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Measuring the Financial Performance of Local Governments: A Ratio-Based Analysis

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Abstract

DIY is classified as a region with low fiscal capacity because the region has consistently recorded the lowest local revenue realization on Java Island and remains heavily reliant on central government transfers. Financial ratio analysis serves as a crucial tool for identifying trends in the financial performance of regional governments over time. It provides a foundation for evaluating the effectiveness of their financial management. This study uses secondary data. The data were collected from financial reports for the period 2020-2024 to calculate eight core financial ratios, including the Effectiveness Ratio, Efficiency Ratio, Growth Ratio, Compatibility Ratio (for Both Operating and Capital Expenditures), Regional Financial Independence Ratio, Regional Financial Dependency Ratio, and Degree of Decentralization Ratio. The study shows high revenue effectiveness, but low spending efficiency, and financial independence is weak. The pandemic led to negative growth in 2020, followed by an uneven recovery. These results underscore the importance of enhancing local revenue, improving efficiency, and reducing reliance on central transfers for achieving sustainable fiscal healthy.

Introduction

Implementing regional autonomy and fiscal decentralization in Indonesia through regional financial and budget management is a strategic step in accelerating development and improving public welfare. The principles of economy, efficiency, effectiveness, transparency, and accountability must be the basis for implementing regional financial management and oversight (Harahap, 2020). Accordance with the mandate of Minister of Home Affairs Regulation Number 77 of 2020, which stipulates that regional financial management is an integral part of the administration of government affairs, which falls under the authority of the region and must be carried out in an orderly manner, by statutory provisions, efficiently, economically, effectively, transparently, and responsibly. The administration of government affairs must also prioritize a sense of justice, propriety, and public benefit. This action is crucial because government administration must focus on a common goal: from the people, for the people (Yusmina & Siswantoro, 2023).

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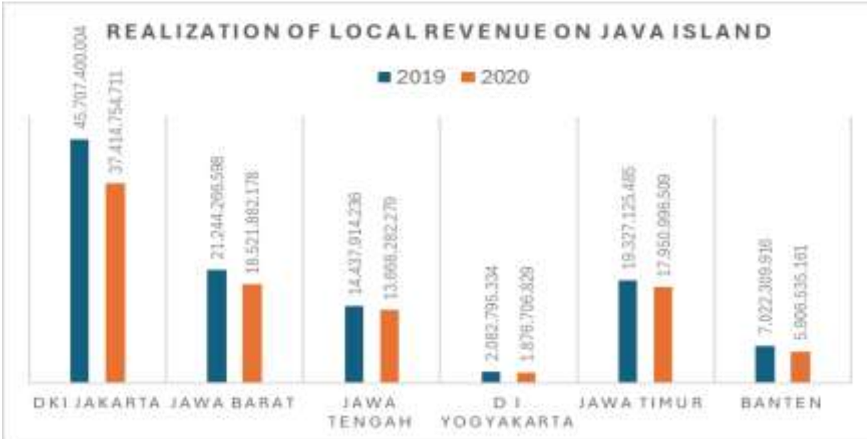

Figure 1. Realization of Local Revenue on Java Island
Source: BPS, processed data (2025)

Based on Figure 1. The realization of Local Revenue (PAD) in Java Island in 2019 and 2020, specifically in Daerah Istimewa Yogyakarta (DIY) Province, was the lowest compared to other provinces, with a realization of only IDR 2.08 trillion in 2019. It decreased to IDR 1.87 trillion in 2020. This figure is significantly lower than that of other provinces, such as DKI Jakarta, which reached more than IDR 45 trillion in 2019 and IDR 37 trillion in 2020, and East Java, which still recorded PAD above IDR 17 trillion in both years. The low realization of DIY PAD indicates challenges in optimizing regional revenue potential.

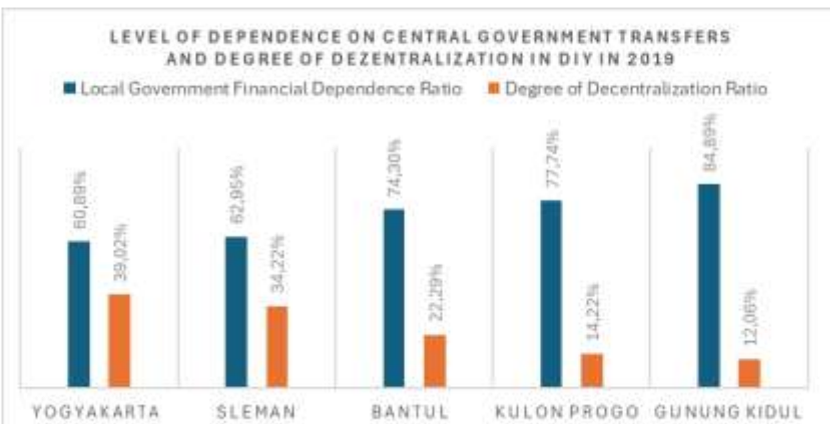

Figure 2. Level of Dependence on Central Government Transfers and Local Revenue in DIY in 2019
Source: BPS, processed data (2025)

Meanwhile, Figure 2 shows that all regencies/cities in the Daerah Istimewa Yogyakarta (DIY) still have a high fiscal dependence on the central government, with a regional financial dependency ratio exceeding 60%. Conversely, the fiscal decentralization ratio, which indicates regional independence in financing its expenditures from Local Revenue (PAD), is very low, with the highest value being only 39.02% in Yogyakarta City and the lowest at 12.06% in Gunung Kidul. This phenomenon suggests that most regional governments in DIY are not yet financially independent and

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continue to rely on transfers from the central government. This phenomenon aligns with the findings of research by Syam and Zulfikar (2022), which concluded that regional financial independence remains low, with implementation being quite adequate, and the decentralization ratio still insufficient. According to Minister of Finance Regulation Number 65 of 2024 concerning the Regional Fiscal Capacity Map, DIY is categorized as a region with Low Regional Fiscal Capacity (KFD), meaning it does not yet have adequate fiscal independence.

