Keywords
Independence ratio, decentralization, and level of independence

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European Journal of Prosthodontics and Restorative Dentistry (2026) 34 (6s), 69–72

Analysis of Regional Financial Independence in East Luwu Regency: Evidence from 2023–2025

Abstract
This study examines the level of regional financial independence in East Luwu Regency by calculating the fiscal decentralization ratio, the regional financial dependence ratio, and the regional financial independence ratio. It also assesses the extent to which the regional government's fiscal capacity is sufficient to finance development in East Luwu Regency. The findings indicate that the fiscal decentralization ratio falls within the moderate category. This condition is attributable to the relatively limited contribution of Locally Generated Revenue (Pendapatan Asli Daerah—PAD) to total regional revenue. The calculation of East Luwu Regency's regional financial independence ratio places the regency within a consultative relationship pattern, with a ratio below 50%, indicating a low level of fiscal independence. In other words, transfer revenue remains greater than PAD. The regional financial dependence ratio of the East Luwu Regency Government remains in the very high category, averaging 58.7% over the 2023–2025 period.

Received-05-06-2026
Revised-10-07-2026
Accepted-17-07-2026
Doi:10.1922/ejprd.v34i6s.1610

1. INTRODUCTION

East Luwu Regency is one of the administrative regions in South Sulawesi Province with abundant natural resources that can generate revenue to support regional development. Locally Generated Revenue (Pendapatan Asli Daerah—PAD) constitutes one of the principal sources of financing for development at the regional level. PAD comprises several revenue streams, including regional service charges, which serve as an important instrument for increasing regional revenue.

Sustainable and equitable regional development requires adequate financial support. One of the primary self-generated funding sources available to regional governments is Locally Generated Revenue (PAD). PAD reflects a region's fiscal capacity to manage its resources and finance government administration and public services without excessive reliance on transfers from the central government. Regional taxes and service charges are two major components of PAD whose roles have become increasingly important in the context of regional autonomy.

As one of the administrative regions in South Sulawesi Province, East Luwu Regency possesses considerable economic potential and abundant natural resources. If managed effectively, these resources should make a substantial contribution to regional revenue, particularly through the optimization of tax and service-charge collection. Regional taxes include hotel, restaurant, entertainment, advertising, Rural and Urban Land and Building Tax (PBB-P2), and vehicle taxes. Regional service charges are imposed on specific public services, including market facilities, parking, healthcare, sanitation, and certain licensing services. However, the realization of regional tax and service-charge revenue in recent years indicates that East Luwu Regency's fiscal potential has not yet been fully utilized. A gap remains between the amount of tax and service-charge revenue that could potentially be collected and the amount actually realized.

2. RESEARCH METHODOLOGY

To enhance the accuracy of the findings, this study employed a descriptive quantitative approach to provide a numerical overview of the level of regional financial independence in East Luwu Regency.

The analysis focuses on the following regional financial ratios:

1. The fiscal decentralization ratio, calculated by comparing PAD with total regional revenue. The fiscal decentralization ratio is calculated using the following formula:

$$\textbf{Decentralization Ratio} = \frac{\textbf{(Local Own} - \textbf{Source Revenue)}}{\textbf{Total Regional Revenue}} \, \boldsymbol{x}\ \textbf{100}\ \%$$

The degree of fiscal decentralization is classified according to the criteria presented in the following table.

Table 1. Interval Scale for the Degree of Fiscal Decentralization

Degree of Fiscal Decentralization	Classification
0,00 - 10,00	Very Low
10,01 - 20,00	Low
20,01 - 30,00	Moderate
30,01 - 40,00	Fair
40,01 - 50,00	Good
>50,00	Very Good

Source:Halim (2007) in Zukhri (2020)

2. The regional financial independence ratio compares Locally Generated Revenue (PAD) with transfers from the central government, including grants and loans. Following Dilliana and Herdi (2022), regional financial capacity is measured using the following formula:

$$\textbf{Independence Ratio} = \frac{\textbf{Local Revenue}}{\textbf{(Central and Provincial Government Aid} + \textbf{Regional Loans)}} \, \boldsymbol{x}\ \textbf{100}\ \%$$

The criteria used to classify regional financial independence are presented in the following table.

Table 2. Relationship Patterns and Levels of Regional Financial Capacity

Financial Capability	Independence (%)	Relationship Pattern
Very Low	0 – 25	Instructive
Low	25 – 50	Consultative
Medium	50 -75	Participative
High	75 – 100	Delegative

Source: Bangga (2017) in Zukhri (2020)

3. The regional financial dependence ratio compares transfer revenue with total regional revenue. Following Mahmudi (2010), as cited in Oki et al. (2020), the degree of dependence is calculated using the following formula:

$$\textbf{Dependence Ratio} = \frac{\textbf{Transfer Revenue}}{\textbf{(Total Regional Revenue)}} \, x \, \textbf{100} \,\%$$

Regional financial dependence is classified according to the criteria presented in the following table.

Table 3. Criteria for Assessing Regional Financial Dependence

Dependence (%)	Category
0,00 - 10,00	Very Low
10,01 - 20,00	Low
20,01 - 30,00	Medium
30,01 - 40,00	Fairly High
40,01 - 50,00	High
>50,00	Very High

Source: Bangga (2017) in Zukhri (2020)

3. RESULTS

1. Fiscal Decentralization Ratio

The fiscal decentralization ratio indicates the extent to which authority and responsibility are devolved by the central government to regional governments in the implementation of development programs. The calculated fiscal decentralization ratios for East Luwu Regency are presented in the following table.

