Tourists
Riau Archipelago	2014	1,973,425
	2015	2,037,673
	2016	1,920,232
	2017	2,139,962
	2018	2,635,004
	2019	2,864,795
	2020	411,248

Source: BPS of the Province of Riau Archipelago (data processed)

The increase in the number of international tourists should be a concern since it affects the increase of PAD. (Mantra, Yintayani and Susilawati, 2019; Ulfagustiani, 2019) Economy creative still also needs some development. Some challenges the province (including the City of Batam) faces including a) scarcity of raw materials and research in raw materials, gap in education and industry as well as unstandardized and uncertified products, b) lack of appreciation towards local products, c) weaknesses in connectivity, i.e. in distribution path, high promotion cost, unimplemented online payment system as well as weak supervision on royalty, license and copyright. (Panjaitan and Hutahuruk, 2022). The Provincial Government of Riau Archipelago has realised the condition and put the development program into the RPJMD of the Province of Riau Archipelago of 2021-2026 by providing some assistancy for UMKMs (Micro, Small and Medium Enterprises), i.e. in terms of marketing so that they can develop their businesses.

Besides tax, tourism and creative economy sectors, the government should also increase investment since it also affects PAD. (Tianto, 2019 and Ifrizal, 2014). Seeing from the realization on the investment gained by the province in 2014-2020, it was also still fluctuative with a tendency to increase as can be seen in table 6 below.

Table 6. Realization on Foreign Investment in the Province of Riau Archipelago (US$ Million)

Sector Area	Year	Project	Investment
Riau Archipelago	2014	128.0	392.1
	2015	594.0	640.4
	2016	880.0	519.1
	2017	812.0	1031.5
	2018	804.0	831.3
	2019	1279.0	1363.4
	2020	2143.0	1649.4

Source: BPS of the Province of Riau Archipelago (data processed)

If the provincial government is serious in developing the local tax, tourism, creative economy and investment sectors, it is possible for the province to be in delegative category where the central government decreases its interference in running the regional autonomy. Several studies on provincial and regency/municipality level also show same grouping with the study namely the Province of East Kalimantan that the province shows a good result where the dependency towards the central government is getting lower. The study also concludes that the social welface is getting higher because the people give a bigger contribution by paying local taxes and retributions as the main component of PAD. (Sulistyo, 2018).

In the level of Regency/Municipality, Medan was also in medium fiscal capacity with participative relational pattern with average score of independence ratio of 72.5%. (Junaidi & Anan, 2021), East Lombok and Dompu regency was also in high fiscal capacity. (Dethan, 2015), and some regency/municipality in West Jawa, namely Bandung, Bekasi, Bogor, and Depok. (Hardiana, 2020) and In Riau Archipelago Province, study show that Batam City was in medium fiscal capacity in 2014 (62,82%) and 2016 (66,04%) and high fiscal capacity in 2015 (76,09%). (Fitra, 2018).

The Degree of Dependence

The Degree of dependence is measured by the amount of the aids granted from the central government including transfer revenue compared with total regional revenue. Financial performance of the Province of Riau Archipelago based on the dependency degree is as shown in Table 7 below.

Table 7. The Degree of Dependence of Local Finances of the Province of Riau Archipelago of 2014-2020

Year	Transfer Income	Total Regional Revenue	Degree of Dependence (%)
2014	1,848,977,043,176.00	2,919,185,331,874.16	63.34
2015	1,500,306,049,525.00	2,514,517,750,888.58	59.67
2016	1,812,089,029,643.00	2,914,857,620,562.68	62.17
2017	2,156,268,926,062.00	3,252,237,500,366.54	66.30
2018	2,278,002,977,357.00	3,500,007,224,302.10	65.09
2019	2,626,462,699,205.00	3,939,451,004,378.32	66.67
2020	2,317,188,590,222.00	3,514,310,183,325.26	65.94

