

Research Article

Regional Financial Performance and Fiscal Independence Strategies in Baubau City

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ABSTRACT

Fiscal decentralization in Indonesia aims to strengthen the capacity of local governments to manage financial resources independently, yet its implementation continues to face major challenges. Baubau City is among the regions with low fiscal independence, where the contribution of locally generated revenue (PAD) remains weak and reliance on central transfers is still dominant. This study evaluates the financial management performance of Baubau City during 2019–2023 using four main indicators: the fiscal independence ratio, the fiscal decentralization ratio, the routine capacity index, and the fiscal dependency ratio. A mixed-methods approach was applied, combining quantitative analysis of budget realization reports (APBD) with qualitative insights from in-depth interviews with officials at BPKAD and Bapenda. The findings show that the average fiscal independence ratio was 12.21 percent (low), fiscal decentralization 9.6 percent (very poor), routine capacity 10.72 percent (very poor), and fiscal dependency 85.97 percent (very high). These results indicate that fiscal autonomy in Baubau City has not been substantively realized. Institutional weaknesses limited human resources, low taxpayer compliance, and the underuse of digital systems exacerbate the situation. Strengthening fiscal institutions, updating tax databases, adopting digital technology, and optimizing sectors such as tourism, maritime services, and regional trade are necessary to improve fiscal independence and achieve sustainable regional development.

Keywords: Fiscal decentralization; Local government finance; Fiscal independence; Fiscal dependency; Locally Generated Revenue

1. INTRODUCTION

Fiscal decentralization in Indonesia has become one of the strategic policies to strengthen the capacity of local governments in managing financial resources independently. This policy aims to promote efficiency, transparency, and accountability in development and public service delivery through the enhancement of fiscal authority (Alvaro, 2022; Kusuma & Anwar, 2024). Within the framework of regional autonomy, the success of development largely depends on the ability of local governments to mobilize and optimize locally generated revenue (PAD) as the main indicator of fiscal independence (Sudarmana & Sudiarta, 2020). This mandate is reinforced by Law No. 23 of 2014 on Regional Government and Law No. 33 of 2004 on Fiscal Balance, both of which emphasize the crucial role of PAD in supporting local financial independence (Manek & Badrudin, 2017). However, despite more than two decades of decentralization, the contribution of PAD to total regional income remains relatively low in many areas, particularly in small and medium-sized cities. As a result, fiscal autonomy often remains administrative rather than substantive (Putra & Hidayat, 2016; Supardi & Budiwitjaksono, 2021). Studies indicate that weak fiscal capacity is caused by fragile fiscal institutions, limited management of local economic potential (Hadi & Saragih, 2013; Hutajulu et al., 2020), and the lack of innovation in tax and levy collection systems (Santi & Iskandar, 2021). In fact, local taxes and levies play a vital role in contributing to PAD, with hotel, restaurant, and entertainment taxes proven to be dominant revenue sources in several regions (Puspitasari et al., 2018; Olga & Andayani, 2021; Rieshe & Aji, 2021).

Furthermore, the relationship between fiscal decentralization and economic growth also varies. Some studies have found that decentralization can stimulate regional growth when fiscal potential is optimally utilized. Conversely, regions that remain highly dependent on central transfers often struggle to accelerate local development (Saragih & Nurlinda, 2023; Wahyudi & Wahyudin, 2022). Therefore, integrated and collaborative strategies are required, including the optimization of tourism, trade, and service sectors, which have been shown to significantly increase PAD contributions (Ikhyannuddin et al., 2021; Nugraha & Soebagy, 2024; Putri & Hidayati, 2024). In the literature, several studies emphasize that strengthening fiscal independence depends not only on economic potential but also on innovation and financial

management. Olga & Andayani (2021) and Suci & Asmara (2018) demonstrate that strong locally generated revenue (PAD) can stimulate regional economic growth, while Alvaro (2022) highlights the need for financial management reforms to improve the degree of fiscal decentralization. Raharjo et al. (2023) further argue that better financial governance not only increases PAD but also creates more sustainable and responsive public management. From another perspective, Junaid et al. (2022) and Fajrina et al. (2020) stress the importance of multi-stakeholder collaboration—between government, academia, and industry in supporting local fiscal strategies, aligning with the Triple Helix concept that can strengthen local revenue bases (Asmiddin et al., 2021).

