

Financial Performance of Banten Province Before and During the Covid-19 Pandemic

Suci Rahmawati Prima*

S1 Economic of Development, Universitas Terbuka, Indonesia

*corresponding author e-mail: suci.rahmawati@ecampus.ut.ac.id

Article Info

Keywords:

Covid-19 pandemic;
Degree of dependency;
Degree of independence;
Degree of fiscal decentralization;
Effectivity

DOI:

10.33830/jfba.v2i1.2967.2022

Abstract

The government of Indonesia has taken several policies to reduce the State Revenue and Expenditure Budget as a consequence of the Covid-19 pandemic. This also affects the financial condition of local governments, including the province of Banten. This study aims to determine the financial performance of the Banten province in the pre-pandemic and during the pandemic which is reflected in the degree of fiscal decentralization, the effectiveness of local own-source revenue, degree of dependency, and independence. This research is a quantitative descriptive genre using secondary data from 2015-2021 sourced from reports on the results of financial audits from BPK-RI and The Central Bureau of Statistics of Banten. The method used in this research is financial ratio analysis and comparison of results. The results showed that the degree of fiscal decentralization of Banten province was in a very good category with effective PAD, the degree of regional independence was in a good category and the degree of dependence was low. The results of intra and inter-comparisons show that Banten's position in financial performance during the pandemic is in the very good category. This study recommends the need for commitment and consistency of local governments to continue to improve and maintain financial independence.

1. Introduction

The Covid-19 pandemic that has hit Indonesia since the beginning of 2020 has caused shocks and impacts on many sectors. Some of the sectors that are majorly affected are health, economy, and social. To overcome this impact, the government has implemented various policies, both to control the spread of Covid-19 and its socio-economic impacts. The instrument used by the government to overcome the impact of the pandemic is the State Revenue and Expenditure Budget (APBN). In the process, the State Budget has undergone refocusing and reallocation, where there has been a centralization or focusing of budgets that were not previously budgeted to accelerate the handling of Covid-19. Instruction of President No 4 (2020) mandated prioritization of the use of budget allocations to accelerate the handling of Covid-19. A number of these budget policies certainly affect the financial condition of regions in Indonesia, one of which is the province of Banten. As a region that carries out regional autonomy for its territory, changes in the central government's budget will also affect the regional budget through the Regional Revenue and Expenditure Budget (APBD). The Minister of Finance said that state revenues in 2020 experienced a very deep contraction while spending increased very high so that the State Budget experienced

a deficit of 6 percent above GDP, this deficit was used to withstand the conditions of society and the economy which were in shock due to the Covid-19 pandemic (Ministry of Finance RI, 2021).

The following data from the Ministry of Finance as of November 2020 shows Indonesia's financial condition, which is reflected in the State Budget which has a deficit of more than 3 percent. This was then allowed due to the existence of Law Number 2 of 2020 in an unusual situation.