Source: Report on Local Government Finances of Riau Archipelago Audited

From the table 7 above it is known that the dependency degree of the finance of the Province of Riau Archipelago in 2014-2020 in average is of 64.17% or in a very high category. It means that in terms of funds for development, the local government still much depends on the central government. A high dependency level was reached in 2017 of 66.30%,

In order to decrease regional dependence towards the central governmnet, Anggara (2016) states that local tax revenue capacity can be increased not only through the enforcement of high tax but also through the enforcement of a lower tax fare combined with a tax structure minimizing the tax avoidance as well as response towards price and product quantity towards the tax enforcement so that a maximum total revenue can be reached.

Besides that, according to the Report on the Review of Fiscal Independency, the factors making an area independent that relate to fiscal are divided into 2 factors including internal and external factors. The internal factors include a) regulation quality, b) capacity, capability, and innovating potency of the local organizations and human resources, c) high

dependence on the central transfer and village fund, as well as d) unoptimized PAD collection and management.

The external factors, however, include a) undeveloped economy as the basis of regional collection, b) low participation and awareness the people give, c) low synergy among local stakeholders and d) limited accessibility for creative funding.

This condition resembles to what happened in other areas where studies similar to this study were conducted, like in the Province of Central Java, (Febiandani and Suseno, 2016), Aceh Province was still very high in terms of dependency on external funds, i,e, from the regency and the municipality in the Aceh Province (Prastiwi, Arfan, and Darwanis, 2016), the Province of Bangka Belitung was in a very high category in the range of 61.05-68.41% (Nizwan, 2020), and Jambi Province with an average 54,28%. (Hidayat and Putra, 2016).

In the Regency/Municipality level, several studies have shown that there are several regency/municipality level that are still dependent on central government aid, namely Kotamobagu city still depends on the aids from the central government and from the local government in average of 93,82% (Mokodompit *et.al*, 2014), Central Tapanuli Regency with an average 94,03%. (Harahap, 2020) and regency/municipality in West Sumatra Province in average 42,91% or in high category. (Hidayat *et.al*, 2016).

Fiscal Decentralization Degree

Decentralization degree gives some image on the local financial capacity in funding the development. The degree is measured by comparing PAD with total regional revenue. The local financial performance based on the fiscal decentralization degree, however, is as can be seen in Table 8 below:

Table 8. Fiscal Decentralization Degree of the Province of Riau Archipelago of 2014-2020

Year	Local Own-Source Revenue	Total Regional Revenue	Degree of Fiscal Decentralization (%)
2014	1,070,208,288,698.16	2,919,185,331,874.16	36.66
2015	1,013,226,321,363.58	2,514,517,750,888.58	40.30
2016	1,079,309,741,998.68	2,914,857,620,562.68	37.03
2017	1,094,788,614,304.54	3,252,237,500,366.54	33.66
2018	1,220,768,246,945.10	3,500,007,224,302.10	34.88
2019	1,311,704,305,173.32	3,939,451,004,378.32	33.30
2020	1,195,637,693,103,26	3,514,310,183,325,26	34,02

Source: Report on Local Government Finances of Riau Archipelago Audited

From Table 8, it can be seen that in average, the ratio of fiscal decentralization is of 35.69% or in good category. In 2015, the Province of Riau Archilepago had ever been in a very good level with a percentage of 40.30%, However, since 2016-2020 it had a fluctuation tended to be decreasing but still in good level with a range of 33.30%-37.2%.

From the ratio analysis above, it can be concluded that the Provincial Government of Riau Archipelago is quite capable in funding the management of programs as well as the planned development. In the future time, the province can keep increasing the contribution of PAD towards total regional revenue through the optimization of PAD from reliable sectors like tourism and creative economy set in the RPJMD of 2021-2026. Besides, in realizing the local

government programs, central government plays an important role in the monitoring phase that it can ensure the fiscal decentralization to be "controlled". (Christia and Ispriyarso, 2019).