Baubau City, located in Southeast Sulawesi Province, faces serious challenges in improving fiscal independence. Data from the 2019–2023 local budget (APBD) show that PAD contributed only an average of 12.21% to total revenue, while more than 85% relied on central government transfers (Hasni, 2019; Mursidi, 2019; R, 2023). Indicators such as the fiscal independence ratio, fiscal decentralization ratio, routine capacity index, and fiscal dependency ratio all reveal low performance (Oktrivina & S, 2020; Mursidi, 2019). The limited contribution of PAD restricts the local government's fiscal space to set development priorities and increases vulnerability to shifts in central policies (Wahyudi & Wahyudin, 2022).

Local studies also highlight the importance of strengthening PAD strategies in Baubau. Asmiddin et al. (2021) show that the Triple Helix model can be an important tool to foster synergy between government, academia, and the private sector in enhancing local revenue. Meanwhile, Nugrah et al. (2023) found that the low degree of fiscal decentralization in medium-sized cities like Baubau results in structural fiscal constraints. Therefore, strategic efforts to explore and optimize PAD sources, particularly local taxes and levies that have not yet been maximized, are urgently needed (Sudarmana & Sudiarta, 2020; Ikhyanuddin et al., 2021).

Based on this review, it is evident that there is a research gap regarding institutional dynamics and fiscal strategies in medium-sized regions. Most prior studies focus on cross-sectional data across regions or fail to explore local contexts in depth. In contrast, a multi-year case study approach combined with qualitative analysis can provide a more comprehensive understanding of the obstacles and opportunities for fiscal independence. Therefore, this study aims to analyze the financial management performance of the Baubau City Government during the 2019–2023 period through four main indicators (fiscal independence ratio, fiscal decentralization ratio, routine capacity index, and fiscal dependency ratio), while also identifying inhibiting factors and formulating strategies to enhance sustainable fiscal independence.

2. LITERATURE REVIEW

2.1 Degree of Fiscal Decentralization and Regional Dependency

Fiscal decentralization in Indonesia was designed to strengthen regional funding capacity by expanding fiscal authority and local revenue sources so that public services become more efficient, transparent, and accountable. However, recent empirical evidence shows that the degree of fiscal decentralization in many regions remains low, which means that fiscal autonomy has not yet been fully realized. Alvaro (2022) found that the majority of local governments remain at a weak level of independence. This finding is reinforced by regional studies that link high reliance on transfers with slow growth in regions with a limited PAD base (Kusuma & Anwar, 2024). This pattern indicates that decentralization policies do not automatically lead to self-financing capacity without stronger revenue governance and a broader local tax base. Structurally, fiscal dependency is influenced by disparities in regional capacity and weaknesses in fiscal institutions. Disparities in development outcomes and fiscal capacity across regions remain significant (Santi & Iskandar, 2021). At the same time, institutional foundations that are not yet solid, such as the quality of taxpayer data, inter-agency coordination, and compliance, slow down the growth of PAD (Hadi & Saragih, 2013). In eastern Indonesia, spatial and economic dynamics such as the distribution of economic activity, the structure of leading sectors, and connectivity also determine regional fiscal space (Hutajulu et al., 2020). The combination of these factors has left many local governments locked into transfer-based financing patterns even though they have been granted sufficient authority. Recent cross-regional studies confirm the persistence of this dependency. In North Tapanuli, Saragih and Nurlinda (2023) showed that although fiscal effectiveness improved, transfers still dominated revenue composition, limiting flexibility in priority spending. In South Sulawesi, Wahyudi and Wahyudin (2022) found that fiscal decentralization promotes growth only when accompanied by stronger own-source revenue capacity, while without it the effect becomes weaker. Historically, the relationship between fiscal independence and regional economic performance has also been noted, as regions with higher PAD tend to enjoy wider fiscal space to drive development (Putra & Hidayat, 2016). These findings suggest that the main problem is not only the size of transfers but also the inability to convert fiscal authority into sustainable revenue capacity.