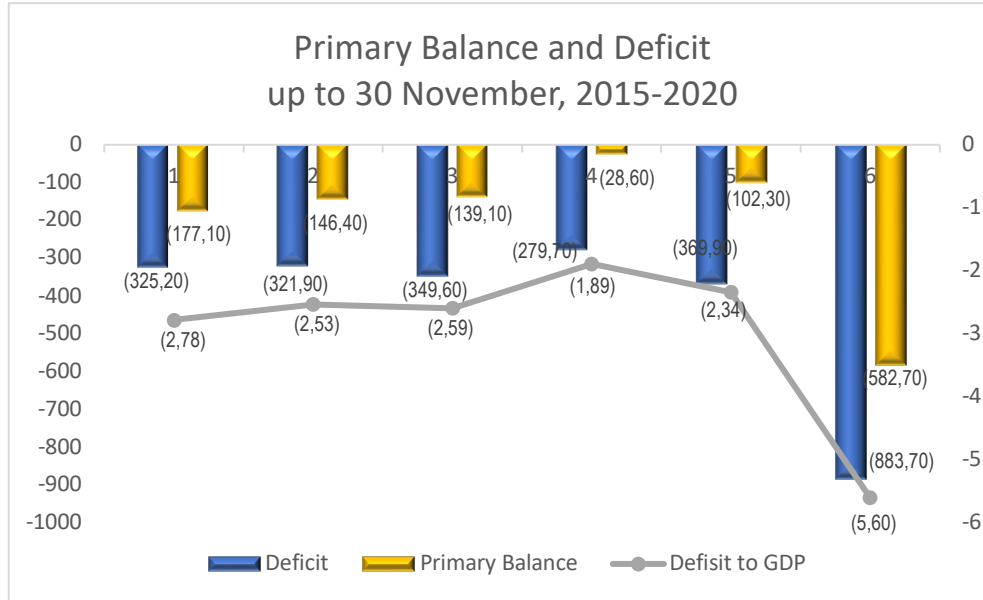


Figure 1. The Deficit on the APBN of Indonesia (Ministry of Finance of the RI, 2020)

Considering the deficit that occurs in the APBN posture and as stated in Law No. 32 of 2004 that in carrying out government affairs, regional governments are not only closely related to the central government but also to other regional governments, it is interesting to see whether local governments also experiencing the same thing throughout 2020 to 2021. The object of this research is Banten Province, which is one of the five youngest provinces in Indonesia It was born in the era of regional autonomy and is authorized to manage finances independently. Banten has 4 regencies and 4 cities consisting of Tangerang City, South Tangerang City, Tangerang Regency, Cilegon City, Serang City, Serang Regency, Lebak Regency and Pandeglang Regency. In 2019 Banten Province received the third-largest Regional Revenue and Expenditure Budget (APBD) in Indonesia and a large level of regional autonomy. This was followed by the achievement at the end of the 2020 fiscal year for the first time the Banten provincial government received regional incentive funds of Rp 44.3 billion. So it can be said that Banten province's finances were in good condition with a high level of regional autonomy before the pandemic occurred. But how has the Banten province's financial condition been since the pandemic? Therefore, it is necessary to study using ratios and regional financial indicators through the degree of fiscal decentralization, the effectiveness of Regional Original Revenue (PAD), regional independence, and the degree of dependence of the Banten province over the last 7 years which includes the period before and during the Covid-19 pandemic.

Some of the previous studies that have been conducted include; Suci & Asmara (2018) which analyzes the development of regional financial independence in Banten Province and its influence on economic growth in Banten Province from 2001-2011. The results showed that regional financial independence had a significant positive effect on economic growth, while the Balanced Fund ratio had a significant negative effect on economic growth. This study suggests the need to evaluate the allocation policy for the use of the Balancing Fund.

Next is research by Prakoso et al. (2019) which examines the effect of the level of regional financial ability and regional financial independence on growth and poverty in districts and cities

in Central Java Province from 2009 – 2013. The results of this study indicate that regional financial independence in districts and cities in Central Java Province has a positive impact on increasing regional economic growth and a significant negative on the reduction of the poor population. Meanwhile, research on the government's financial condition in a pandemic situation includes research by Sianipar & Ardini (2020) which analyze audit strategies and policies to be carried out by BPK-RI in the face of many policy relaxations in finance due to the Covid-19 pandemic. The results of his research stated that policies related to state finances during the COVID-19 pandemic raised concerns regarding the accountability of local governments, and suggested that BPK could mitigate risks in managing state finances during the pandemic. In line with this research by Onibala et al. (2021) stated that the impact of the COVID-19 pandemic caused a decline in the financial performance of Southeast Minahasa Regency during the Covid-19 pandemic compared to the previous year's performance, although the impact was not significant. Further, research by Silalahi & Ginting (2020) concluded that the government implemented a fiscal policy on state revenues and expenditures to maintain economic growth and economic stability. In addition to qualitative, there are also quantitative studies such as those studied by Mutia et al. (2021) which analyzes the performance of the Regional Budget and Expenditure Revenue at the Subang Regency Government before and during the Covid-19 pandemic. The results show that the performance of the Subang Regency APBD in 2019 and 2020 seen from the regional financial independence ratio is very low, the PAD effectiveness ratio is quite effective, the regional financial efficiency ratio changes from inefficient to efficient, the suitability ratio is dominated by the operational expenditure ratio compared to the capital expenditure ratio. in a reasonable proportion, as well as a growth ratio that experienced negative growth. Meanwhile, researcher Ariadi & Jatmika (2021) describes the financial condition of the Papuan provincial government descriptively and finds the level of independence is in the medium category, the routine spending ability index shows that the proportion of PAD's ability to finance routine expenditures is still below 20% of the total expenditure and the total Papuan provincial government budget and the proportion of development for routine spending in 2020 it was quite significant and the total expenditure of the Papua Province regional government increased during the pandemic. Research related to fiscal decentralization has also been carried out in various countries, such as the research on fiscal decentralization in the Republic of Moldova conducted by Morozov (2009), fiscal decentralization in Eastern Europe studied by Aristovnik (2012), and fiscal decentralization in several European Union countries studied by Wichowska (2021).

