

RESEARCH ARTICLE

Analysis of Independence, Effectiveness, and Efficiency Ratio as a Measure of Financial Performance of The Lampung Province Government 2019–2023

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This study aims to assess the financial performance of the Lampung Provincial Government through the ratios of independence, effectiveness, and efficiency from 2019 to 2023. The research is descriptive with a quantitative approach and data collected through documentation. The analyzed data are secondary data. The results show that the average fiscal independence ratio remains low despite an increase in the last two years. The effectiveness of Local Own-Source Revenue (PAD) collection is considered quite good and consistently effective; however, in the final year, there was a decline, making it less effective .

Keywords ; Financial Report Analysis, Financial Performance, Regional Original Revenue, Independence Ratio, Effectiveness Ratio, Efficiency Ratio.

Introduction

The Regional Revenue and Expenditure Budget (APBD) is an annual financial plan prepared by local governments together with the Regional People's Representative Council (DPRD) and established through regional regulations. The APBD serves as the main guideline in carrying out routine activities as well as regional development programs, systematically calculated in monetary values for a specific period. The preparation and management of the APBD often attract public attention, because aside from being an economic planning instrument, it is also a political tool used by the government and the opposition in determining the direction of regional development.

A phenomenon that arises related to the management of Lampung Province's APBD is the imbalance between regional revenue and expenditure. In terms of revenue, the realization of regional taxes has only reached 84% of the target of Rp83.8 billion, indicating that the region's ability to explore sources of Local Own Revenue (PAD) is still limited. Such low achievement shows problems in optimizing tax potential and the effectiveness of the local tax collection system, while on the expenditure side, budget realization has reached 98.53% of the ceiling, potentially leading to deficits and dependence on central government transfers. Although Lampung Province's APBD increased from Rp6.91 trillion in 2022 to Rp7.41 trillion in 2023, expenditure realization at the district/city level decreased by 8.06%, indicating an imbalance in budget distribution and utilization between government levels.

From a theoretical perspective, stewardship theory provides an important lens to understand how local governments manage public resources entrusted to them. Raharjo (2007) explains that stewardship theory is based on the idea that stewards will strive to maximize organizational performance because organizational success increases shared satisfaction and prosperity between owners and managers. In the context of regional government, this theory views local governments as stewards who must manage regional finances responsibly for the public interest, emphasizing transparency, accountability, integrity, and orientation toward collective rather than personal interests.

Public sector financial management is closely related to the role of government finance in allocation, distribution, and stabilization functions, as described by Musgrave (1967). Public finance focuses on government revenue and expenditure and their implications for resource allocation and economic stability, so regional financial statements become key instruments for demonstrating accountability and measuring performance. Syamsi (2013) defines regional financial performance as the region's ability to mobilize and manage original financial resources effectively, efficiently, and transparently, making performance ratios an important indicator for assessing the implementation of regional financial management.

Local Own-Source Revenue (PAD) plays a central role in strengthening regional fiscal independence. Halim, Kusufi, and Muhammad (2014) describe PAD as all regional receipts from taxes, charges, returns from separated regional asset management, and other legitimate PAD, which aim to increase regional fiscal independence. Mardiasmo (2018) emphasizes that higher PAD contribution to total regional revenue increases budget flexibility and supports sustainable regional development, reducing dependence on central government transfers.

The regional fiscal independence ratio illustrates the extent to which a region can finance development activities without relying on transfer income, measured by comparing PAD with total regional income (Halim, 2004). Permana (2017) states that a higher independence ratio indicates a stronger fiscal position and a lower level of central government intervention, with relationship patterns ranging from instructive (very dependent) to delegative (highly independent). In addition, PAD effectiveness and efficiency ratios are also important in assessing performance; effectiveness measures the success of PAD realization in meeting or exceeding targets, while efficiency evaluates how optimal and economical budget use is in relation to PAD realization (Mardiasmo, 2018; Halim, 2012; Kusufi, 2014).

Previous research conducted by Oby Remanta and Puja Rizqy Ramadhan (2024) analyzed the financial performance of the North Sumatra Provincial Government based on ratios of independence, effectiveness, and efficiency during 2021-2023. The results showed that the regional fiscal independence ratio was still low, indicating high dependence on central government transfers, although there was an increase in the effectiveness ratio which was quite effective in realizing planned revenues. However, the efficiency ratio was still less efficient, which means budget use was not optimal.