2.2 Contribution of Local Taxes and Levies to PAD

Locally Generated Revenue (PAD) essentially derives from local taxes, levies, returns on separated regional assets, and other legitimate income. Among these components, local taxes and levies remain the primary contributors. Numerous studies emphasize that optimizing revenue from hotel, restaurant, entertainment, and other service-related taxes plays a significant role in increasing PAD. Olga and Andayani (2021), for example, found that entertainment, restaurant, and hotel

taxes made substantial contributions to PAD in regencies and municipalities in East Java. This finding is consistent with Puspitasari et al. (2018), who showed that the tourism sector had a direct impact on PAD growth in Batu City. These results demonstrate that services and tourism can become fiscal drivers when managed properly with effective regulation and supervision.

The contribution of local taxes is also strongly influenced by the intensity of local economic activity. Rieshe and Aji (2021) showed that the number of tourist visits had a positive correlation with hotel and restaurant tax revenues in Sikka Regency. A similar study in Aceh by Ikhyanuddin et al. (2021) confirmed that PAD, including from local taxes, had a significant impact on regional government capital expenditure. This indicates that taxes and levies not only increase revenue but also expand fiscal capacity for development spending, thereby strengthening the fiscal development cycle. In a broader context, Sudarmana and Sudiarta (2020) emphasize that local taxes and levies have considerable potential, although they are often not fully optimized by local governments. Despite this potential, the actual contribution of local taxes and levies to PAD in many regions, including Baubau City, remains very low. Hasni (2019) found that the contribution of market service levies to Baubau City's PAD was not yet optimal. Similarly, Mursidi (2019) highlighted that the performance of PAD in Baubau remained weak due to the limited tax base and low collection effectiveness. This situation is further aggravated by weak fiscal innovation and the lack of synergy among institutions in strengthening monitoring and reporting systems.

2.3 The Relationship between PAD, Capital Expenditure, and Economic Development

Locally Generated Revenue (PAD) functions not only as an indicator of fiscal independence but also as an essential instrument to support the spending capacity of local governments. Capital expenditure financed by PAD plays a strategic role in improving infrastructure quality, public services, and regional competitiveness. A study by Ikhyanuddin, Fuadi, and Safitri (2021) in Aceh Province found that PAD and the Special Allocation Fund (DAK) had a significant influence on capital expenditure allocation. This finding highlights that regions with stronger PAD capacity enjoy wider fiscal space to finance productive development spending. The link between PAD and regional economic growth has also been demonstrated in several studies. Putra and Hidayat (2016) revealed that the degree of fiscal independence has a positive relationship with economic growth in Jambi Province. The greater the contribution of PAD to total revenue, the stronger the local government's ability to drive economic growth through development programs. Research by Manek and Badrudin (2017) in East Nusa Tenggara Province supports this conclusion, showing that PAD and fiscal balance funds significantly influence economic growth while simultaneously reducing poverty levels. These findings suggest that the success of fiscal decentralization is determined not only by central transfers but also by the ability of local governments to strengthen the PAD base in order to expand development capacity. In addition to reinforcing economic growth, the use of PAD for capital expenditure is also closely related to regional fiscal sustainability. Nugraha and Soebagyo (2024) emphasize that fiscal decentralization can positively contribute to national economic growth when accompanied by PAD optimization and productive budget allocation. Conversely, regions that fail to utilize PAD to fund capital expenditure tend to remain trapped in fiscal dependency and lack sufficient capacity to reduce development disparities (Saragih & Nurlinda, 2023).

3. RESEARCH METHOD

This study employs a mixed-methods approach that combines quantitative and qualitative analyses. The quantitative approach is used to measure regional financial performance through four fiscal ratio indicators, while the qualitative approach is applied to understand institutional, structural, and operational factors affecting fiscal independence in Baubau City. The data analyzed consist of both secondary and primary sources. Secondary data were obtained from the Baubau City Regional Budget (APBD) documents for the period 2019–2023, particularly the reports on revenue and expenditure realization. Primary data were collected through in-depth interviews with four key informants from the Regional Financial and Asset Management Agency (BPKAD) and the Regional Revenue Agency (Bapenda) of Baubau City, selected purposively based on their direct involvement in regional financial management.