Table 4. Fiscal Decentralization Ratio of East Luwu Regency, 2023–2025

Year	PAD	Total Regional Revenue	Fiscal Decentralization Ratio (%)	Classification
2023	394.955.306,	1.778.000.000	22,2	Moderate
2024	382.640.000.	1.714.010.000	22,3	Moderate
2025	336.940.000.	1.940.000.000	17,3	Moderate

Source: Authors' calculations based on regional revenue realization reports

As shown in Table 4, the average fiscal decentralization ratio of East Luwu Regency was 20.6%. The ratio remained relatively stable between 2023 and 2024 before declining in 2025. In 2023, the fiscal decentralization ratio was 22.2% and was classified as moderate. It increased slightly to 22.3% in 2024, before declining to 17.3% in 2025, while the study continued to classify it within the moderate category.

2. Regional Financial Independence Ratio

. The regional financial independence ratio indicates the extent to which PAD is used to finance regional government administration and development. The calculated financial independence ratios for East Luwu Regency are presented in the following table.

Table 5. Regional Financial Independence Ratio of East Luwu Regency, 2023-2025.

Year	PAD	Transfer Revenue	Financial Independence Ratio (%)	Relationship Pattern
2023	394.955.306,	958.307.742.581	41.	Consultative
2024	382.640.000.	1.274.237.661.927	30	Consultative
2025	336.940.000.	931.830.000.000	36	Consultative

Source: Authors' calculations based on regional revenue realization reports.

Table 5 shows that East Luwu Regency's regional financial independence ratio remained below 50% throughout 2023–2025, placing it within the consultative relationship pattern. The ratio was 41% in 2023, declined to 30% in 2024, and subsequently increased to 36% in 2025. The three-year average was 35.6%. Based on the applied criteria, the regency therefore exhibited a low level of financial independence and a consultative relationship pattern. This condition indicates that the central government continued to play a more dominant role than the regional government in financing regional activities.

3. Regional Financial Dependence Ratio

The regional financial dependence ratio reflects the extent to which a regional government relies on transfer revenue to finance development activities (Oki et al., 2020). The calculated financial dependence ratios for the East Luwu Regency Government are presented in the following table.

Table 6. Regional Financial Dependence Ratio of East Luwu Regency, 2023–2025

Year	Transfer Revenue	Total Regional Revenue	Financial Dependence Ratio (%)	Classification
2023	958.307.742.581	1.778.000.000	53,8	Very High
2024	1.274.237.661.927	1.714.010.000	74,3	Very High
2025	931.830.000.000	1.940.000.000	48,0	High

Source: Authors' calculations based on East Luwu regional financial realization reports.

As shown in Table 6, East Luwu Regency's average financial dependence ratio was 58.7%. The ratio was 53.8% in 2023 and increased to 74.3% in 2024, exceeding the previous year's level. It subsequently declined to 48.0% in 2025. Overall, these results indicate that East Luwu Regency's reliance on intergovernmental transfers remained very high.

4. DISCUSSION

1. Fiscal Decentralization Ratio

The fiscal decentralization ratio indicates the extent to which the central government devolves authority and responsibility to regional governments in the implementation of development programs. The calculations show that East Luwu Regency's fiscal decentralization ratio was classified as moderate. This finding reflects the relatively limited contribution of Locally Generated Revenue (PAD) to total regional revenue. To increase PAD, the regional government should pursue revenue intensification by supporting economic activities that can contribute to regional income, including through policies that facilitate access to and the use of business premises. The government should also undertake revenue extensification by continuously identifying and assessing new legitimate revenue sources that could broaden the PAD base.

2. Regional Financial Independence Ratio

The regional financial independence ratio indicates the extent to which PAD is used to finance regional government administration and development. The results place East Luwu Regency within the consultative relationship pattern, with a ratio below 50%, indicating a low level of financial independence. This means that transfer revenue remained greater than PAD. Transfer revenue is largely used to finance personnel expenditure, in addition to other spending categories such as capital expenditure and expenditure on goods and services.

3. Regional Financial Dependence Ratio

The regional financial dependence ratio reflects the extent to which a regional government relies on external transfers to finance development activities (Oki et al., 2020). The results show that the financial dependence of the East Luwu Regency Government remained in the very high category, with an average ratio of 58.7% during 2023–2025. This condition occurred because transfer revenue represented a substantial share of total regional revenue, indicating that East Luwu Regency continued to rely heavily on the central government despite being a nickel-producing region.

5. CONCLUSION

Based on the findings and discussion of East Luwu Regency's financial performance, assessed in terms of financial independence, financial dependence, and fiscal decentralization, the following conclusions can be drawn for the 2023–2025 period:

1. The fiscal decentralization ratio of East Luwu Regency was classified as moderate. This condition reflects the relatively limited contribution of Locally Generated Revenue (PAD) to total regional revenue.
2. East Luwu Regency's financial independence ratio placed the regency within the consultative relationship pattern and remained below 50%, indicating a low level of independence. Transfer revenue therefore continued to exceed PAD.
3. The financial dependence ratio of the East Luwu Regency Government remained in the very high category, averaging 58.7% during 2023–2025

6. RECOMENDATIONS

1. The East Luwu Regency Government should intensify and diversify Locally Generated Revenue by developing legitimate revenue sources, including through the utilization and provision of rest areas for micro, small, and medium-sized enterprises (MSMEs), tourism attractions, and other economic facilities.
2. To strengthen the financial independence of East Luwu Regency, the regional government should continue to maximize legitimate regional revenue sources to offset the scale of central government transfers, particularly by optimizing revenue potential from the mining sector.
3. To reduce East Luwu Regency's financial dependence from the very high category to a lower level, the regional government should improve the structure of the Regional Revenue and Expenditure Budget (APBD), particularly by increasing expenditure efficiency, while optimizing total regional revenue from various potential sectors.

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