Therefore, it is necessary to evaluate regional financial management through financial ratio analysis, which can provide an overview of regional financial capacity, expenditure management efficiency, and potential for increasing local revenue (PAD) (Tanan & Duri, 2018; Latief et al, 2023). The regular submission of financial accountability reports demonstrates transparent regional financial management (Hasthoro & Sunardi, 2016; Aminudin & Winarningsih, 2024). Accountability reports are regional government financial reports that demonstrate organizational performance and align with applicable regulations (Farida & Nugraha, 2019). Evaluating the financial statement can help provide detailed interpretations and serve as a basis for decision-making in achieving good governance (Yusmina & Siswantoro, 2023). Meanwhile, Mahmudi (2016) states that financial ratio analysis is a tool to understand trends in regional government performance changes over time. This condition provides a crucial basis for conducting studies on regional financial management performance, particularly through financial ratio analysis, to assess the efficiency and effectiveness of financial management carried out by regional governments.

Financial performance results from an evaluation of completed regional revenues and expenditures, which are then compared against established criteria (Purwanti & Noviyanti, 2022; Prasetia et al., 2024). According to Mahmudi (2016), local government financial performance reflects the extent to which local governments can maximize revenues, control expenditures, and manage assets and liabilities in a balanced and responsible manner. Performance measurement is done to optimize government performance and realize public accountability and responsibility. A more in-depth evaluation of local government financial performance can be conducted by comparing the results of financial ratio calculations over the past few years (Nansi et al., 2021).

Based on Law Number 17 of 2003 concerning State Finance, regional heads are obliged to submit an accountability report on the implementation of the Regional Revenue and Expenditure Budget (APBD) to the Regional People's Representative Council (DPRD) in the form of a financial report. This report includes at least the APBD Realization Report, Balance Sheet, Cash Flow Statement, and Notes to the Financial Statements, supplemented by financial reports from regional companies. The preparation and presentation of these reports must comply with provisions from the Government Accounting Standards (SAP). Government Accounting Standards Statement (PSAP) Number 02, stipulated in Government Regulation Number 71 of 2010 concerning Budget Realization Reports, states that the purpose of developing this standard is to provide guidelines for the presentation of budget realization reports by the government, in compliance with the principle of accountability as stipulated in applicable laws and regulations. According to Government Regulation No. 71 of 2010, financial reports provide relevant information regarding the financial position and all transactions conducted by a reporting entity during a reporting period.

A tool for evaluating regional financial performance can use financial ratio analysis to transform data from financial reports into useful information (Santoso et al., 2021). According to Helfert (1982) and Mahsun (2012), financial statement analysis is a tool used to understand problems and opportunities identified in financial reports. Financial ratio analysis is a widely used method for examining financial reports by comparing two or more financial data elements from the report (Farida & Nugraha, 2019). This study used seven financial ratio analyses, as follows:

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1. Effectiveness Ratio
   The effectiveness ratio measures the achievement of Local Revenue (PAD) for the current period compared to the planned target (Mahmudi, 2016). In other words, this ratio assesses a region's success in realizing its revenue targets (Nansi et al., 2025). A higher effectiveness ratio indicates a region's greater ability to achieve its policy goals or targets (Mahmudi, 2016; Santoso et al., 2021).
2. Efficiency Ratio
   The efficiency ratio compares the costs incurred to generate revenue with the total revenue received (Mahmudi, 2016). A lower efficiency ratio indicates better performance by local governments. In this case, the efficiency ratio measures the extent to which a region can generate revenue by utilizing resources efficiently (Mahmudi, 2016; Nansi et al., 2025).
3. Growth Ratio
   The growth ratio measures a local government's ability to maintain and improve its success from one period to the next (Halim, 2012). Revenue growth will be better if it is positive and tends to increase, while the proportion of expenditure decreases. Conversely, if revenue decreases and spending increases, growth will decline. This ratio indicates a decline in performance and a reduced ability to maintain and increase growth in a region from one period to the next.
4. Compatibility Ratio (Operating and Capital Expenditures)
   The compatibility ratio indicates the extent to which a local government prioritizes the optimal allocation of its funds between routine (operating) expenditure and development (capital) expenditure (Mahmudi, 2016). Local authorities with high revenue levels tend to allocate a larger portion of their funds to operating expenditure, and vice versa. There are no standard benchmarks for the ideal ratio between operating and capital expenditure, as development dynamics and regional investment requirements highly influence this distribution to meet established growth objectives (Santoso et al., 2021).
5. Regional Financial Independence Ratio
   The regional financial independence ratio measures a region's ability to fund its government activities independently, without relying on transfer revenues from the central government (Halim, 2001). This ratio indicates the region's capacity to fund development, public services, and other government activities. A lower ratio shows greater reliance on central government support, while a higher ratio signifies increased fiscal independence.
6. Regional Financial Dependency Ratio
   The regional financial dependency ratio measures transfer revenues from the central government. The higher the ratio, the greater the region's dependence on transfer revenues, indicating a low capacity for independent financing.
7. Degree of Decentralization Ratio
   The degree of decentralization ratio is a ratio used to calculate the contribution of Local Revenue (PAD) to total regional revenue. The higher this ratio, the greater the local government's fiscal capacity to implement decentralization and meet its financing needs independently.

Based on this background, this study, **"Measuring the Financial Performance of Local Governments: A Ratio-Based Analysis,"** is highly relevant.