From the literature review that has been carried out, the novelty of this research is in terms of research time which includes the year before and during the pandemic, namely from 2015 to 2021, and also inter and intra comparisons carried out to see the position of Banten compared to other regions in terms of financial performance. Furthermore, this research is also expected to be able to contribute to the development of studies on regional autonomy which is closely related to the use of the budget. So that the general public can understand, read and participate in monitoring the development of their regional finances more actively.

2. Research Method

This study uses a quantitative descriptive method, where the first part descriptively analyzes the financial condition through the ratio of financial independence, the effectiveness of PAD, and the degree of fiscal decentralization. In the second part, a comparison of the data is carried out with regions within the province of Banten and outside the province of Banten. This research data is secondary data sourced from the financial statements of the Banten provincial government from 2015 to 2021 which includes the period before and during the pandemic.

The data was obtained from reports on the results of financial audits from the Indonesian Audit Board (BPK-RI), data from the APBD (Local Government Budget) of Banten province, the

Central Bureau Statistics (BPS) of Banten province, and official websites of Banten provincial government.

The variables involved in this study consist of the budget and realization of PAD, the budget, and the realization of the total regional income, transfer, and regional loans. Some of the ratios used are the degree of fiscal decentralization, the effectiveness of PAD, regional independence, and the degree of dependence. The ratio was chosen to represent the financial condition of the Banten provincial government, as follows Suci & Asmara (2018) stated in their research that there is no definite measurement of the degree of decentralization and regional financial independence. The variables used can vary according to the financial characteristics of the area where the research is conducted.

a. Degree of fiscal decentralization

The degree of fiscal decentralization (DDF) is the ratio of local revenue to total regional revenue. DDF can be calculated using:

$$DDF = \frac{\text{Local Own – source Revenue(PAD)}}{\text{Total Pendapatan Daerah(TPD)}} \times 100\%$$

The degree of regional fiscal decentralization can be categorized as very good if the value of the degree of fiscal autonomy ratio is above 50 percent, good if the value of the degree of fiscal autonomy is more than 40 percent to 50 percent, it is sufficient if the value of the degree of fiscal autonomy ratio is more than 30 percent to 40 percent, moderate if the value of the ratio of the degree of fiscal autonomy is more than 20 percent to 30 percent, less if the value of the ratio of the degree of fiscal autonomy is more than 10 to 20 percent and very less if the value of the ratio of the degree of fiscal autonomy is 0 percent to 10 percent (Munir et.al, 2004).

b. Effectiveness Ratio of PAD

The effectiveness ratio shows the local government's ability to realize the planned local own-source revenue target. Financial performance is said to be effective if the value of the effectiveness ratio is greater than 1 (one) or above 100 percent because this shows the ability of the region to collect PAD which is getting better. Then it is said to be effectively balanced if the effectiveness ratio is equal to 1 (one), and it is said to be ineffective if the ratio value is less than 1 (one).

