

ANALYSIS OF THE FINANCIAL PERFORMANCE OF THE REGIONAL GOVERNMENT OF BENGKULU PROVINCE: THE DEGREE OF FISCAL DECENTRALIZATION APPROACH

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ABSTRACT

The objective of this study is to utilize an empirical approach to analyze the financial performance of the Regional Government of Bengkulu Province in relation to the degree of fiscal decentralization. The secondary data set employed in this study offers a valuable opportunity to examine the financial performance of the Bengkulu Provincial Government. The research method used is linear regression for panel data with Eviews analysis tool. The empirical results obtained from this study indicate that the financial performance of the Provincial Government is suboptimal due to the significant disparity between the Public Accountant's Report (PAD) and total revenue. Furthermore, the analysis reveals that local taxes, local levies, and other PADs have a positive and significant effect on the financial performance of Bengkulu Province. Conversely, capital expenditure has been found to exert a negative and significant influence on the financial performance of the Regional Government of Bengkulu Province, underscoring the need for a more autonomous local government budgetary process. The findings of this study indicate that local governments in Bengkulu Province continue to rely heavily on central government transfers, indicating a significant need for greater financial autonomy.

Keywords: Financial Performance, Local Taxes, Local Retribution, Capital Expenditure

INTRODUCTION

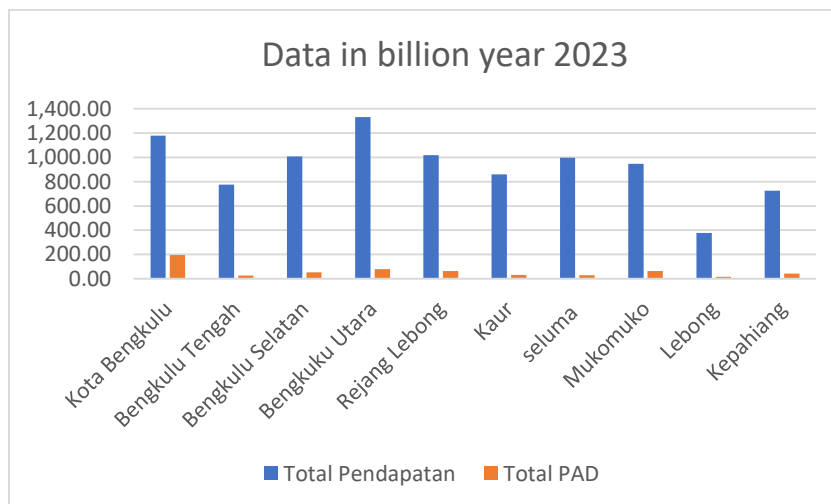
Fiscal decentralization constitutes a pivotal element in fostering the enhancement of regional autonomy within the Indonesian context. According to Charevedi, the concept of local government autonomy signifies the conferral of authority to political entities within a specific geographic jurisdiction, empowering them to delineate their own course and actions (Rosemarry et al., 2016). Fiscal autonomy, otherwise termed fiscal decentralization, pertains to the implementation of local financial management. Local governments are entrusted with the prerogative to employ a diverse array of financial resources autonomously, contingent upon their capacity to execute governmental functions that are within their purview. This enables regions to explore diverse sources of revenue (Khusaini, 2018).

This objective is pursued by collecting taxes, levies, and other forms of regional original income (PAD). The primary goals of this strategy are to enhance public services and promote regional fiscal independence, thereby reducing the reliance of regions on central government transfers (Mardiasmo, 2018). According to Article 1, paragraph (1) of Government Regulation No. 12 of 2019 concerning Regional Financial Management, regional finance is defined as all regional rights and obligations in the context of implementing regional government that can be valued in money, as well as all forms of wealth that can be used as regional

property in connection with these regional rights and obligations (Mardiasmo, 2018). This definition provides a foundation for local governments to operate within the regional financial domain (Maulina et al., 2021).