Data collection techniques included documentation, observation, and interviews. Documentation focused on APBD realization data, including PAD, transfer funds, routine expenditure, and capital expenditure. Observation was directed at the implementation of fiscal digitalization in Baubau City, while in-depth interviews aimed to explore constraints and strategies adopted by the local government to strengthen fiscal independence. Quantitative analysis was conducted by calculating four key indicators of regional financial performance. The fiscal independence ratio was calculated by comparing PAD with the total of transfer funds and loans. The fiscal decentralization ratio was obtained by comparing PAD with total revenue. The routine capacity index was measured by comparing PAD with routine expenditure, while the fiscal dependency ratio was determined by comparing transfer funds with total revenue. To clarify the operationalization of these indicators, the study refers to the standard categories developed by Halim and Kusufi (2007) and Mahmudi (2013), as shown in the [Table 1](#).

Table 1. Operationalization of Regional Financial Performance Indicators

Indicators	Formula	Category
Fiscal Independence Ratio	$PAD \div (\text{Transfer Funds} + \text{Loans}) \times 100\%$	Very Low <25%; Low 25–50%; Moderate 50–75%; High >75%
Fiscal Decentralization Ratio	$PAD \div \text{Total Revenue} \times 100\%$	Very Poor <10%; Poor 10–20%; Moderate 20–30%; Good >30%
Routine Capacity Index (RCI)	$PAD \div \text{Routine Expenditure} \times 100\%$	Very Low <50%; Low 50–100%; Fair 100–150%; High >150%
Fiscal Dependency Ratio	$\text{Transfer Funds} \div \text{Total Revenue} \times 100\%$	Very High >80%; High 60–80%; Moderate 40–60%; Low <40%

Qualitative analysis was conducted using thematic analysis through the steps of data reduction, theme categorization, and interpretation to identify institutional and operational factors affecting PAD performance. The results of the qualitative analysis were triangulated with quantitative data to produce valid and comprehensive findings. In this way, the method not only captures fiscal performance numerically but also explores contextual aspects that explain why PAD achievement and fiscal independence in Baubau City remain low. The research process began with a literature review to formulate analytical indicators, followed by the collection of secondary and primary data, the calculation of financial ratios, and the processing of interview data. The final stage consisted of triangulation and the formulation of strategies to strengthen fiscal independence. The entire process adhered to research ethics, as all informants provided informed consent before interviews, their identities were kept confidential, and the data were used solely for academic purposes.

4. RESULTS AND DISCUSSION

4.1 Results

This study presents an analysis of the financial performance of the Baubau City Government during the 2019–2023 period based on four key indicators: the fiscal independence ratio, the fiscal decentralization ratio, the routine capacity index, and the fiscal dependency ratio. The analysis was carried out using data from local budget (APBD) realization reports and qualitative information obtained through interviews with key informants from BPKAD and Bapenda of Baubau City. The findings provide a comprehensive picture of the level of regional fiscal independence and the factors that influence it.

The fiscal independence ratio of Baubau City over the past five years averaged 12.21 percent, which falls into the “low” category. The lowest figure was recorded in 2019 at 10.705 percent, while the highest was reached in 2022 at 13.636 percent, before declining again to 12.732 percent in 2023. Although there was a gradual increase over three consecutive years, the trend was inconsistent due to the decline in the final year. This indicates that the city’s fiscal capacity to finance governance and development activities remains limited and that the growth of PAD has not been sustainable. Interviews with Bapenda informants reinforced these findings, highlighting that regional revenues are still dominated by central government transfers. The limited contribution of PAD was associated with weak local tax management, insufficient numbers of tax collection officers, and uneven distribution of responsibilities, which have hampered tax intensification and the expansion of the revenue base.

Table 2. Fiscal Independence Ratio of Baubau City, 2019–2023

Year	PAD (IDR)	External Revenue (IDR)	Fiscal Independence Ratio (%)	Category
2019	85,976,625,925	803,175,399,205	10.705	Low
2020	87,011,274,771	757,797,862,931	11.482	Low
2021	95,566,805,178	764,833,843,331	12.495	Low
2022	107,048,315,216	785,025,900,702	13.636	Low
2023	103,131,261,338	809,993,725,602	12.732	Low

Source: Processed from Baubau City Government Financial Reports (2019–2023)

The next indicator is the fiscal decentralization ratio, which measures the contribution of PAD to total regional revenue. During the study period, this ratio averaged only 9.6 percent, classified as “very poor.” Only in 2021 did the ratio slightly increase to 10.198 percent, falling into the “poor” category, but it declined again in 2022 and 2023. This means that PAD has not yet become a dominant source within the regional revenue structure, and the fiscal authority granted through decentralization has not been accompanied by an increase in locally generated income. Interviews also revealed that the low ratio is influenced by taxpayers’ low compliance levels and the limited public awareness of the importance of local taxes as a foundation for development.