The local government which was also in the good category revealed from the study is the Province of Bangka Belitung with the range of 31.53%-33.26%, (Nizwan, 2020), For the study on Regency/Municipality level, Medan city is in the good category with a range of 30.01-40.00% on average of 36%. (Tampubolon, 2018), Bandung and Bekasi was also in the good category in West Java Province. (Hardiana *et.al*, 2020). In Central Java Province, Semarang City in good category on average of 44,7%. (Kurniawati, 2022). In East Java Province, Surabaya City becomes a city with a good category from 2014-2018 with a range from 54,64%-64,25%. (Pratiwi *et.al*, 2021).
Decentralization has a very important role that can create autonomy since a good fiscal decentralization can directly decrease local government dependency to the central government (Febiandani and Suseno, 2016).

CONCLUSION

From the results of the study above, it can be concluded that The level of local financial capacity of the Province of Riau Archipelago in 2014-2020 was in medium fiscal capacity or 55.84% in partisipative relational pattern. Therefore, its local financial independency is quite high so that the interference of the central government starts to decrease. The provincial government of Riau Archipelago should optimize sectors of tax, tourism, creative economy and investment so that they can be in delegative category in the future time.

The level of financial dependency of the Province of Riau Archipelago in 2014-2020 was in the range of 59.67-66.67% or in the very high category which means that it really depends on the transfer income from the central government. It is important for the Provincial Government of Riau Archipelago to identify factors that can impede the independency/ dependency related to fiscal so that they can set some policies that can decrease their dependency.

The fiscal decentralization degree of the Province of Riau Archipelago in 2014-2020 was in good category or 35.69% in average. The category means that the province is capable to fund its programs and development.

It is expected that the study can be used as a reference for the government to increase the independency and capacity. On the other hand, to decrease the dependency, the government of the Province of Riau Archipelago should implement all relevant policies set in RPJMD, in order to increase fiscal capacity for the future years.

ACKNOWLEDGEMENT

REFERENCES

Andriani, R. N. R., & Wahid. N.N. (2018), The Effect of local own-source revenue (PAD) and fiscal balance on regional financial independency (study case of Tasikmalaya municipality in 2006-2015). *Jurnal Akuntansi*, 13(1), 30-39.

Anwar, M. L. (2016). The Influence of General Allocation Fund (DAU), Special Allocation Fund (DAK), Local Own-Source Revenue (PAD) on the economic growth and poverty (The Municipality of Manado of 2001-2013). *Jurnal Berkala Ilmiah Efisiensi*, *16*(2).

Bangga, W, (2017). *State and Regional Financial Administration*.

Badan Pemeriksa Keuangan. (2020). *Fiscal Independency Review Report*.

Candra, D., Ratnawati, V., & Mutia, Y. (2018). The Analysis of Local Financial Capacity: Comparison Study of Regencies/Municipalities in the Province of Riau and Riau Archipelago. *Jurnal Ekonomi*, *27*(2), 146-159.

Christia, A. M., & Ispriyarso, B. (2019). Fiscal Decentralization and Regional Autonomy in Indonesia. *Lawh Reform*, *15*(1), 149.

Dethan, S. H. (2015). Analysis of Regional Financial Capabilities in Regency/Municipalities in West Nusa Tenggara Province Year 2009-2013. *Gane Swara*, *9*(2), 145-151.

Efendi, E., Erni, F. H., & Nurul, H. (2020). The Analysis of Factors influence the Local Own-Source Revenue of the Local Government of the Regency of Padang Pariaman. (Doctoral dissertation, Universitas Bung Hatta).

Fathah, R.N. (2017). Financial Ratio Analysis for Performance Appraisal at Gunung Kidul District Government. *Ebbank*, 8(1), 33-48.