The fiscal decentralization ratio is a scale frequently employed to assess financial performance, and it is used to compare two main factors: PAD and total local revenue. The level of PAD reflects the contribution of PAD to the region's total revenue. Furthermore, the level of financial effectiveness can be determined based on the PAD generated. PAD significantly affects regional financial performance, especially in terms of financing government activities and regional development. An increase in PAD has been shown to positively impact regional financial performance, while a decrease in PAD has been shown to negatively impact this financial performance (Adi in Pasaribu et al., 2021). Yulitiawati & Mustika (2020) posit that the ratio of the degree of fiscal decentralization illustrates the local government's proficiency in increasing PAD as the primary source of funding for development. This ratio also addresses the readiness of local governments to implement regional autonomy and the role of the central government in supporting regional development (Bernardin et al., 2023).

The central government has authorized several regions, one of which is Bengkulu Province, which consists of 9 regencies and 1 city. The implementation of regional autonomy is expected to encourage regencies and cities in Bengkulu Province to optimize the potential of each region to reduce dependence on the central government. However, the implementation of regional autonomy has not yet made Bengkulu Province a self-sufficient region, as evidenced by the comparison table of PAD to total district/city revenue in Bengkulu Province in 2023:



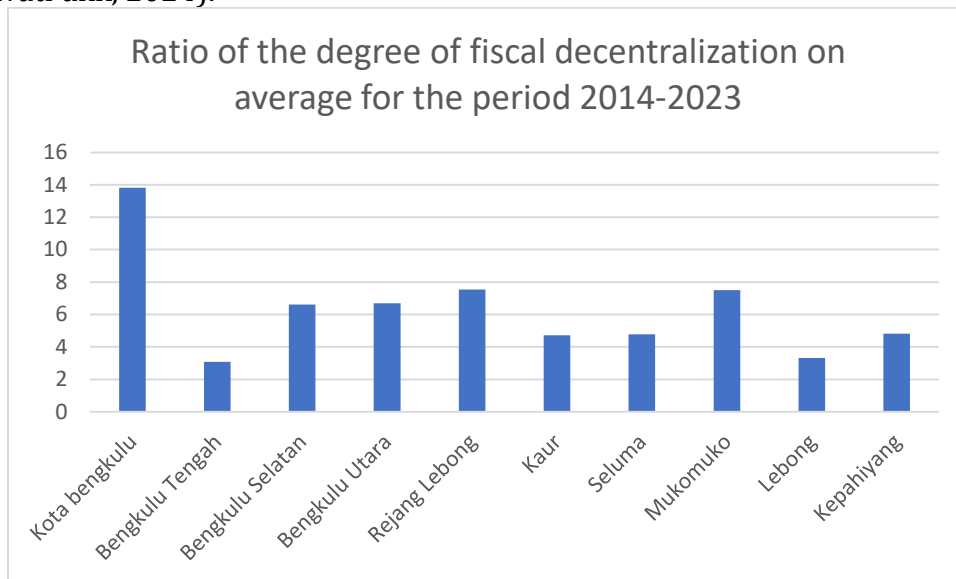
Source: DJPK data Ministry of Finance (data processed using excel)

Figure 1. Realization of total PAD and total district/city revenue in 2023

Realization of total PAD and total regency/municipality revenue in 2023 PAD is a crucial indicator in measuring the level of financial independence of local governments. The preponderance of regional revenue in Bengkulu Province is attributed to central government transfers, while the contribution of regional own-source revenues (PAD) remains modest. A review of 2023 data reveals that the majority of districts/municipalities in Bengkulu Province exhibit a substantial reliance on transfer revenues, with PAD contributing a negligible proportion of

total revenues. While Kota Bengkulu and Bengkulu Utara have the highest total revenues, the proportion of their own-source revenues remains substantially lower than other revenue components. This phenomenon underscores the challenge of optimizing the potential of local resources to increase PAD, thereby strengthening regional economies.