Table 3. Fiscal Decentralization Ratio of Baubau City, 2019–2023

Year	PAD (IDR)	Total Revenue (IDR)	Fiscal Decentralization Ratio (%)	Category
2019	85,976,625,925	965,786,215,117	8.902	Very Poor
2020	87,011,274,771	937,558,991,638	9.281	Very Poor
2021	95,566,805,178	937,152,352,266	10.198	Poor

Source: Processed from Baubau City Government Financial Reports (2019–2023)

The Routine Capacity Index (RCI), which measures the extent to which PAD can finance routine expenditure, also shows weak performance. The average RCI of Baubau City was only 10.724 percent, which falls into the “very poor” category. The lowest value was recorded in 2019 at 9.884 percent, while the highest was in 2021 at 11.475 percent. This condition indicates that PAD is not even sufficient to cover the government’s operational spending, including personnel expenditure. Interviews revealed that this limitation is influenced by the low accuracy of taxpayer data, weak synergy among local government agencies (OPD), and the absence of an integrated fiscal management information system, making it difficult for the local government to strengthen its revenue base.

Table 4. Routine Capacity Index (RCI) of Baubau City, 2019–2023

Year	PAD (IDR)	Routine Expenditure (IDR)	RCI (%)	Category
2019	85,976,625,925	869,834,833,061	9.884	Very Poor
2020	87,011,274,771	856,849,207,881	10.155	Very Poor
2021	95,566,805,178	832,842,954,527	11.475	Very Poor
2022	107,048,315,216	958,900,405,458	11.164	Very Poor
2023	103,131,261,338	942,634,572,767	10.941	Very Poor

Source: Processed from Baubau City Government Financial Reports (2019–2023)

Meanwhile, the fiscal dependency ratio of Baubau City shows a clear dominance of transfer revenues from the central and provincial governments. During the study period, the average dependency ratio reached 85.967 percent, which falls into the “very high” category. The highest value was recorded in 2023 at 87.658 percent. This indicates that almost all government and development activities in Baubau City are financed by fiscal transfers rather than PAD. Interviews with informants also revealed that this high level of dependency is exacerbated by central transfer policies that frequently change and lack flexibility, making it difficult for the local government to prepare a stable and adaptive budget plan.

Table 5. Fiscal Dependency Ratio of Baubau City, 2019–2023

Year	Transfer Funds (IDR)	Total Revenue (IDR)	Fiscal Dependency Ratio (%)	Category
2019	765,666,405,061	889,152,025,130	86.112	Very High
2020	729,524,480,698	844,809,137,702	86.354	Very High
2021	727,998,731,640	860,400,648,509	84.612	Very High
2022	759,145,125,644	892,074,215,918	85.099	Very High
2023	800,423,323,591	913,124,986,940	87.658	Very High

Source: Processed from Baubau City Government Financial Reports (2019–2023)

The findings of this study show that the fiscal performance of Baubau City remains weak. All four indicators consistently point to the low contribution of PAD, the limited capacity to finance routine expenditure, and the high dependence on transfer funds. This condition underscores the need for the local government to implement fiscal institutional reforms, enhance human resource capacity, develop an integrated financial management information system, and explore new PAD sources based on local advantages. Without these strategic measures, Baubau City will remain trapped in a cycle of fiscal dependency that hampers the success of decentralization and the achievement of regional independence.

4.2 Discussion

The findings on the financial management performance of the Baubau City Government indicate that the level of fiscal independence remains in the low category. This condition suggests that the implementation of regional autonomy in Baubau City has not been fully supported by adequate fiscal capacity. The four main indicators (the fiscal independence ratio, the fiscal decentralization ratio, the routine capacity index, and the fiscal dependency ratio) consistently demonstrate the limited ability of the local government to finance governance and development independently. Dependence on central transfers remains the dominant feature of the local fiscal structure. This is consistent with Alvaro (2022), who found that the degree of fiscal decentralization in most regions of Indonesia remains low and tends to be administrative rather than substantive.