Fitra, H. (2018). The Use of Financial Statement to See an Overview Regional Financial Independence of Regencies and Municipalities on the Island of Sumatra. *Wahana Riset Akuntansi*, *6*(1), 1107-1116.

Febiandani, R., & Suseno. D. A. (2016). The analysis of local financial independence and local dependence on the unemployment and poverty. *Economic Development Analysis Journal*, 5(2), 217-225.

Halim, A. (2013). *Local financial accounting* (ed.3) Koran. Penerbit Salemba.

Harahap, H. F. (2020). The Analysis of Financial Performance Ratio at Central Tapanuli Regency. *Ekonomis: Journal of Economics and Business*, *4*(1), 34-38.

Hardiana, R. D., Tanuatmodjo, H., & Kurniati, F. (2020). Fiscal Decentralization and Independence Degree at Regencies/Municipalities of West Java Province Year 2015-2019 *JPAK: Jurnal Pendidikan Akuntansi dan Keuangan*, *8*(2), 197-210.

Hidayat, M., Hadi, M. F., & Widiarsih, D. (2016). The Analysis of Local Financial Capacity of Regencies/Munipacilities in West Sumatra in the Era of Regional Autonomy. *Jurnal Sungkai*, *4*(2), 36-55.

Hunter, J. S. H. (1977). *Federalism and fiscal balance: a comparative study*. Australian National University Press for Research on Federal Fiscal Relations.

Panjaitan, T. D., & Hutauruk, R. H. (2022). The Development of Creative Economy in the Autonomy Area of Batam. *Journal of Law and Policy Transformation*, *6*(2), 85-92.

Ifrizal, Darmawanis & Sulaiman. (2014). The influence of investment towards the local own-source revenue as well as its impact on the local capacity in funding staff expenses (A study on the local government of regencies/municipalities in the Province of Aceh). *Jurnal Akuntansi*, 3(2), 33-41.

Indonesia. (2021). *Middle Term Development Plan*. https://ppid.kepriprov.go.id.

Junaidi, L.D., & Anan M. (2021). The analysis of financial performance ratio of the municipality of Medan of the financial year of 2014-2018. *Ekonomis: Journal of Economics and Business, 5(2), 385-391.*

Kurniawati, E. (2022). Financial Performance Analysis of Semarang City Government, Central Java Province. Undergraduate Thesis. Institut Pemerintahan Dalam Negeri.

Mahmudi, M., & Sallama, N.I. (2010). Local financial management. *Jakarta: Erlangga.*

Mahsun, M. (2006). The Measurement of public sector performance. *Yogyakarta: BPFE.*

Mantra, A., Yintayani, N. N., Ardina, C., & Susilawati, N. L. N. A. S. (2019). Factors Influencing Local Own-Source and Its Impact on the Local Financial Independence. *Jurnal Bisnis dan Kewirausahaan*, 15(3), 185-194.

Manao, H. (2007). Auditing Philosophy. *Pusdiklat BPKP*.

Mardiasmo, D., & MBA, A. (2009). Public sector accounting. *Yogyakarta: Andi*.

Mokodompit, P. S., Pangemanan, S. S., & Elim, I. (2014). The Analysis of financial performance ratio of the Kotamobagu City. *Jurnal EMBA: Jurnal Riset Ekonomi, Manajemen, Bisnis dan Akuntansi*, 2(2).

Law No. (25). of 2002 about the Establishment of Riau Archipelago Province.

Law No. (13). of 2003 on State Finance Keuangan Negara.

Law No. (32). of 2004 about Local Government.

Law No. (33). Tahun 2004 about the Fiscal Balance of the State and Local Government.

Paat, D. C., Koleangan, R. A., & Rumate, V. A. (2019). The Influence of Local Own-Source Revenude (PAD), Balance Expenses on the Economic Growth and Its Impact on the Poverty in the Municipality of Bitung. *Jurnal Pembangunan Ekonomi dan Keuangan Daerah*, *18*(4).