The culmination of regional financial administration is manifest in financial performance, encompassing regional revenue and expenditure. The objective is to facilitate the autonomous implementation of government systems, public services, and regional development, thereby ensuring independence from central government oversight. The policies and regulations that are implemented during a designated budget period serve as the foundation for this assessment (Febli & Yulitiawati, 2020). According to Halim (2021), local government financial performance is indicative of the efficacy and effectiveness of local governments in utilizing financial resources to achieve optimal results. This performance encompasses various aspects, including the ability to manage revenue, expenditure, and financing optimally, as well as ensuring accountability and transparency in the use of public funds. Ultimately, this contributes to improving the quality of public services and achieving regional development goals effectively (Yuliatwati dkk, 2024).



Source: DJPK data Ministry of Finance (data processed using excel)

Figure 2. Average degree of fiscal decentralization of provincial and district/city governments in 2014-2023

A thorough analysis of fiscal decentralization ratios reveals that the region's financial capacity is significantly constrained. The majority of districts in the province are categorized as very poor (0.00% - 10.00%), with the sole exception of Bengkulu City, which is designated as poor (13.81%).

This finding prompts the question of how regions like Bengkulu Province can achieve financial growth when they are heavily reliant on central government transfers for funding. The analysis of fiscal decentralization, as measured by the degree of local government autonomy in managing financial resources, provides a framework for evaluating the financial performance of local governments in Bengkulu Province. A comprehensive study was conducted to examine the impact

of various factors on financial performance, including local taxes, local levies, other local revenue sources, and capital expenditure.

The extant research on the contribution of local taxes to local financial performance has yielded mixed results. Studies by Pasaribu et al. (2021), Sundjoto et al. (2023), Juwita (2017) and Aprilianda (2016) indicate a positive and significant correlation between local taxes and local government financial performance. Conversely, Pangestu (2023) and Wiguna & Jati (2019) concluded that local taxes do not contribute significantly to this performance. Local retribution is also a subject of research interest. For instance, Nggilu et al. (2021) revealed that local retribution significantly contributed to the enhancement of regional financial autonomy in several districts/cities in Gorontalo Province. Conversely, studies by Pasaribu et al. (2021), Juwita (2017), and Aprilianda (2016) found a negative relationship between local retribution and local government financial performance. Contrary to the findings of Wiguna & Jati (2019) and Sundjanto et al. (2023), this study demonstrates a substantial contribution of local retribution to local financial performance.

The third factor contributing to regional financial performance is other PAD, which has been found to have a positive relationship with financial performance, according to the research of Simamora & Budiwitjaksono (2022) dan Aprilianda (2016). However, the findings of Juwita (2017) contradict this, as they show no significant contribution. Furthermore, Bernardin et al. (2023) present more in-depth findings, namely that the contribution of other legitimate PAD to financial performance is not significant. This discrepancy in the findings underscores the intricate and non-linear nature of the relationship between other legitimate PAD and regional financial performance.

The subsequent factor that influences financial performance in this study is capital expenditure. Yulia & Mimba (2016) determined that an increase in capital expenditure has a significant impact on the augmentation of regional financial income, indicating that investment in physical assets can be the primary catalyst for local revenue evolution. This condition results in the enhancement of local government financial performance (Antari & Sedana, 2018). However, Nugroho & Rohman (2012) demonstrated in their research that an increase in capital expenditure does not directly correspond to an increase in financial performance, and in fact, can have a substantial negative impact. Darwis & Saputra's research also found that capital expenditure had a negative effect on the financial performance of local governments. The problem in the research studied is whether local taxes, local levies, other PAD, and capital expenditures affect the financial performance of the local government of Bengkulu Province.

