

FISCAL DECENTRALIZATION OF EAST LAMPUNG REGENCY 2020 – 2024 STUDY OF LOCAL GOVERNMENT FINANCIAL PERFORMANCE INDEX AND RATIO ANALYSIS

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ABSTRACT

The provincial level implies that the problem of the fiscal dependence is peculiar to East Lampung and is prevalent across Lampung Province. This research aims to examine how fiscal decentralization can be effective in East Lampung Regency during the 2020-2024 fiscal years using the indicator and regional financial ratio approach method. This research examines regional fiscal autonomy, government transfer efficiency, and the management of Regional Original Revenue (PAD). The research is a quantitative descriptive study where secondary data will be obtained as represented by the East Lampung Regency Regional Revenue and Expenditure Budget (APBD) Realization Report for the relevant period. The research results show that the average fiscal independence index (IKF) is only 8.13%, which indicates significant dependence on central transfer funds. Similarly, the Fiscal Decentralization Level (DDF) is only 8.2, indicating that the region has low fiscal capacity. Comparing regional revenue performance shows that it significantly decreased in 2024 compared to 2020 (from 102.93% to 36.04%). Although the quality of government transfers is relatively high (97% to 99%), these funds are not sufficient to compensate for the deteriorating local revenue sources. Additionally, there was an overall average decline in capital expenditure of -14.2% per year, indicating that fiscal policy is still characterized by normal business spending rather than development-oriented investment. In conclusion, fiscal decentralization in East Lampung Regency has not yet met the desired goals within the broader scope of regional autonomy. Local fiscal performance still relies on central transfer funds, and the potential for local revenue has not been fully utilized. This paper suggests reforms in local revenue management, strengthening fiscal institutional capacity, and performance-based budgeting to enhance local fiscal autonomy.

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INTRODUCTION

Fiscal decentralization is an important tool in the context of regional autonomy, as it aims to balance development outcomes, build institutional capacity, and improve the effectiveness of public services (Aziz et al., 2025). Fiscal decentralization from the central government to constituent regions should allow fiscal decision-making processes to be discussed more closely with the public, making the process of distributing public resources more responsive to local needs (Salma Nazikha & Rahmawati, 2021). Thus, the shift in fiscal function is seen as a tactic to increase regional responsibility and enhance fiscal autonomy, the latter being an absolute requirement for sustainable development.

The implementation of fiscal decentralization in developing countries reveals a significant gap between reality and benchmarks thru empirical observation, Wibowo & Oktivalerina (2022) stating that decoupling efforts in Indonesia are still largely characterized by structural dependence on central government transfer funds. The fact that the Transfer to Regions and Village Funds (TKDD) figures represent over 70 percent of total regional revenue is an indicator of poor regional fiscal capacity in generating Local Original Revenue (PAD). This limitation impacts the limited fiscal space that regions have to develop productive spending policies and improve budget efficiency. The concept of fiscal decentralization in Indonesia has evolved into a relevant tool for achieving substantive regional autonomy, with central government transfer funds to the regions serving as a fiscal equalization mechanism and as a support system for the implementation of regional government functions (Dharmawati et al., 2024). According to official reports, in 2025, the allocation for Transfers to Regions and Village Funds (TKDD) in the State Budget (APBN) will be Rp 800.276.94 billion with a realization rate of 92.18 percent. This very large nominal value reaffirms the long-held belief in regional autonomy thru fiscal policy in the modern era (Kemenkeu, 2025).

Fiscal analysis for 2022 shows that the realization of district/city government revenue was high, reaching 104.87 percent, which is the highest revenue realization rate between 2018 and 2022 (Badan Pusat Statistik, 2023). However, the COVID-19 pandemic in 2020 negatively impacted the ability of district/city governments to increase regional revenue, as evidenced by a realization rate of less than 100 percent. At the same time, the regional spending realization rate remained below 100 percent between 2018 and 2022 (Badan Pusat Statistik, 2023). This high level of spending realization demonstrates the government's efforts to prepare budgets for providing services to the community and also for regional development. However, the quantitative aspect of spending must be accompanied by an assessment of the quality of spending in that region. Budgets exceeding the local budget allocation are funded by other local funding schemes.