Another study by Hery Susanto (2019) assessed the financial performance of Mataram City Government in the 2012-2015 fiscal year using analysis of effectiveness, efficiency, and independence ratios. This research found that the effectiveness ratio of regional financial management was effective, the efficiency ratio less efficient, and the independence ratio still low, indicating high dependence on central or provincial government assistance. The study recommended increasing optimization of local revenue and prioritizing budget allocation.

The aim of this study is to analyze the level of fiscal independence of Lampung Provincial Government from 2019 to 2023, as well as measure the effectiveness and efficiency of budget management in supporting the achievement of development targets. These three ratios—*independence, effectiveness, and efficiency*—are used as main indicators to assess the ability of the local government to manage financial resources independently, appropriately, and efficiently, in line with stewardship principles and the objectives of fiscal decentralization.

Method

Participant Characteristics and Research Design

This is descriptive research with a quantitative approach. The research design utilizes documentary analysis to examine regional financial data of Lampung Province. The study covers a 5-year period from 2019 to 2023, analyzing three key financial performance ratios as the main indicators for assessing the local government's fiscal condition and budget management effectiveness.

Sampling Procedures and Participants

The scope of this research is limited to analyzing financial performance using the Independence Ratio, Effectiveness Ratio, and Efficiency Ratio. The data used in this research are APBD realization reports, PAD reports, and other financial documents published by the Lampung Regional Financial and Asset Management Agency (2019-2023). The research focuses on secondary data obtained from official local government financial reports and documents. The main source of data comes from APBD realization reports, PAD reports, and financial publications from 2019-2023 available at local institutions and official websites of the Lampung Provincial Government and Central Statistics Agency.

Research Instruments and Data Collection

The documentation technique was used as the primary data collection method. Documentation techniques include the collection of books, numerical notes, images in the form of reports, and documents that support the research. The documentation technique used in this research is through APBD realization reports, PAD reports, and financial publications of Lampung Province obtained from the Regional Financial and Asset Management Agency.

Research instruments used to measure financial performance include:

- APBD Realization Reports (2019-2023)
- Regional Original Revenue (PAD) Reports (2019-2023)
- Regional Expenditure Documentation
- Financial statistics publications from the Central Statistics Agency

Data Analysis Techniques

Analysis of Local Fiscal Independence Ratio

This technique is carried out by calculating the ratio of PAD to total local revenue. According to Halim (2012), this ratio shows the extent to which a region can independently finance government activities. The formula of this ratio is:

$$\text{Independence Ratio} = \frac{\text{Local Own – Source Revenue (PAD)}}{\text{Total Local Revenue}} \times 100\%$$

Table 1. Financial Performance Criteria Based on Local Fiscal Independence Ratio

Category	Value Range	Relationship Pattern	Description
0% – 25%	Very Low	Instructive	Highly dependent on central government, almost no independence.
25% – 50%	Low	Consultative	Still dependent, but starting to increase PAD.
50% – 75%	Moderate	Participative	Fairly independent, significant PAD contribution.
75% – 100%	High	Delegative	Fully independent, very little central government dependence.

Source: Halim, 2018

The regional financial independence ratio indicates the extent to which the local government can finance governmental activities relying on Local Own-Source Revenue (PAD). A high ratio reflects strong fiscal autonomy, transparency, and accountability in managing regional finances. Conversely, a low ratio indicates a high dependence on the central government and weak regional fiscal capacity. Therefore, increasing the independence ratio should be a strategic priority for local governments, achievable through intensifying taxes and levies, managing regional assets, and creating a conducive investment climate.

Analysis of PAD Effectiveness Ratio

The analysis is conducted by comparing the realization of PAD with the planned target. Mardiasmo (2018) states that a ratio above 100 indicates high effectiveness of local revenue management. According to Halim (2012), this ratio measures a local government's ability to reach PAD targets set in the budget. The formula for this ratio is:

$$\text{Effectiveness} = \frac{\text{Realized PAD Revenue}}{\text{Planned PAD Target}} \times 100\%$$

Table 2. Criteria of Financial Performance Based on Effectiveness Ratio

Kategori	Rentang Nilai	Keterangan
> 100%	Very Effective	PAD realization exceeds the target.
90% – 100%	Effective	PAD realization meets the planned target.
80% – 90%	Quite Effective	PAD realization close to the target.
60% – 80%	Less Effective	PAD realization far from target.
< 60%	Not Effective	Very low PAD realization compared to the target.