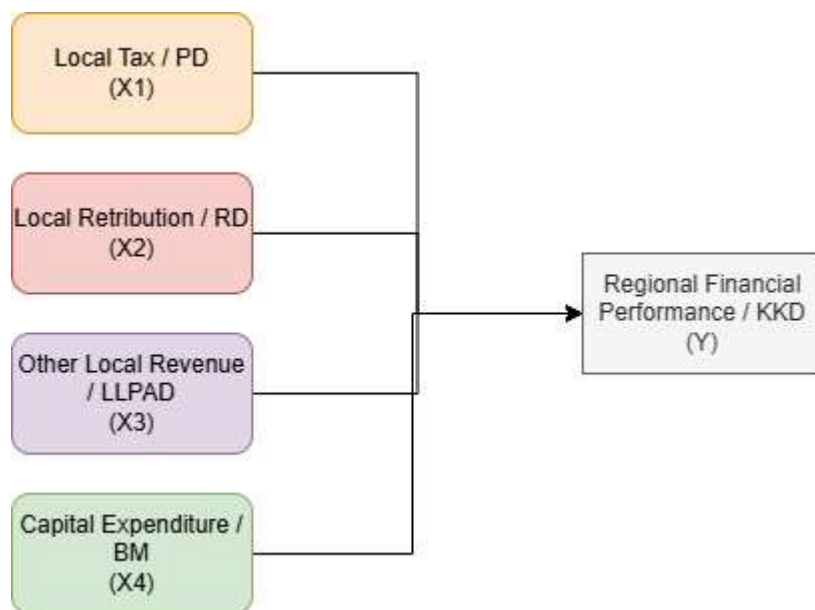
RESEARCH METHODS

This analysis uses annual panel data from all kabupatens/cities in Bengkulu Province over the period 2014-2023. The data, sourced from the DJPK of the Ministry of Finance, includes various data on the realization of PAD components (acting as independent variables) such as local taxes, user charges, other PAD, and capital expenditure. In addition, data on the realization of PAD and processed regional revenue, which is a measure of the financial performance of the regency/municipality governments in Bengkulu Province, is also analyzed and acts as the dependent variable.

$$KKD_{it} = \beta_0 + \beta_1 PD_{it} + \beta_2 RD_{it} + \beta_3 LLPAD_{it} + \beta_4 BM_{it} + e_{it}$$

Description:

- KKD : Regional financial performance (PAD/total Regional Revenue)
- PD_{it} : Local tax (realized in billion)
- RD_{it} : Local retribution (realized in billion)
- $LLPAD_{it}$: Other local revenue (realized in billion)
- BM_{it} : Capital Expenditure (realized in billion)
- β_0 : Intercept or constant
- $\beta_1 \beta_2 \beta_3 \beta_4$: Independent Variable Regression Coefficient
- e_{it} : error term



Source: Data Processed (2024)

Figure 3. Flow of Research

RESULTS AND DISCUSSION

Model Selection Results

Three approaches (PLS, FEM, and REM) were used in estimating regression models on panel data. The selection of the best regression model from the three approaches aims to ensure optimal panel data analysis. This study aims to determine the most suitable analysis model between PLS, FEM, or REM by using Chow and Hausman tests as testing methods.

1. Chow Test

Through the Chow test, the researcher can provide a determination of the suitable regression model, namely CEM or FEM. The probability value (p) on the cross-section f is used as the basis for decision making. If the p value > 0.05, the model used is CEM. Conversely, if p < 0.05, FEM is the choice. (Savitri et al., 2021).

Table 1. Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	13.173212	(9,86)	0.0000
Cross-section Chi-square	86.650869	9	0.0000

Source: Data Processed (2024)

Probability analysis shows that FEM is the best choice. This is because the probability value obtained is far below the significance threshold of 0.05.

2. Hausman Test

The Hausman test is used to determine the best model between FEM and REM in panel data analysis. The model selection decision is based on the probability value (p) of the cross-section random test. REM is selected if the p value is > 0.05, while FEM is selected if the p value is < 0.05. Savitri et al. (2021).