$$\text{Effectiveness of PAD} = \frac{\text{Realization of Local Own – source Revenue(PAD)}}{\text{Target of Local Own – source Revenue (PAD)}} \times 100\%$$

c. Degree of Independence

The degree of regional independence shows the ability of the region to finance its development activities and community services. The higher the regional independence ratio, the more independent a region is in breaking away from dependence on financing sources from outside the region.

$$\text{Degree of Independence} = \frac{\text{Local Own – source Revenue (PAD)}}{\text{Transfer from Government + Province + Loan}} \times 100\%$$

Regional performance can be categorized as high if the independence ratio value reaches 75-100 percent, whereas if the regional independence ratio value ranges from 50-75 percent then it is included in the medium category, and then it is said to be low if the ratio value is more than 25 percent to 50 percent. and less if the ratio value is more than 0 to 25 percent (Halim, 2011).

d. Degree of Dependency

The degree of dependency shows the level of dependence of the regional government on the central government. The degree of dependence is calculated by comparing the amount of transfer income received by the government with the total regional income.

$$\text{Degree of Dependency} = \frac{\text{Transfer Income}}{\text{Total Regional Income}} \times 100\%$$

If a region can carry out financing that comes from its potential, then the region is said to be worthy of becoming an autonomous region (Sistiana & Makmur, 2014). The higher this ratio, the greater the level of dependence of local governments on the central government. While the criteria for assessing regional financial dependence are as follows; 0,00-10% is very low, 10-20% is low, 21-30% is moderate, 31-40% is middle, 41-50% is good and more than 50% is very good.

3. Results and Discussions

Degrees of Fiscal Decentralization

The first indicator used to see the financial condition of local governments is the Degree of Fiscal Decentralization (DDF) which is useful for knowing how much the region's ability to generate regional income is through exploring the existing regional potentials. The following are the results of the calculation of the degree of fiscal decentralization of the Banten provincial government from 2015 to 2021 which represents the period before and during the pandemic that occurred in Indonesia

Table 1. Degree of fiscal decentralization in Banten

Year	Degree of Fiscal Decentralization (%)	Description
2015	67,86	Very good
2016	63,11	Very good
2017	59,31	Very good
2018	61,33	Very good
2019	62,69	Very good
2020	57,16	Very good
2021	62,29	Very good

Based on Table 1, it is known that the regional financial capacity of Banten Province in financing its activities based on the aspect of the degree of fiscal decentralization from 2015-2021 fluctuated. However, the level of fiscal decentralization is in the very good category because the value is more than 50%. This indicates that the province of Banten has a higher capacity for implementing decentralization in its regions. Throughout the 2015-2019 period, Banten Province's PAD became the largest contributor to regional income, because it was recorded that more than 60 percent of Banten Province's regional income came from PAD, although it decreased in 2020 when the pandemic hit, the degree of decentralization of Banten was still in the very good category. So you could say before and during the pandemic the financial capacity of the Banten province was not much different. Although Banten Province is a young province, it has great potential from PAD to meet regional development financing. In other words, the Banten Provincial Government already has a high capacity for implementing decentralization or accepting delegation of authority, particularly regarding the implementation of fiscal policy in the regions. This needs to be maintained and improved considering that not all regions in Indonesia have high PAD capabilities. The Banten Provincial Government already has a high capacity in implementing decentralization or accepting delegation of authority, particularly regarding the implementation of fiscal policy in

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Effectiveness of PAD

The second indicator to describe regional financial capacity is the effectiveness of PAD (Regional Original Income). The calculation results illustrate how strong a region is in using and realizing PAD. The value of the effectiveness of PAD is obtained by comparing the realization with the PAD target that has been determined by the region. For the province of Banten, the results can be seen in table 2.

Table 2. Effectivity of PAD in Banten

Year	Effectivity of PAD (%)	Description
2015	98,09	quite effective
2016	102,50	very effective
2017	99,58	quite effective
2018	100,52	very effective
2019	97,45	quite effective
2020	96,77	quite effective
2021	101,37	very effective

The value of PAD effectiveness before and during the pandemic is not much different because the average is in the effective category. This indicates that the province of Banten can achieve the target of PAD well. Although when the pandemic hit, the effectiveness was reduced, it did not necessarily affect the effectiveness of the PAD itself. The decrease in realization is caused by If the effectiveness of PAD is good, what the government needs to do is maintain and improve the management of PAD sources that are just developing, developing, or already developing.