4.2.1 Fiscal Independence Ratio: Indications of Structural Dependence

The fiscal independence ratio of Baubau City averaged only 12.21 percent during 2019–2023. The lowest point was 10.705 percent in 2019, there was a temporary increase to 13.636 percent in 2022, and then a decline to 12.732 percent in 2023. All of these figures remained within the “low” category (see Table 2). This pattern shows that the leverage of PAD on regional expenditure is still limited, and therefore the ability to independently finance public services and development has not been achieved. Conceptually, low values indicate structural dependence on external sources (Halim & Kusufi, 2014) and align with empirical evidence that the degree of fiscal decentralization in many regions remains weak (Alvaro, 2022). This includes regions with medium economic capacity where transfer revenues remain dominant (Saragih & Nurlinda, 2023). Even when temporary improvement occurred between 2020 and 2022, the lack of sustainability suggests a fragile revenue base, meaning that fiscal independence has not been substantive. Field findings provide contextual depth to these figures. Limited tax collection personnel, underdeveloped fiscal digitalization, and low taxpayer compliance hinder both the intensification and expansion of the PAD base. This condition reinforces the argument that local fiscal reform requires institutional and infrastructural improvements (Saputra, 2021) rather than merely normative policy changes. By integrating ratio analysis with informant insights, the case of Baubau demonstrates how organizational capacity, data quality, and local fiscal culture directly shape fiscal independence. This provides an empirical portrait of a medium-sized city that complements previous cross-regional studies and helps explain why PAD growth tends to be unstable despite existing opportunities for improvement.

4.2.2 Fiscal Decentralization Ratio: Autonomy that is Not Yet Substantive

The fiscal decentralization ratio of Baubau City during 2019–2023 ranged only from 8.9 percent to 10.2 percent, with an average of 9.6 percent. These figures place Baubau in the “very poor” category, except in 2021 when the ratio slightly improved to the “poor” category. This condition shows that PAD has not yet become a major component in the structure of regional revenue, and therefore fiscal autonomy remains administrative rather than substantive. According to Haryanto (2014), this indicator reflects the extent of financial authority that is actually exercised by local governments. The results in Baubau are also consistent with Mardiasmo (2002), who emphasized that fiscal decentralization cannot be effective unless it is followed by real capacity to mobilize local potential. This pattern illustrates that the fiscal authority granted by law has not been matched by adequate revenue-generating capacity. Interview findings provide further clarity by showing that low taxpayer compliance, limited fiscal education for the community, and weak strategies for optimizing local taxes are the main factors behind the stagnation of this ratio. Yet studies such as Olga and Andayani (2021) demonstrate that entertainment, restaurant, and hotel taxes contribute significantly to PAD in other regions such as East Java. The fact that tourism and maritime services in Baubau have not provided meaningful fiscal contributions indicates a gap between economic potential and revenue realization. Thus, the quantitative data showing the low fiscal decentralization ratio are reinforced by local institutional conditions that are less effective. This provides contextual evidence that in medium-sized cities such as Baubau, fiscal autonomy is constrained not only by the limited size of PAD but also by fiscal culture and management capacity, which are rarely highlighted in cross-regional studies.