Methodology

The research methodology for analyzing local government financial performance includes systematic steps for collecting, analyzing, and interpreting data related to regional financial management (Harahap, 2024). The object

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of this research is the Yogyakarta Special Region Government, which covers five regencies/cities that have published complete and consistent Budget Realization Reports (LRA) for five consecutive years, from 2020 to 2024. This research uses quantitative descriptive analysis, a structured approach that aims to solve a problem or follows the steps of quantitative research methods (Nansi et al., 2025).

The data in this research are secondary. The secondary data are the Regional Government Financial Reports and Accountability Reports for the Implementation of the Regional Revenue and Expenditure Budget (APBD) of Yogyakarta City, Bantul Regency, Sleman Regency, Gunung Kidul Regency, and Kulon Progo Regency for the 2020-2024 period, which consist of the Budget Realization Report (LRA), Financial Balance Sheet, and Detailed Report on Local Revenue (PAD) for the 2020 to 2024 period. These data are from the official websites of the Yogyakarta City Government (https://jogjakota.go.id), Bantul City Government (https://ppid.bantulkab.go.id), Sleman Regency Government (https://slemankab.go.id), Gunung Kidul Regency Government (https://setda.gunungkidulkab.go.id), and Kulon Progo Regency Government (https://bkad.kulonprogokab.go.id). The data used includes revenue budgets, realization, expenditures, and supporting information to calculate seven key financial ratios. The financial report includes comprehensive and continuous data for each period used to calculate the seven ratios. The data and information collection technique used is documentation. This method involves studying and recording data related to the research problem (Santoso et al., 2021).

1. Local Revenue Effectiveness Ratio
   The effectiveness ratio is an indicator that measures the extent to which a region can achieve its planned Local Revenue (PAD) target, compared to the previously set target. The PAD Effectiveness Ratio compares actual PAD revenue with the PAD revenue target or the previously budgeted amount. The formula for calculating this ratio is as follows:

$$Local\ Revenue\ Effectiveness\ Ratio = \frac{Realized\ Local\ Revenue}{Local\ Revenue\ Target} \times 100\%$$

Source: Mahmudi (2019)

Percentage (%)	Criteria
> 100%	Very Effective
100%	Effective
90% – 99%	Fairly Effective
75% – 89%	Less Effective
< 75%	Ineffective

Source: Mahmudi (2019)

2. The efficiency ratio
   The efficiency ratio is a measure that compares the costs incurred to generate revenue and the total revenue received. The efficiency ratio divides the total regional expenditure by the total revenue realized, multiplied by 100 per cent. The formula for the efficiency ratio is as follows:

$$The\ Efficiency\ Ratio = \frac{Expenditure\ for\ Collecting\ Local\ Revenue}{Realized\ Local\ Revenue}\ x\ 100\%$$

Source: Mahmudi (2019)

Percentage (%)	Criteria
>100%	Inefficient
90-100%	Less Efficient
80-90%	Fairly Efficient
60-80%	Efficient
<60%	Very Efficient

Source: Kepmendagri (1996)

3. Growth Ratio
   The growth ratio measures a local government's ability to maintain and improve success from one period to the next (Awani et al., 2021). The formula for revenue growth ratio is as follows:

$$Growth\ Ratio = \frac{Local\ Revenue\ t - Local\ Revenue\ t-1}{Local\ Revenue\ t-1}$$

Source: Mahmudi (2019)

4. Compatibility Ratio: Operating Expenditures to Total Expenditures
   This ratio informs report readers about the portion of regional spending allocated to operating expenditures. Operating expenditures are expenditures whose benefits are consumed within one budget year, making them short-term and, in some cases, routine or recurrent. Generally, operating expenditures dominate total regional spending, accounting for between 60 and 90%. Regional governments with high income tend to have more operating expenditures than those with low income levels (Mahmudi, 2019). The formula for the ratio of operating expenditures to total expenditures is as follows:

$$Operating\ Expenditures\ to\ Total\ Expenditures\ Ratio = \frac{Realized\ Operating\ Expenditures}{Total\ Local\ Expenditures}$$

Source: Mahmudi (2019)

5. Compatibility Ratio: Capital Expenditures to Total Expenditures
   The capital expenditure-to-total expenditure ratio indicates how much of the regional budget goes to medium—and long-term investment through capital expenditures. Unlike routine operating expenditures, capital expenditures are non-routine and increase regional assets. Generally, low-income regions have a higher proportion of capital expenditures due to their focus on asset development. In contrast, high-income regions tend to lower their capital expenditures due to sufficient assets. This formula capital expenditure ratio is as follows:

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$$Capital\ Expenditures\ to\ Total\ Expenditures\ Ratio = \frac{Realized\ Capital\ Expenditures}{Total\ Local\ Expenditures} \times 100\%$$

Source: Mahmudi (2019)

6. Regional Financial Independence Ratio
   The regional financial independence ratio describes a region's ability to finance government activities without relying on transfer revenues. The higher the ratio, the higher the region's level of financial independence. The independence ratio compares local revenue (PAD) with central transfer revenues using the following formula:

$$Regional\ Financial\ Independence\ Ratio = \frac{Local\ Revenue}{Local\ Government\ Revenue\ (Transfers\ from\ the\ central)}$$

Source: Mahmudi (2019)

Independence Percentage	Financial Capability	Relationship Pattern
0% – 25%	Very Low	Instructive
25% – 50%	Low	Constructive
50% – 75%	Moderate	Participative
75% – 100%	High	Delegative

Source: Halim (2001)

7. Regional Financial Dependency Ratio
   The regional financial dependency ratio describes regional dependence on transfer revenues. This ratio compares the amount of transfer revenue to total regional revenue receipts. The higher the ratio, the greater the dependence on central transfer revenues. The formula regional financial dependency ratio is as follows:

$$Regional\ Financial\ Dependency\ Ratio = \frac{Intergovernmental\ Transfers}{Total\ Local\ Government\ Revenue} \times 100\%$$

Sources: Mahmudi (2019)