Table 2. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	7.862151	4	0.0968

Source: Data Processed (2024)

As a result, the REM model is selected because the prob value is $0.0968 > 0.05$.

3. Legrange Multiplier Test

If the significance value (p) exceeds 0.05, the appropriate model to use is the CEM model. Conversely, the model used is REM if the p value is less than 0.05 (Savitri et al., 2021).

Table 3. Legrange Multiplier Test Results

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	78.44002 (0.0000)	5.664027 (0.0173)	84.10405 (0.0000)
Honda	8.856637 (0.0000)	2.379922 (0.0087)	7.945447 (0.0000)
King-Wu	8.856637 (0.0000)	2.379922 (0.0087)	7.945447 (0.0000)
Standardized Honda	10.90448 (0.0000)	2.921070 (0.0017)	6.079668 (0.0000)
Standardized King-Wu	10.90448 (0.0000)	2.921070 (0.0017)	6.079668 (0.0000)
Gourieroux, et al.	--	--	84.10405 (0.0000)

Source: Data Processed (2024)

Model selection shows that the REM model is used because the prob value is $0.000 < 0.05$.

Hypothesis Test Results

Table 4. t Test Results

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 02/05/25 Time: 15:56
Sample: 2014 2023
Periods included: 10
Cross-sections included: 10
Total panel (balanced) observations: 100
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.118652	0.312517	6.779312	0.0000
PD	0.055835	0.005307	10.52038	0.0000
RD	0.119900	0.019722	6.079575	0.0000
LLPAD	0.087968	0.003877	22.69106	0.0000
BM	-0.002275	0.001074	-2.117342	0.0368

Source: Data Processed (2024)

The following section will provide a detailed explanation of the dependent and independent variables:

- The t test results indicate that the local tax variable (X1) contributes statistically significantly to the financial performance of local governments. The calculated t value of 10.52038 is considerably higher than the t table value of 1.984467455, and the significance level is minimal (0.0000). This finding indicates a robust relationship between local taxes and local government financial performance.
- Local retribution (X2) is statistically proven to contribute significantly to local government financial performance. This is evident from the t value (6.079575) exceeding the t table value (1.984467455) and the significance level (0.0000) being less than 0.05. Regression analysis indicates that a one-unit increase in the local retribution variable contributes positively to the enhancement of local government financial performance. This finding aligns with the research hypothesis. That is, an optimized local retribution can contribute positively to financial performance.
- Analysis of regional own-source revenue (X3) shows a significant contribution to the financial performance of local governments. The calculated t value obtained, 22.69106, far exceeds the t table value (1.984467455). The very small significance value (0.0000) reveals that the contribution of PAD to financial performance is statistically very strong.
- The results of hypothesis testing on the capital expenditure variable (X4) indicate that the value of $t < t$ table, with a significance value of $0.0368 < 0.05$. This finding indicates that capital expenditure contributes significantly to financial performance. However, the effect is negative and the impact is less significant than the contribution demonstrated by the local tax, local levy, and other PAD variables.

Table 1. Weighted Statistics

Root MSE	0.506099	R-squared	0.898818
Mean dependent var	1.472136	Adjusted R-squared	0.894557
S.D. dependent var	1.599063	S.E. of regression	0.519247
Sum squared resid	25.61362	F-statistic	210.9749
Durbin-Watson stat	1.347165	Prob(F-statistic)	0.000000

Source: Data Processed (2024)

F Test

This finding suggests that all four independent variables analyzed together contribute significantly to the financial performance of local governments in Bengkulu Province. The statistical test results indicate that the regression model used can provide an explanation for the considerable variation in financial performance, with an F value > F table ($210.9749 > 2.467494$) and sig level ($0.000 < 0.5$).

R² Test

The results of this study indicate that an increase in the independent variables has the potential to improve the financial performance of a region. However, keep in mind that financial performance is influenced by various complex factors, so the results of this study need to be interpreted with caution. 89.4557% of financial performance is influenced by the independent variables in this finding, while 10.5443% is influenced by other variables.