Source: Halim, 2018

The higher the effectiveness ratio, the better the performance of the regional government in realizing the locally generated revenue (PAD) target. A ratio above 90 percent reflects an effective

condition, while a value below 80 percent indicates weaknesses in the management of regional revenues. Therefore, the effectiveness ratio can serve as a main indicator in evaluating the success of local governments, as well as a basis for formulating strategies for intensification (increasing revenues from existing sources) and extensification (exploring new sources) of PAD to strengthen fiscal independence and reduce dependence on central transfers.

Analysis of PAD Efficiency Ratio

Kusufi (2014) states that a low efficiency ratio indicates increasingly optimal and economical PAD management. According to Halim (2012), this ratio shows the region's ability to manage the budget so that expenditures do not exceed income. The formula for this ratio is:

$$\text{Efficiency Ratio} = \frac{\text{Realized Local Expenditures}}{\text{Realized PAD}} \times 100\%$$

Table 3. Financial Performance Criteria Based on PAD Efficiency Ratio

Category	Value Range	Description
< 60%	Very Efficient	Expenditure much smaller than income, very good management.
60% – 80%	Effective	PAD realization meets the planned target.
80% – 90%	Quite Effective	PAD realization close to the target.
90% – 100%	Less Effective	PAD realization far from target.
> 100%	Not Effective	Very low PAD realization compared to the target.

Source: Halim, 2018

The lower the efficiency ratio, the higher the success achieved by the local government in managing revenues and optimizing expenditures. This condition reflects the implementation of the principle of efficiency in sound local financial management. Conversely, a ratio approaching or even exceeding 100 percent indicates inefficiency, in which expenditures nearly equal or even surpass the revenues obtained. Such a situation may indicate high dependence on transfer funds from the central government or other sources of financing, as well as reveal weak fiscal independence of the region.

Results and Discussion

Lampung Province is located at the southern end of Sumatra Island, Indonesia, serving as the main gateway connecting Sumatra and Java. The region encompasses around 35,288.35 km², consisting of 13 regencies and 2 cities, with the administrative center in Bandar Lampung. In 2024, the population of Lampung is estimated at 9.4 million.

Regional Fiscal Independence Ratio

The analysis of this ratio is important to assess the level of fiscal autonomy and financial capacity of the region in managing its own resources for policy decision-making. The following table presents the fiscal independence ratios of the Lampung Provincial Government for 2019-2023, illustrating the extent to which the region can fund governmental activities independently without relying on central government transfers.

Table 4. Results of the Calculation of the Regional Financial Independence Ratio for Lampung Province 2019-2023

(Expressed in Million Rupiah)

Year	Regional Own-Source Revenue	Total Regional Revenue	Independence Ratio	Value Range	Relationship Pattern
2019	3.018.067	7.266.993	41,53%	Low	Consultative
2020	2.842.286	7.019.319	40,49%	Low	Consultative
2021	3.249.669	7.469.469	43,50%	Low	Consultative

2022	3.678.302	6.836.946	53,80%	Moderate	Participative
2023	3.766.194	6.987.319	53,90%	Moderate	Participative
Average Regional Financial Independence Ratio for 2019-2023					46,64%

Source: Data processed, 2025

Based on Table 4, the Lampung regional financial independence ratio in 2019 was 41.53% (low and consultative), in 2020 it decreased to 40.49% (still low and consultative), in 2021 it increased to 43.50% (low and consultative), then in 2022 it jumped to 53.80% (moderate and participatory), and in 2023 it stabilized at 53.90% (moderate and participatory). Over the five years, the average financial independence ratio of the Lampung region was recorded at 46.64%, with a fluctuating trend each year. In the period from 2019 to 2021, the independence ratio remained in the low category with a consultative relationship pattern, indicating a significant level of dependence on transfer funds from the central government. However, in 2022 and 2023, the independence ratio increased to the moderate category, with a more participatory relationship pattern, reflecting an improvement in the contribution of PAD to the regional revenue structure. This shift in values and relationship patterns illustrates the dynamics of regional capacity to manage their own revenue sources and efforts to reduce fiscal dependence on the central government throughout the analysis period.