Percentage	Criteria
0% – 10%	Very Poor
11% – 20%	Poor
21% – 30%	Fairly Poor
31% – 40%	Moderate
41% – 50%	High
>51%	Very High

Source: Wahyu (2015)

8. Degree of Decentralization Ratio
   The degree of decentralization ratio is a ratio used to calculate the contribution of Local Revenue (PAD) to total regional revenue. The higher this ratio, the greater the local government's fiscal capacity to implement decentralization and meet its financing needs independently. The formula degree of decentralization ratio is as follows:

$$Degree\ of\ Decentralization\ Ratio = \frac{Local\ Revenue}{Total\ Local\ Government\ Revenue} \times 100\%$$

Sources: Mahmudi (2019)

Percentage	Criteria
0 – 10	Very Low
10 – 20	Low
20 – 40	Fair
40 – 50	High
>50	Very High

Sources: Kepmendagri (1996)

Result Financial Ratio Analysis
Effectiveness Ratio

The results of the calculation of the Financial Performance of Local Governments (LKPD) effectiveness ratio in the 5 districts of the Daerah Istimewa Yogyakarta for the 2020-2024 budget year can be seen in the graph below:

Figure 3. Effectiveness Ratio of District in DIY Province 2020-2024
Source: Proccessed Data (2025)

Based on Figure 3 above, it can be concluded that during the 2020-2024 period, all districts in the Daerah Istimewa Yogyakarta (DIY) showed effectiveness ratios in each region above 100% and were categorized as highly effective. This result indicates that, in general, local governments in each district in the Daerah Istimewa Yogyakarta succeeded in exceeding the set targets. This result reflects the good ability of each district to manage budgets and implement development programs.

Figure 3 shows that the effectiveness ratio of Yogyakarta City during the period 2020-2024 consistently recorded the highest ratio achievement, with a value range between 109.48% and 118.09%, falling into the highly effective category. This ratio shows the optimal performance of the Yogyakarta City government in managing the realization of local revenue against the revenue realization target compared to other districts. In contrast, Gunung Kidul Regency is the lowest district among the five districts/cities of Yogyakarta, with a range of 104.37% - 103.53%. This percentage indicates a challenge for the Gunung Kidul Regency government in optimizing revenue. Bantul and Sleman regencies experienced a decreasing trend in effectiveness from 2020 to 2024, although it had increased in 2023. Kulon Progo Regency experienced fluctuations in effectiveness from 2020, with the effectiveness rate jumping from 116.95% to 124.56% in 2021, then falling again in 2022 to 116.17%, and gradually decreasing until 2024, to 101.85%. The Kulon Progo Regency government needs to address these issues to stabilize regional income and overcome the challenges in achieving its set targets. On average, effectiveness declined by 113.97% in 2020 to 103.36% in 2024. These results indicate that although all regions in Yogyakarta demonstrate strong performance in achieving planned local revenue, challenges persist in maintaining the efficiency level of local revenue management. At the same time, there is still room for optimization in extracting revenue from existing potential revenue sources and using the budget more efficiently. Variations in performance between regions suggest the need for a tailored approach to improving financial effectiveness, particularly in regions with lower ratios.

Efficiency Ratio

The results of the calculation of the LKPD efficiency ratio in the 5 districts of the Daerah Istimewa Yogyakarta for the 2020-2024 budget year can be seen in the graph below:

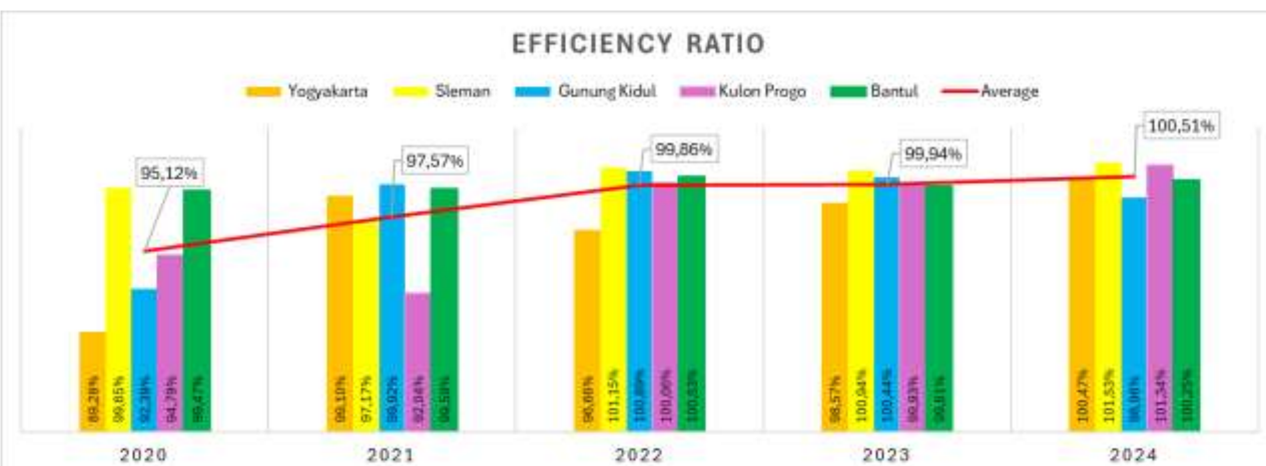

Figure 4. Efficiency Ratio of District in DIY Province 2020-2024.
Source: Proccessed Data (2025)

Based on the average of each year obtained from Figure 4 it is evident that the efficiency ratio of regional expenditure to regional revenue in the five districts/cities of the Yogyakarta Special Region has continued to increase,

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from 95.12% in 2020 to 100.51% in 2024. By the efficiency ratio criteria according to (Kepmendagri, 1996), it can be categorized that, on average, from 2020 to 2024, the majority of financial management in all districts/cities in the Daerah Istimewa Yogyakarta, namely Yogyakarta City, Sleman Regency, Gunung Kidul Regency, Kulon Progo Regency, and Bantul Regency, are in the "Less Efficient" to "Inefficient" category. This condition highlights the need for concrete programs to enhance efficiency, as well as increased supervision and evaluation in budget management, to improve regional financial efficiency to a higher level in the future.