4.2.3 Routine Capacity Index: Fragility of Fiscal Operations

The Routine Capacity Index (RCI) of Baubau City during the 2019–2023 period averaged only 10.72 percent, with the lowest value of 9.88 percent in 2019 and the highest of 11.47 percent in 2021. All of these results fall within the “very poor” category, which means that PAD has not been able to cover the routine expenditures of the local government, including employee salaries, goods expenditures, and the minimum operational costs of governance. According to Sijabat (2014), a low RCI signals that fiscal independence at the most basic level has not been achieved, making it nearly impossible for regions to finance development from their own resources without external assistance. This finding is consistent with Ikhyannuddin et al. (2021), who emphasized that the strength of PAD is a determining factor for both capital and routine expenditure capacity. Thus, the results in Baubau reflect a fragile fiscal foundation that leaves very limited room for development. Interview findings reveal several main obstacles, namely the low accuracy of taxpayer data, weak coordination among local government agencies (OPD), and the absence of an integrated fiscal information system. These conditions confirm that fiscal problems are not only about the limited amount of PAD but also about managerial capacity and institutional infrastructure. The lack of fiscal capacity to finance routine needs provides contextual evidence that is rarely highlighted in cross-regional quantitative studies, showing how local institutions play a role in either constraining or strengthening fiscal capacity. In other words, the findings in Baubau indicate that weak fiscal independence stems not only from a narrow revenue structure but also from institutional limitations, thereby creating persistent operational vulnerability.

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4.2.5 Implications and Strategic Recommendations

Overall, the results of this study show that the fiscal performance of Baubau City remains vulnerable. The four indicators analyzed (the fiscal independence ratio, the fiscal decentralization ratio, the routine capacity index, and the fiscal dependency ratio) consistently demonstrate that the contribution of PAD is not strong enough to support regional financing, while dependence on central transfers remains highly dominant. This situation not only limits fiscal space for development spending but also restricts the flexibility of the local government to respond to community needs. These findings are consistent with Alvaro (2022) and Saragih and Nurlinda (2023), who argue that many regions in Indonesia have failed to achieve fiscal independence due to weak institutional capacity and the dominance of central transfers. In this sense, the case of Baubau can be viewed as a concrete representation of the structural fiscal challenges faced by medium-sized cities. From a policy perspective, several strategic measures should be considered to reduce dependency and strengthen fiscal independence. Tax intensification and extensification should be prioritized, which can be achieved through the updating of taxpayer databases, the adoption of digital technology in fiscal management, and more effective monitoring. Local potential, particularly in the tourism sector, maritime services, and regional trade, needs to be optimized in order to make a significant contribution to PAD, as has been demonstrated in other regions (Olga & Andayani, 2021). In addition, strengthening the capacity of fiscal human resources and improving coordination among local government agencies (OPD) are also essential prerequisites for creating a more adaptive and transparent fiscal governance system. As emphasized by Mardiasmo (2021), the achievement of fiscal independence requires synergy between good governance, community participation, and policies that encourage local fiscal initiatives. Thus, the findings of this study provide contextual evidence that strategies for strengthening fiscal capacity in medium-sized cities such as Baubau should focus on institutional reform and policy innovation based on local potential, which have been rarely explored in cross-regional studies.

5. CONCLUSION

This study concludes that the financial management performance of the Baubau City Government during the 2019–2023 period remains in the low category. This is reflected in the average fiscal independence ratio of 12.21 percent (low), the fiscal decentralization ratio of 9.6 percent (very poor), the routine capacity index of 10.72 percent (very poor), and the fiscal dependency ratio of 85.97 percent (very high). These results indicate that fiscal autonomy in Baubau City has not been substantively realized, as the contribution of PAD is still limited while dependence on central transfers remains dominant. Institutional weaknesses, limited human resources, low taxpayer compliance, and the underutilization of fiscal digitalization further exacerbate this condition. Therefore, the study highlights the need for strategies such as strengthening fiscal institutions, updating taxpayer databases, intensifying and expanding local taxation, adopting digital technology, and optimizing local economic potentials such as tourism, maritime services, and regional trade. With these measures, Baubau City can strengthen fiscal independence, reduce dependence on central transfers, and establish more adaptive, transparent, and sustainable financial governance to support the true goals of regional autonomy. Nevertheless, this study has limitations. The quantitative analysis relied only on Baubau City's APBD realization reports for the 2019–2023 period, which do not fully capture long-term fiscal dynamics or allow comparisons with other similar regions. The number of key informants interviewed was also limited to officials from BPKAD and Bapenda, leaving out perspectives from business actors and the community as taxpayers. In addition, the study focused mainly on fiscal ratios and internal institutional factors, while external influences such as macroeconomic conditions, the Covid-19 pandemic, and national fiscal policies were not examined in depth. These limitations open opportunities for future research to broaden the data coverage, conduct comparative studies across regions, and integrate external variables to obtain a more comprehensive picture of the factors affecting regional fiscal independence.

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