PAD Effectiveness Ratio

This ratio provides an overview of the extent to which revenue targets are being achieved as expected and is a key indicator for assessing the success of regional financial management. The following table shows the effectiveness ratio for Regional Original Revenue (PAD), which measures the local government's ability to achieve the PAD revenue targets set in the budget.

Table 5. Results of the Lampung Province Regional Effectiveness Ratio Calculation for 2019-2023

(Expressed in Millions of Rupiah)

Year	Realized PAD	PAD Target	Effectiveness Ratio	Performance Rating
2019	3.018.067	2.987.249	101,03%	Very Effective
2020	2.842.286	2.962.401	95,94%	Effective
2021	3.249.669	3.336.257	97,40%	Effective
2022	3.678.302	3.784.650	97,19%	Effective
2023	3.766.194	4.808.699	78,32%	Less Effective
Average Effectiveness Ratio 2019-2023				93,97%

Source: Data processed, 2025

Based on Table 5, in 2019, PAD realization exceeded the PAD target of 101.03%, thus categorizing it as "Very Effective." In 2020–2022, realization was slightly below the target, at around 95–97%, but was still considered "Effective." In 2023, the effectiveness rate decreased to 78.32%, indicating "Less Effective" performance. The effectiveness of Lampung Province's Regional Original Revenue (PAD) from 2019 to 2023 was generally quite good, with an average effectiveness ratio of 93.97%. PAD performance indicates that Lampung was able to achieve its revenue targets in most years during this period. However, in the last year, there was a significant decline, placing it in the less effective category.

PAD Efficiency Ratio

This ratio measures how optimally resources are used in regional financial management, which is crucial for ensuring efficient yet effective budget utilization in supporting development and public services. The following table displays the efficiency ratio for managing Regional Original Revenue, which is the ratio between PAD collection costs and the results obtained.

Table 6. Results of the Calculation of the Regional PAD Efficiency Ratio for Lampung Province 2019-2023

(Expressed in Millions of Rupiah)

Year	Realized PAD	PAD Target	Effectiveness Ratio	Performance Rating
2019	5.583.637	3.018.067	185%	Not Efficient
2020	5.735.949	2.842.286	201,80%	Not Efficient
2021	6.001.065	3.249.669	184,66%	Not Efficient
2022	5.433.259	3.678.302	147,71%	Not Efficient
2023	5.838.321	3.766.194	155,01%	Not Efficient
Average Efficiency Ratio 2019-2023				174.83%

Source: Data processed, 2025

Based on Table 6, it can be seen that each year the listed efficiency ratio value is above 100%, starting from 185% in 2019 to 155.01% in 2023. This indicates that for five consecutive years, Lampung Province has been categorized in the "Inefficient" range, according to the assessment criteria used. In fact, a lower efficiency ratio indicates a more efficient regional financial management. However, in this case, the realization of regional spending is always higher than the realization of PAD each year, thus making the efficiency ratio high and categorized as less than optimal in terms of financial efficiency. The average efficiency ratio during this period reached 174.83%, reinforcing the assessment that there are challenges in regional budget management to be able to achieve better efficiency standards.

Discussion

Based on the calculations above, Lampung Province's fiscal independence ratio remains relatively low, but has shown significant improvement over the past two years. While it remained in the low (consultative) category in 2019–2021, it rose to the medium (participatory) category in 2022–2023, with an average value of 46.64%. This reflects a concrete effort by the regional government to reduce dependence on central government transfers by increasing the contribution of Regional Original Revenue (PAD) to the revenue structure. Nevertheless, the suboptimal level of fiscal independence signals the need for a more intensive strategy, both in exploring PAD potential and through innovative fiscal management.

In terms of PAD effectiveness, Lampung generally achieved its targets, with an average effectiveness ratio of 93.97%. Most years during the analysis period fell into the effective category, indicating a good match between targets and actual results. However, a decline occurred in 2023, when it fell into the less effective category. This indicates the need for a more in-depth evaluation and strategic adjustments to ensure consistent PAD target achievement in the future. Meanwhile, budget efficiency remains the biggest challenge. The efficiency ratio has consistently exceeded 100% for five consecutive years, averaging 174.83%. This means that regional spending consistently exceeds revenue (PAD) realization, indicating weak efficiency and potential waste. If this pattern continues, regional fiscal sustainability could be threatened due to the potential for a widening deficit. Therefore, concrete steps are needed to improve efficiency, control costs, and implement the principle of value for money in regional financial management.