Growth Ratio

The results of the calculation of the regional growth ratio in 5 districts in the Daerah Istimewa Yogyakartafor 2020-2024 can be seen in graph below:

Figure 5. Growth Ratio of District in DIY Province 2020-2024.
Source: Processed Data (2025)

Based on the results of growth ratio data processing in five regencies/cities in Daerah Istimewa Yogyakarta from 2020 to 2024, it is evident that financial performance has experienced significant fluctuations. In 2020, the COVID-19 pandemic occurred, resulting in the growth of Regional Original Revenue in almost all districts, except for Kulon Progo Regency, which achieved the highest financial ratio of 6.96%. The statement by Mochamad et al. (2025) suggests that the Kulon Progo Regency government can maintain and improve its success from one period to the next. In 2021, all districts/cities in Daerah Istimewa Yogyakarta began to show recovery in their regions, with a decrease from -9.17% to 7.00%. The year 2022 marked the peak of the growth ratio increase in almost all districts/cities in Daerah Istimewa Yogyakarta, except for Kulon Progo Regency, which experienced a drastic decline of 20.7%. Then, in 2023, a drastic decline to negative occurred again in Gunung Kidul Regency, at -11.55%. This result indicates that the performance of Regional Original Revenue in the district has not been stable. In 2024, growth resumed, albeit at a slower pace, with an average of 7.77%, suggesting that the stabilisation phase had begun following the surge from the previous year. The differences in achievements in these five regencies/cities show variations in the ability of each

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region. Although most regions experienced significant contractions and spikes, the average growth ratio for each region remains relatively small. Good revenue growth should be consistent and show an upward trend, so the government must continue to improve regional effectiveness and efficiency.

Compatibility Ratio

Below are the results of the calculation of the analysis of the Compatibility Ratio of Operating Expenditure and the Compatibility Ratio of Capital Expenditure, as follows:

Figure 6. Compatibility Ratio (Operating Expenditure) of District in DIY Province 2020-2024
Source: Proccessed Data (2025)

While the results of the calculation of the Capital Expenditure Compatibility Ratio are as follows:

Figure 7. Compatibility Ratio (Capital Expenditure) of District in DIY Province 2020-2024
Source: Proccessed Data (2025)

Based on the compatibility ratio analysis results shown in the graph and table above, the government allocates most

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of its funds for operational expenditure compared to capital expenditure, resulting in a relatively minor ratio. Between 2020 and 2024, the majority of the government's funds allocated to each district in Daerah Istimewa Yogyakarta were still prioritized for operational expenditures. The average range of values from 2020 to 2024 was 75.90% to 78.03%, indicating that the compatibility of operating expenditures exceeds 75%.

Meanwhile, Figure 7, the analysis of the Compatibility Ratio (Capital Expenditure) for 2020-2024 shows an average range of values for each year, from 15.38% to 10.25%. Based on the analysis above, this figure indicates that most allocations from the APBD are focused on financing routine expenditures, including personnel expenditures, expenditures on goods and services, grant expenditures, and social assistance expenditures. Local governments in Yogyakarta still concentrate too much on fulfilling operating expenditures, which results in capital expenditures for the five districts in Yogyakarta not being fulfilled.

This analysis suggests that local governments should reassess the balance between operating and capital expenditures to avoid hindering long-term development and regional competitiveness. A disproportionately high proportion of operating expenditures risks narrowing the fiscal space for development investment, so more balanced and future-oriented budget planning efforts are needed.Regional Financial Independence Ratio. The analysis results of the calculation regional financial independence ratio in the 5 districts in the Daerah Istimewa Yogyakarta for 2020 - 2024 can be seen in graph below:

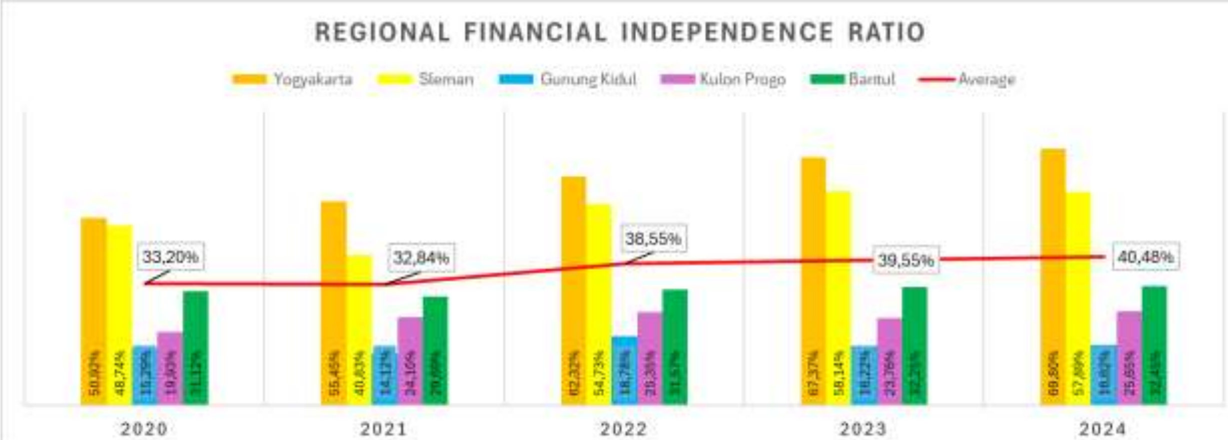

Figure 8. Regional Financial Independence Ratio of District in DIY Province 2020-2024
Source: Proccessed Data (2025)

According to the processed data results, the independence ratio obtained for all governments in the five districts/cities in the Daerah Istimewa Yogyakarta, on average, from each period 2020 to 2024, with a value range of 33.20% to 40.48% can be categorized as low financial capability and has a constructive relationship pattern. This result indicates that local governments in DIY exhibit a positive relationship pattern, where the DIY government is increasingly able to finance government activities without relying on transfer revenues. However, this figure is not high, and regions still have very low financial capabilities and develop instructional relationship patterns. Yogyakarta achieved the highest degree of decentralization from 2020 to 2024, with a range of 50.92% to 69.80%, which falls within the moderate financial capability category, characterized by a participatory relationship pattern. This result indicates the region's

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ability to finance itself relatively moderately, with the central government's role decreasing.