Panel data Regression Equation Results

$$KKD = 2.118 + 0.055 PD + 0.119 RD + 0.087 LLPAD - 0.002 BD$$

The following explanation is provided:

- Firstly, the findings indicate that an increase in financial performance of 2.11% can be attributed to a constant of 2.11. The independent variables in this model suggest that financial performance is not significant.
- The beta coefficient of the local tax variable (x1) is 0.05. An increase of 1 million in the constant variable and variable X1 will cause the financial performance variable (Y) to increase by 0.05 percent. Conversely, a decrease of 1 million in the constant variable and variable X1 will also cause the financial performance variable (Y) to decrease by 0.05 percent.
- The beta coefficient value of the local retribution variable (x2) is 0.11. An increase of 1 million in local retribution will increase financial performance (Y) by 0.11 percent. Conversely, a decrease in the constant value and variable x2 by 1 million will cause financial performance (Y) to decrease by 0.11 percent.
- The beta coefficient value of other PAD variables (x3) is 0.08. An increase of 1 million in the value of the constant variable and variable X3 will cause an increase in the financial performance variable (Y) by 0.08 percent. Conversely, a decrease in the value of the constant variable and variable

- X3 by 1 million will result in a decrease in variable Y by 0.08 percent.
- e. The beta coefficient value of the Capital Expenditure variable (x_4) is - 0.002. An increase of 1 million in the values of the constant variable and variable x_4 will result in a 0.002 percent decrease in financial performance (Y). Conversely, a decrease of 1 million in the values of the constant variable and variable x_4 will lead to a 0.002 percent decrease in financial performance (Y).

Discussion

The fiscal decentralization ratio of Bengkulu City was recorded at 13.81%, which falls into the less category. This data indicates that the level of fiscal independence of Bengkulu City is higher than that of other districts. However, local own-source revenue (PAD) still contributes little to overall local revenue. As the center of economic activity and government of Bengkulu Province, Bengkulu City has great potential to increase PAD. The optimization of local tax revenues, levies, and other PAD is identified as a pivotal strategy to achieve this objective.

A review of the data reveals that nine districts are classified as severely deficient, with fiscal decentralization ratios averaging below 10%. Central Bengkulu Regency recorded the lowest ratio, at 3.08%, while Rejang Lebong Regency exhibited the highest ratio among the districts, at 7.53%. The low fiscal decentralization ratio indicates a high degree of regional dependence on central revenue sources, resulting in a negligible contribution of regional own-source revenues to total regional revenues. This poses a significant challenge for district governments in achieving fiscal independence. The potential for PAD has not been managed optimally, and each district possesses a variety of natural resources and unique economic potential that have not been fully utilized to support PAD.

The Effect of Local Taxes, Local Levies, Other Revenue and Capital Expenditures on the Financial Performance of Regency/City Local Governments in Bengkulu Province

The findings of the F test demonstrate that the independent variables of this study contribute collectively to regional financial performance, underscoring the significance of changes in these variables on the overall financial health of the region. These four variables represent the primary sources of regional revenue and financing, which in turn drive economic growth, thereby enhancing local government financial performance.

PAD was identified as a pivotal element in enhancing regional financial performance. To attain fiscal autonomy, district and city governments must persist in optimizing the administration of local revenue sources. Capital expenditure exerts a substantial influence on regional financial performance. An effective management of capital expenditure holds the potential to enhance infrastructure and public facilities. These improvements, in turn, contribute to local economic growth and community welfare.