Putra, R., & Hidayat, S. (2016). Regional Financial Independence Level and Its Relationship with Economic Growth of Jambi Province. *Jurnal Perspektif Pembiayaan Dan Pembangunan Daerah*, *3*(4), 243-256.

Putri, Z. E. (2015). The Analysis on the Influence of Local Own-Source Revenue (PAD), General Allocation Fund (DAU) and Inflation towards the Economic Growth in the Regencies/Municipalities of the Province of Central Java. *Esensi: Jurnal Bisnis dan Manajemen*, *5*(2).

Pekei, B. (2016). *The concept of and analysis on the effectiveness of financial management in autonomy era*. Penerbit Taushia.

Prastiwi, T., Arfan, M., & Darwanis, D. (2016). The Level of Independence, Effectiveness, and Efficiency of Regional Finances of the Provincial Government of Aceh after the Revision of the Law of Regional Autonomy, *Buletin Ekonomi Jurnal Manajemen, Akuntansi Dan Ekonomi Pembangunan. 14*(1), 79-84.

Pratiwi, A., Yunitasari, D., & Wilantari, R. N. (2021). Analysis of the Degree of Fiscal Decentralization and Its Effect on Economic Growth in East Java Province, Jurnal Humaniora. 5(2), 46-59.

Sari, I., Asaari, M., & Hidayah, I. S. N. (2021, December). The Analysis of Financial Performance of the Local Government of the Municipality of South Tangerang of 2010-2019. In *Prosiding Seminar Nasional & Call for Paper STIE AAS* (pp. 408-425).

Sulianti, S., & Ika, S. R. (2012). The comparison of the financial performance of The Yogyakarta Special Region before and after regional autonomy. *Jurnal Bisnis dan Ekonomi*, *3*(2), 123-138.

Sulistyo, A. T. (2018). The analysis of financial performance of the provincial government of East Kalimantan. I*ndonesian Treasury Review: Jurnal Perbendaharaan, Keuangan Negara dan Kebijakan Publik*, *3*(1), 43-59.

Tamboto, L., Morasa, J., & Mawikere, L. (2014), The analysis of local financial capacity in the regional autonomy era in the Regency of South East Minahasa. *Jurnal Riset Ekonomi, Manajemen, Bisnis, Dan Akuntansi*, *2*(2).

Tampubolon, S.C. (2018). Financial Performance Analysis of Medan City Government in Regional Budget Management. Undergraduate Thesis. Universitas HKBP Nommensen.

Tianto, R. (2022). The Influence of the Number of Work Force and Investment towards the Local Own-Source Revenue. *Jurnal Samudra Ekonomi Dan Bisnis*, *13*(1), 113-124.

Ulfagustiani, T. D. (2019). The Influence of the Number of Tourtists as well as Local Tax and Retribution for Services Given in Tourism Objects towards the Local Own-Source Revenue of the Tourism Division of the Municipality of Sukabumi (A Study Case of Tourism Object of Cipanas-Cisolok) (Doctoral dissertation, Universitas Muhammadiyah Sukabumi)).

Utami, D. N., & Indrajaya, I. G. B. (2019). The Influence of Local Own-Source Revenue (PAD) on the Economic Growth and Social Welfare in the Province of Bali. *E-Jurnal EP Unud*, *8*(10), 2195-2225.

Wertianti, I. G., & Dwirandra, A. A. N. B. (2013). The Influence of Economic Growth towards the Capital Expenses with Local Own-Source Revenue (PAD) and General Allocation Fund (DAU) as the Moderation Variables. *E-Jurnal Akuntansi*, *4*(3), 567-584.

Zukhri, N. (2020). Financial Performance of Bangka Belitung Archipelago in terms of the Degree of Independence, Dependence and Fiscal Decentralization. *Indonesian Treasury Review: Jurnal Perbendaharaan, Keuangan Negara dan Kebijakan Publik*, 5(2), 143-149.