Meanwhile, the lowest ratio was obtained by Gunung Kidul Regency each year, starting from 2020, with a rate of only 15.29% to 2024, amounting to 16.62%, categorized as very low category with a pattern of instructive association. Based on Halim's (2001) categorization, this relationship pattern indicates that the central government remains dominant, rather than the Gunung Kidul regional government, with a relatively low ability to self-finance. This analysis reveals that the five districts/cities lack complete participatory independence, as the Government of each Regency/City must be able to encourage progress and community participation to optimize local potential more strategically.

Dependency Ratio

The analysis results of the calculation depedency ratio in the 5 districts in the Daerah Istimewa Yogyakarta for 2020-2024 can be seen in graph below:

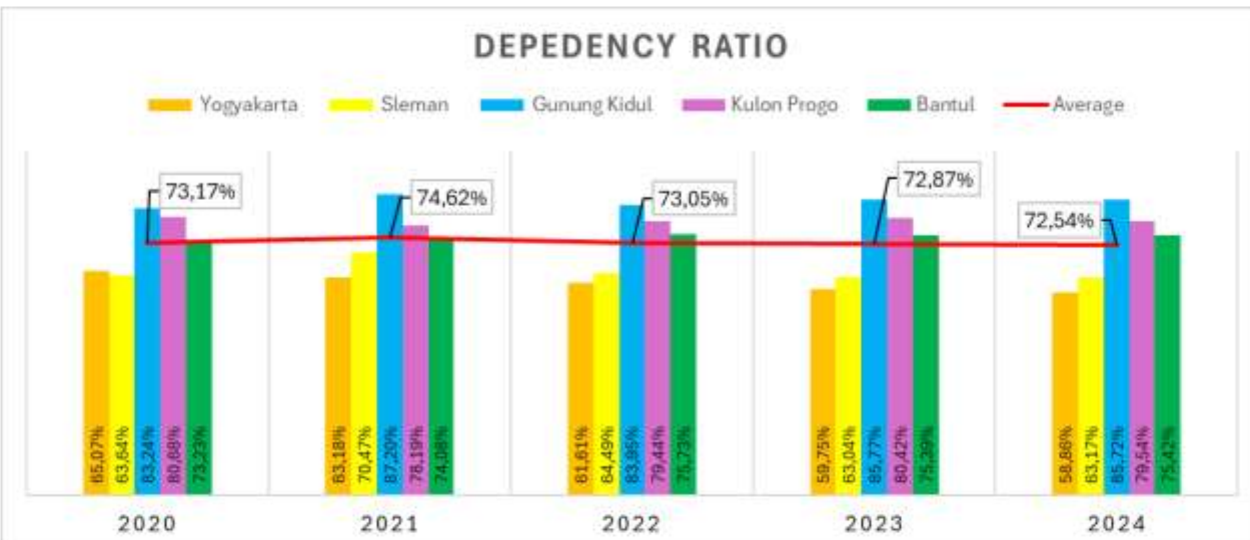

Figure 9. Depedency Ratio of District in DIY Province 2020-2024
Source: Processed Data (2025)

Figure 9 shows that, on average, from 2021 to 2024, all districts/cities in Daerah Istimewa Yogyakarta exhibit a very high category of dependence, with a value range of 73.17% to 72.54% in transfer revenue funds. From these results, it is evident that independence has not been achieved and has failed to maximize the efficiency of budget management in regional income. The highest fiscal dependence is observed annually among the other four districts/cities in Gunung Kidul, with a value range of 83.24% to 85.72%. Gunung Kidul region is highly dependent on the central government's budget funds. In contrast, Yogyakarta is the least dependent region among the other four regions, with a range of values from 65.07% to 58.86%. Although this figure still falls into a very high category, it is dominated by transfer revenues, indicating that dependency remains a significant issue for all regions in Daerah Istimewa Yogyakarta.

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Degree of Decentralization Ratio

The analysis results of the calculation of the ratio degree of decentralization in 5 districts in the Daerah Istimewa Yogyakartain 2020 - 2024 can be seen in table 5.1 below:

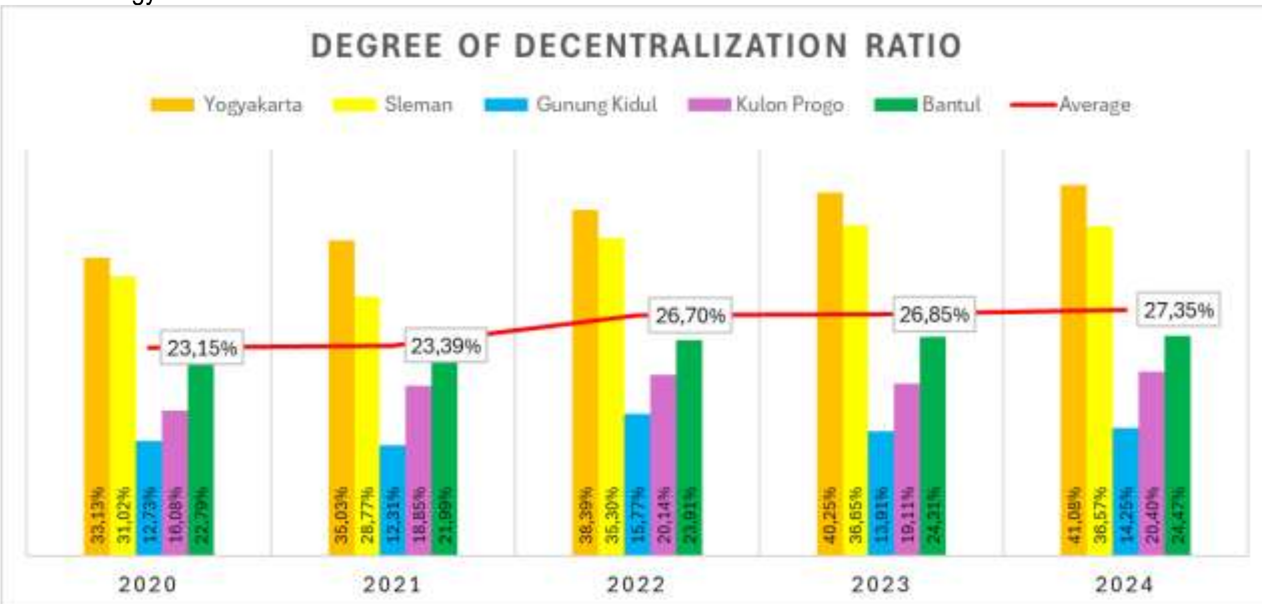

Figure 10. Degree of Decentralization Ratio of District in DIY Province 2020-2024
Source: Proccessed Data (2025)

The Degree of Decentralization Ratio reflects the contribution of local government revenue to the total income of the region. Based on the results of data processing on the ratio of the degree of decentralization for the five districts / cities, it shows quite varied differences from one another, with Yogyakarta recording the highest decentralization ratio and continuing to increase from 2020 - 2024 of 41.08% with a high category. This means that Yogyakarta illustrates strong fiscal independence because it can reduce dependence on transfer funds and almost half of its regional income comes from local revenue. Meanwhile, the lowest ratio was achieved by Gunung Kidul Regency by showing the degree of decentralization from 2020-2024 with a value range of 12.73% to 14.25% and classified as less. This means that the contribution of local revenue is very small and the Gunung Kidul region is included in a region that in carrying out its regional autonomy still tends to depend on the central government. This condition shows the need for a strategy to increase the capacity and effectiveness of regional financial management, especially in areas with a low degree of decentralization.

Discussion

The Yogyakarta region has a positive financial performance from 2020 to 2024. This region demonstrates its ability to achieve the local revenue target by consistently maintaining an effectiveness ratio above 100%, placing it in a highly effective category. In addition, Yogyakarta is the region with the highest level of independence every year among the five other regions and has an increasing trend. Despite the COVID-19 pandemic in 2020, Yogyakarta was able to finance government activities without relying on transfer revenues through tax digitalization, revenue intensification and extensification, and optimization of regional assets. Yogyakarta's Decentralization Degree also shows an increasing trend and is the highest among the five districts/cities in DIY every year. However, Yogyakarta still faces challenges in

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efficiently managing local finances, fiscal dependence, and developing innovative and responsive strategies (Latief et al., 2023; Mochamad et al., 2025)

Sleman's financial performance from 2020 to 2024 demonstrates effectiveness, falling within very effective criteria, but continues to decline every year. This decline suggests that the Sleman government should investigate the cause of the shortfall in achieving the local revenue target. Sleman's regional growth ratio shows recovery from the impact of the COVID-19 pandemic, which initially resulted in a negative outcome, but then achieved optimal results in 2022. However, it experienced a decline again in 2023 and 2024. Likewise, the independence ratio, which had declined in 2020 and 2021 but recovered in 2022, 2023, and 2024, experienced a slight decline in 2024. The degree of decentralization in the Sleman region decreased in 2021, but it increased again by 2024, as the local revenue contribution to total revenue increased. The efficiency ratio indicates that Sleman still falls into the "Less Efficient" to "Inefficient" category, as it has challenges in managing the costs incurred compared to the income received. The dependency ratio indicates that Sleman remains highly dependent, as it is falling into the category above 51% every year. Although still classified as having a very high dependency, the Sleman government exhibits a gradual decline in performance as it continues to optimize local potential, strengthen digitalization, and develop the creative economy (Santoso, 2021; Mochamad et al., 2025).

Bantul is categorized as very effective in local revenue generation; however, its effectiveness has decreased annually. The high dependency ratio and low independence in the Bantul area indicate a significant reliance on transfer funds from the central government. The degree of decentralization in the Bantul region is classified as low. Nevertheless, the Bantul government has shown a gradual improvement, albeit with challenges remaining, as transfer revenues still account for the majority of its operations. Bantul's regional local revenue growth has decreased due to the impact of the COVID-19 pandemic; however, it has since recovered. The policy and economic recovery of the Bantul region is quite successful, although it is characterized by gradual growth. The efficiency of the Bantul region is classified as "Less Efficient" to "Inefficient" because the expenditures to generate income exceed the income gained.. The expenditure compatibility from the Bantul region indicates a tendency for the government to prioritize routine needs over asset investment (Nasution et al, 2023)

The Kulon Progo government exhibits fluctuations in the effectiveness of local revenue, although it remains in the very effective category, as it exceeds 100%. The peak was reached in 2021, but it gradually decreased until 2024. The Independence Ratio remained classified as very low from 2020 to 2023. It began to enter the low category in 2024, indicating that the Kulon Progo region's dependence on transfer revenues for financing government activities persisted, despite the Kulon Progo government's gradual efforts to reduce this dependence. The Dependency Ratio of the Kulon Progo government, classified as very high, illustrates that the Kulon Progo region is highly dependent on transfer revenues in its regional financial structure. Kulon Progo's Decentralization Degree is low in the criteria for the period 2020-2024. The local revenue growth ratio in the Kulon Progo area is relatively volatile, with figures that suddenly jumped dramatically in 2021 and experienced a significant decline in 2022. It began to gradually increase in 2023 and continued to do so in 2024.