The Effect of Local Taxes on the Financial Performance of the Bengkulu Provincial Government

The findings of the t-test analysis reveal a statistically significant disparity

between the two groups under consideration. The obtained t-test statistic (10.52038) exceeds the critical t value (1.984467) at the 0.05% significance level, a conclusion that is further substantiated by the probability value of 0.0000, which is negligible. This outcome suggests that the null hypothesis, designated as H_0 , which postulates the absence of a discrepancy between the two groups, can be refuted. The findings indicate a substantial impact of the local tax variable (X_1) on the financial performance of local governments. The coefficient of local tax of 0.05 signifies that for every 1 million increase in local tax, there is a 0.05 percent increase in local financial performance. Conversely, a decrease in the value of the constant variable and X_1 by 1 million will reduce financial performance by 0.05 percent. One source of PAD that contributes directly to improving regional financial capacity is local taxes.

It is incumbent upon the Regency and City Governments in Bengkulu Province to undertake this evaluation and proactively pursue the optimization of local tax revenues. These endeavors are designed to enhance financial performance and fortify the autonomy of each region. Furthermore, local taxes function as a strategic instrument in the enhancement of the financial performance of local governments. The findings of this study corroborate the significance of optimal tax management in fostering fiscal independence for Bengkulu Province. By optimizing local tax revenue, the government can augment its financial capacity, thereby enabling the implementation of more effective and sustainable development programs.

This conclusion aligns with the results of the study conducted by Pasaribu et al. (2021), who utilized a time series data approach to examine Bengkulu City. Their findings indicate that local taxes contribute positively and significantly to the city's financial performance during the period from 2000 to 2018. Furthermore, Sundjanto et al. (2023) demonstrated that local taxes contributed positively and significantly to regional financial independence in East Java Province during the period 2016-2019. Mianti & Fachruzzaman (2020) show that there is significantly different as the local government's financial performance during the period of Bengkulu province last ten years, well after the implementation of regional autonomy and after the economic crisis. Aprilianda's (2016) research corroborates these findings, highlighting the pivotal role of local taxes in fostering fiscal decentralization in East Java and Wulan et al., (2023) show that fiscal decentralization has an indirect effect on community welfare but a direct effect through economic capacity.

The Effect of Local Levies on the Financial Performance of the Bengkulu Provincial Government

The variable of local retribution (X_2) has been demonstrated to exert a partially significant influence on the financial performance of local governments. Preliminary analysis indicates that the t test results support this hypothesis, as the t value of 6.079575 exceeds the t table value of 1.984467, with a significance level of $0.0000 < 0.05$. The findings of this study demonstrate that the optimization of local retribution exerts a positive influence on the financial independence of local governments, given its role as a component of PAD. According to the coefficient of local retribution (0.119900), an increase in local retribution revenue by 1 million is expected to result in a 0.11 percent increase in local financial performance.

Conversely, a decrease in local retribution revenue by 1 million will lead to a corresponding decrease in local financial performance.

To this end, local governments must identify underutilized potential user fees, such as those associated with the management of tourist attractions, health services, and local markets. Furthermore, enhancing synergies with local taxes through system integration and management transparency is imperative.

These conclusions align with those of Nggilu et al. (2016), who found that local retribution significantly contributes to enhancing the financial independence of local governments at the district/city level in Gorontalo Province. Susanto et al., (2020) show that the policy of the Bengkulu Province local government in supporting fiscal independence has made policies to create a conducive climate for investors, policies to encourage regional economic growth and regional spending are strived to support the achievement of development goals effectively and efficiently. However, Valentina & Putri (2023) show that the value of the Regional Original Income Coefficient (PAD) which is not significant towards Regional Expenditures.

The Effect of Other PAD on the Financial Performance of the Bengkulu Provincial Government

The findings of the t-test analysis demonstrate that other variables of PAD (X3) exert a substantial influence on the financial performance of local governments. The t-table value of 1.984467455 exceeds the t-count value of 22.69106, and the significance value obtained is 0.0000, which is significantly below the 0.05 threshold. This indicates that the assumed hypothesis can be accepted.