Research in North Sumatra Province by Oby Remanta and Puja Rizqy Ramadhan (2024) showed that the regional financial independence ratio tended to be low, in the instructive category (average 21.43) during 2021-2023, indicating a significant dependence on central government transfers. The PAD effectiveness ratio fell into the moderately effective category, with an average of 92.40. However, the efficiency ratio was categorized as less efficient, with an average of 98.46, indicating room for improvement in budget management efficiency.

Research on the Mataram City Government by Hery Susanto (2019) showed results consistent with the North Sumatra study regarding efficiency and independence. The independence ratio was very low (average 17.71), indicating high dependence on central and provincial government assistance. The effectiveness ratio was considered effective, with an average of 101.85, indicating that local governments were able to exceed their PAD targets. However, efficiency remained suboptimal, with an average of 99.12, indicating substantial PAD collection costs.

All three studies consistently found that local government fiscal independence remained low to moderate, with significant dependence on central transfer funds. PAD revenue effectiveness was generally good to effective, indicating success in achieving budget targets in most years. However, budget management efficiency remains a major challenge, as collection and expenditure costs often exceed regional revenue capacity, particularly in Lampung. These findings underscore the need for strategies to increase fiscal independence, optimize PAD, and control regional spending to improve financial efficiency for fiscal sustainability and regional development.

Stewardship theory views local governments as stewards entrusted with managing public finances responsibly for the benefit of the wider community. Within this theoretical framework, regional financial performance, as reflected in the independence, effectiveness, and efficiency ratios, is not only understood as an administrative outcome, but also as a reflection of the government's orientation toward collective interests rather than personal or group interests.

Stewardship theory assumes that regional financial managers, both regional heads and civil servants, should not merely act as formal agents but are required to possess integrity, a commitment to transparency, and a motivation to serve the public to the fullest extent possible. A low fiscal independence ratio, for example, indicates a need for strengthening the stewardship role. Regional governments are expected to be more active and innovative in exploring potential regional revenue sources to reduce dependence on central transfer funds, while simultaneously affirming their commitment as trustworthy stewards of public funds

Conclusions and Recommendations

Conclusions

The Lampung Provincial Government's financial independence ratio has shown an increasing trend over the past five years, but the average remains at 46.64%. In 2019--2021, this ratio fell into the low (consultative) category, while in 2022--2023 it increased to the medium (participatory) category. This situation confirms that Lampung's fiscal independence still needs to be strengthened to reduce dependence on transfer funds from the central government.

The Regional Original Revenue (PAD) effectiveness ratio was considered effective for most periods, averaging 93.97%, although in 2023 it declined significantly, falling into the less effective category. PAD realization can be considered quite good, but consistency in achieving targets still needs to be improved, and innovation in exploring new revenue sources is also needed.

Meanwhile, the PAD management efficiency ratio has consistently exceeded 100% over the past five years, averaging 174.83%. This indicates that Lampung Province's financial management is inefficient, as regional spending tends to exceed PAD revenue each year. This condition suggests high dependence on transfer funds from the central government and indicates weak fiscal independence of the region.

Recommendation

The recommendations derived from this study suggest that the Lampung Provincial Government should strengthen fiscal independence by optimizing Local Own-Source Revenue (PAD) through both intensification and extensification of potential revenue sources, improving the quality of tax and retribution administration, and managing regional assets more productively. The local government also needs to design more systematic strategies to maintain consistency in achieving PAD targets, including periodic evaluations of target setting, the accuracy of revenue projections, and policy adjustments when economic slowdowns or regulatory changes affect revenue performance. In terms of efficiency, expenditure control must be reinforced through more selective budget planning, prioritization of spending that directly contributes to improving public services and strengthening the revenue base, and the application of value-for-money principles in all programs and activities. Furthermore, enhancing human resource capacity in regional financial management, utilizing reliable financial information systems, and strengthening internal oversight are essential to minimize waste and ensure that every rupiah spent generates optimal benefits for the community.

Future research is recommended to incorporate additional variables such as capital expenditure, regional economic growth, and governance quality, as well as to employ primary data through interviews or surveys, in order to provide a more comprehensive picture of the factors influencing the financial performance of the Lampung Provincial Government.

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