Gunung Kidul is the region that received the lowest effectiveness among the four districts/cities in Yogyakarta in 2020, 2021, and 2023. However, the effectiveness of the Gunung Kidul region is still classified as very effective and is rated at 100%. The degree of decentralization in the Gunung Kidul region is classified as low and is the lowest among other regions in Yogyakarta, due to its negligible contribution to local revenue. The very low Independence Ratio and high dependence on transfer funds indicate the dominance of transfers in the Gunung Kidul region in the regional revenue

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structure. The growth of local revenue in the Gunung Kidul region appears to be fluctuating. In 2022, the growth rate jumped rapidly, and in 2023, the local revenue growth fell to a negative level, only to rise again in 2024. It was due to fiscal pressure and the weak tourism sector (Mochamad et al., 2025). The Gunung Kidul region also falls into the inefficient category, meaning that the costs incurred exceed the total revenue received. The Gunung Kidul region also needs to pay attention to the distinction between operational and capital expenditures in order to support sustainable development (Fathah, 2017; Rigel, 2017).

Conclusion

Based on the analysis of local government financial ratios in five districts/municipalities in Daerah Istimewa Yogyakarta from 2020 to 2024, it can be concluded that local governments have generally performed well, particularly in terms of the effectiveness of local revenue management. All districts/cities managed to exceed revenue targets, with effectiveness ratios above 100%. Yogyakarta City recorded the highest consistent achievement, while Gunung Kidul Regency still faces challenges in optimizing revenue, despite its effectiveness value remaining in the highly effective category. However, there is a downward trend in average effectiveness from 113.97% in 2020 to 103.36% in 2024, indicating a slowdown in budget management efficiency.

In terms of budget management efficiency, the average efficiency ratio has increased from 95.12% in 2020 to 100.51% in 2024. However, most districts/cities are still in the "less efficient" to "inefficient" category, indicating the need for stricter budget supervision and control to improve the efficient use of regional funds. The analysis of regional growth also reveals the impact of the COVID-19 pandemic in 2020, with an average negative growth rate of -9.17%. However, from 2021 to 2024, there was a significant and stable recovery in growth, although with fluctuations between districts.On the other hand, expenditure allocations are dominated by operational expenditure (75.90%-78.03%) compared to capital expenditure (10.25%-15.38%), which has the potential to hamper long-term development. Budget allocations are more focused on operational expenditures than on capital expenditures, which means that the region's primary focus remains on routine activities. Therefore, there is a need to increase long-term investment for sustainable development. Overall, regional financial independence remains low, with a high dependence on central transfers, particularly in Gunung Kidul Regency. However, there is a downward trend in dependency and an increase in the degree of fiscal decentralization, indicating positive steps towards more independent fiscal autonomy in some regions.

Overall, the results of the analysis underline the need to increase the capacity of regional financial planning, supervision, and management, with a focus on optimizing local own-source revenues, balancing routine and development expenditures, and reducing dependence on central transfer funds so that regional financial performance is more effective, efficient, and independent in supporting sustainable regional development.

Limitations

This study has limitations in its analytical approach, which is limited to descriptive statistical analysis of regional financial performance without examining the influence of other variables that could potentially influence that performance. Variables such as human resource capacity, the quality of program planning, and revenue projections, as well as regional revenue optimization strategies, were not analyzed in this study; therefore, the results obtained cannot fully describe causal relationships. Furthermore, the financial performance analysis in this study did not provide an in-depth examination of the structure of Local Revenue (PAD) based on the types of revenue held by the Yogyakarta Regional Government. However, the proportion of each PAD source, such as regional taxes, regional levies, proceeds from the management of separated regional assets, and other legitimate PAD, could provide a more detailed picture of the region's fiscal effectiveness and potential. Therefore, future research is recommended to expand the study by including an analysis of the factors causing the low PAD in Yogyakarta, considering that this province has the lowest total PAD in Java. More comprehensive approaches, such as regression analysis, Structural Equation Modeling (SEM), or qualitative approaches based on field studies, could be used to identify the root causes and formulate more targeted solutions.

Research Contribution

This research provides several important contributions, both theoretically and practically, as follows:

1. **Provides an Overview of the Financial Performance of Daerah Istimewa Yogyakarta.** This research shows that the achievement of Local Revenue (PAD) in the Daerah Istimewa Yogyakarta Province has exceeded the established target, reflecting the region's ability to optimally manage some of its revenue sources. However, the analysis also shows that the level of dependence on transfer funds from the central government remains very high, indicating that the fiscal independence of the Daerah Istimewa Yogyakarta has not yet been fully achieved.
2. **Provides Input for Regional Governments.** This research presents a comparison of financial performance between regencies/cities in the Special Region of Yogyakarta, providing valuable insights for local governments. Regencies/cities with better performance can serve as models or examples for improving financial management in other regions, thereby encouraging collective improvements in regional fiscal governance.
3. **Laying the Groundwork for Further Research.** This research opens up opportunities for further investigation, particularly in exploring the relationship between regional financial performance and other variables, such as human resource capacity, planning quality, PAD optimization strategies, and institutional factors. With a more comprehensive approach, further research is expected to provide a deeper understanding of the determinants of regional fiscal performance. In short, its main contribution lies in reshaping where both academics and practitioners focus their efforts when assessing and managing financial risk.

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