The beta coefficient of other PAD variables is 0.08, indicating that an increase of 1 million in the constant and variable other PAD (X3) would result in a 0.08 percent rise in local government financial performance (Y). Conversely, a 1 million decrease in the constant value and other variables of PAD would lead to a 0.08 percent decline in financial performance.

This finding underscores the significance of other sources of PAD within the broader local government revenue structure. The enhancement of regional fiscal capacity is significantly bolstered by these other sources of PAD. Local governments are therefore strongly encouraged to prioritize the optimization of other sources of PAD through management innovation and enhanced supervision. This will ensure that their contribution to financial performance remains at its maximum potential. The findings of this study corroborate the notion that, in addition to taxes and user charges, the diversification of local revenues through the enhancement of other sources of PAD can serve as a pivotal strategy for the enhancement of local financial management.

This finding aligns with the conclusions of Apridiyanti (2019), who reported that the "other PAD" component significantly contributes to enhancing the financial performance of a region. Collectively, these studies underscore the significance of diversifying local revenue by augmenting other components of PAD as a pivotal strategy for enhancing the quality of local financial management.

It is imperative for local governments to prioritize the optimization of alternative forms of local revenue. This can be achieved through management innovation and enhanced supervision, ensuring that their contribution to financial

performance remains at its maximum. This approach can provide local governments with additional resources to support ongoing development and public services.

The Effect of Capital Expenditure on the Financial Performance of the Bengkulu Provincial Government

The findings of the regression analysis suggest that the capital expenditure variable (X4) exerts a substantial influence on financial performance (Y), with a p-value of 0.0368 being less than 0.05. The beta coefficient of -0.002 indicates a negative relationship between capital expenditure (X4) and financial performance (Y). An increase in capital expenditure (X4) of 1 million will result in a reduction of financial performance (Y) by 0.002 percent, and vice versa. The persistent decline, irrespective of fluctuations in capital expenditure, may be indicative of underlying factors or inefficiencies in capital expenditure management that adversely impact financial performance.

These findings are consistent with the results of Nugroho & Rohman (2012), who found that an increase in capital expenditure has a significant negative impact on regional financial performance. Nugroho and Rohman explained that there were indications that employee performance was not maximized and that the budget allocated for capital expenditures was often used for personal gain (corruption). A similar conclusion was reached by Darwanis & Saputra (2014), who determined that capital expenditure exerts a substantial negative influence on regional financial performance. However, Utami & Yefriza (2023) show that efficiency level Bengkulu Province APBD management for the 2017-2021 period averaged 69 %, which shows that the Bengkulu Province APBD management has been completed efficiently in optimizing its resources.

CONCLUSION

The financial performance of the Regional Government of Bengkulu Province has been determined to be in a state of very poor classification. The results indicate that nine regencies in Bengkulu Province exhibit a ratio of the degree of fiscal decentralization that falls below 10% (very poor). The sole region, namely the city of Bengkulu, demonstrates a ratio of the degree of fiscal decentralization that exceeds 10%, yet it remains in the poor category. The analysis indicates that local taxes, local levies, and other revenue contributed positively and significantly to the financial performance of the local government of Bengkulu Province. Conversely, capital expenditure contributed negatively and significantly to the financial performance of these regions. The results of this study conclude that the fiscal capacity of regencies and cities in Bengkulu Province still needs to be improved.

The study proposes several recommendations for local governments, including the exploration of untapped PAD sources, such as the optimization of PAD elements and the more effective utilization of regional assets. The diversification of revenue through initiatives such as tourism development or cooperation with the private sector is also emphasized. The government is tasked with ensuring that capital expenditure is allocated to projects that provide tangible benefits to the community, particularly infrastructure that fosters the development of the local economy. The planning and implementation of these strategies must be

meticulously monitored and evaluated to ensure their effectiveness. It is imperative to maintain integrity in all financial dealings to prevent any form of corruption. Future research could explore additional contributing factors and compare the financial performance of Bengkulu Province with other provinces in Indonesia.

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