Degree of Independence

The third indicator to describe regional financial conditions is a degree of independence. Regional independence is the financial ability of autonomous regions to fund their regional expenditures from their abilities through regional original income or PAD which also comes from regional taxes and levies.

Table 3. Regional independence ratio of Banten

Year	Regional Independence Ratio (%)	Description
2015	211,11	High
2016	171,09	High
2017	145,74	High
2018	158,60	High
2019	168,02	High
2020	134,62	High
2021	158,64	High

If it is seen from the value of the regional independence ratio in table 3, it can be explained that the Banten Provincial government can finance government activities, development, and services to the community who have paid taxes and levies as a source needed by the region. The Regional Independence Ratio (RKD) of Banten Province is always above 100 percent, which means that the Banten Provincial government is capable and independent in carrying out regional autonomy affairs and minimizing interference from the central government.

Degree of dependency

The government gives high trust to regions to carry out the authority delegated to them independently by allocating transfer funds in the form of General Allocation Funds, Special Allocation Funds, Revenue Sharing Funds, and Special Authority Funds. This is done to strengthen fiscal decentralization, but in reality, some regions experience a high dependence on transfer funds from the government. The results of the calculation of the degree of dependence of the province of Banten are presented in table 4 below

Table 4. Degree of Dependency of Banten

Year	Dependency Ratio (%)	Description
2015	13,33	Low
2016	36,80	High enough
2017	40,49	High
2018	38,55	High enough
2019	37,20	High enough
2020	42,34	High
2021	39,22	High enough

The results of the calculation of the degree of dependence show that in 2015 the dependency level of the province of Banten was low, which means a good indication of regional independence. However, in the following years, it tends to be high with the highest dependency rate in 2020 when the pandemic occurs. This condition can occur when the regions rely heavily on balancing funds that are dominated by the DAU and indeed aim to close the fiscal gap. This is by changes that have occurred in the structure of the state budget, which has also experienced budgetary refocusing and cuts to overcome the impact of Covid-19. However, when compared to the dependency ratio of other provinces on the island of Java, Banten's dependency ratio is among the lowest.

Inter and Intra comparison of Banten province's financial condition

To see the position of the financial performance of the Banten provincial government, a comparison or comparison with regions at the level of the Banten province is carried out which is called an inter-provincial comparison and a comparison with a district-city level area within the administrative area of the Banten province is called an intra-comparison. This is illustrated in graphs 2 and 3.

Inter-regional comparison of Banten province

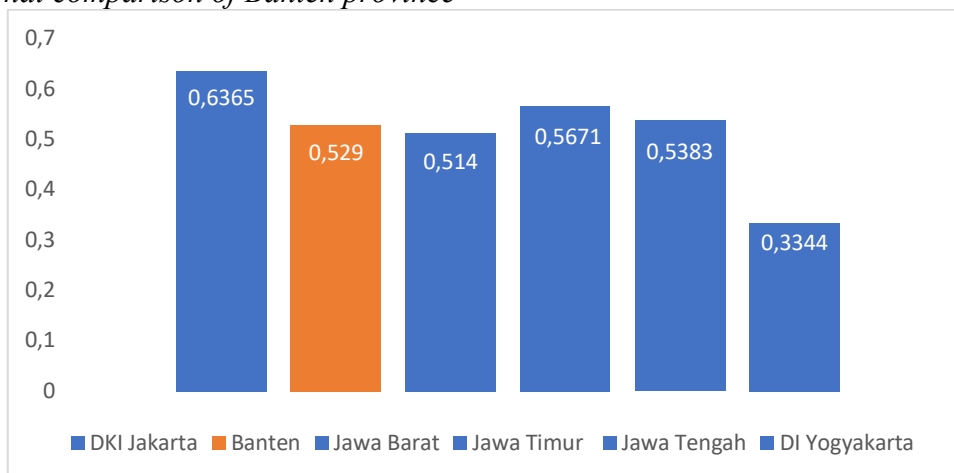


Figure 2. Inter Comparison of financial performance of Banten Province (data processed,2022)

The graph shows the position of the financial condition of Banten province compared to five other major provinces on the island of Java in 2020. The results show that even though both are in a state of the Covid-19 pandemic, Banten province as the youngest province is still able to carry out fiscal decentralization well on the index. 0.529 outperformed the provinces of West Java

and DI Yogyakarta. Meanwhile, the average financial condition of Banten province is almost the same as that of East Java and Central Java. Meanwhile, for DKI Jakarta, the comparison is 10 percent higher than the province of Banten. This is reasonable because the differences in regional original income are also very different.

Intra-regional comparison of Banten province

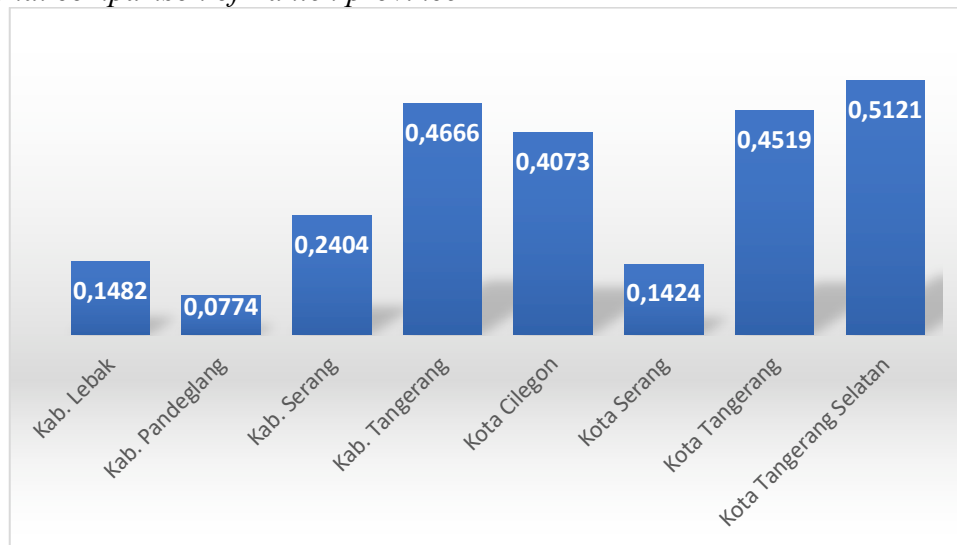


Figure 3. Intra Comparison of financial performance of Banten Province (Data processed,2022)

To see how the financial condition within the province itself is, it can be compared with the financial performance conditions between districts and cities in the province of Banten. The results show that in 2020, South Tangerang City has the highest financial performance in the very good category, followed by Tangerang City, Tangerang Regency, and Cilegon City. Meanwhile, 4 other urban districts such as Serang Regency, Serang City, Lebak Regency, and Pandeglang Regency have low financial performance. This indicates that there is a fiscal gap that needs to be a concern with the government. Following the purpose of the funding itself, namely to reduce the fiscal gap that exists between the central and regional governments as well as between regions.

4. Conclusions

Based on the results and discussion, it can be concluded that the development of regional financial independence during the period 2015-2021 in Banten Province is getting better as evidenced by the degree of fiscal decentralization which is in the very good category, the effectiveness of a balanced PAD, a high degree of independence and the degree of dependence. below 50%. When compared to conditions before and during the pandemic, the results show that although the economy was shaken and budgeting was suppressed, this did not necessarily hit the financial condition of local governments. This is driven by the amount of Local own-source revenue (PAD) which is higher than the balancing fund as a source of revenue. Increasing regional financial independence, The policy of the Banten provincial government in implementing the 2015 to 2021 Regional Revenue and Expenditure Budget (APBD) is an illustration of the government's concrete steps in providing good public services for its people. Through this research, it is suggested need effort to increase PAD revenue either through increasing tax revenues or by involving the private sector in development investment.

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