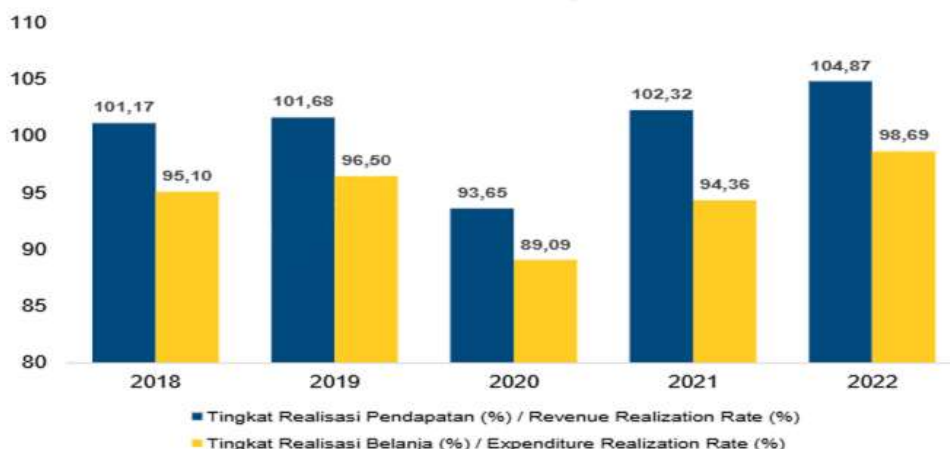


Figure 1. Revenue and Expenditure Realization Rates in the Regions.

Empirical evidence shows that the relationship between fiscal decentralization and regional development performance does not always follow a linear path. Empirical studies have reported that fiscal decentralization can contribute to economic growth and improve public welfare (Fitriana, 2022; Nuwun et al., 2019), but these results can be achieved depending on institutional capacity and the effectiveness of financial governance at the subnational level. The authors claim that policy interventions aimed at fiscal decentralization have not significantly reduced regional disparities, primarily due to ineffective governance organizations and a lack of quality in regional development planning (Santi & DA Iskandar, 2021).

Regulatorily, the implementation of fiscal autonomy in Indonesia is slowed by inconsistencies in regulations and a lack of oversight mechanisms. Ningsih et al. (2023) highlighted the lack of a consistent *lex specialis* legal framework governing the implementation of fiscal decentralization. Christia (2019) argues that the mismatch between central and regional regulations leads to inefficiencies in managing residents' finances. Furthermore, Maria et al. (2019), showed that increasing the volume of fiscal transfers without accompanying increased oversight increases the likelihood of moral hazard and the occurrence of corrupt practices at the local government level. From a socio-political perspective, Sakdiyah (2025) argues that the implementation of regional autonomy still faces structural challenges, such as low community participation, uneven bureaucratic capacity, and fiscal disparities between regions. This condition means that fiscal decentralization in Indonesia is still in an institutional asymmetry, so most regions are only recipients of transfers and not initiators of fiscal independence.

The provincial level indicates that the issue of fiscal dependence is unique to East Lampung and widespread throughout Lampung Province. Based on the regional revenue realization report for 15 districts/cities in Lampung Province, total regional revenue reached approximately Rp 32.2 trillion, with local own-source revenue (PAD) amounting to approximately Rp 8.1 trillion or 25.19 percent, and transfer revenue accounting for approximately 74.20 percent. This allocation indicates that most districts in Lampung still rely on central transfer funds and have limited capacity to generate regional revenue. The highest and lowest figures for PAD in different districts vary significantly; however, the general trend of dominance by central government transfers is evident in almost all districts/cities in Lampung Province (BPKAD Provinsi Lampung, 2024).

The importance of this context is further amplified when combined with agricultural areas like East Lampung Regency. The local economy, which is essentially based on agriculture and cottage industries, has not yet been able to integrate well with the regional fiscal revenue system. Financial research between 2020 and 2024 illustrates a situation where local revenue contributes less than 10 percent to total income, while over 80 percent comes from central transfer funds (Skoious et al., 2023). This train highlights the existence of strict financial constraints and the lack of local capacity to transform economic potential into sustainable sources of income (Wibowo & Oktivalerina, 2022). Additionally, a high ratio of routine spending to capital spending is an indicator of low fiscal productivity for stimulating economic development in the region (Fitriana, 2022).

Considering this, a rigorous analysis of financial performance in the regions is needed to determine the substantive performance of fiscal decentralization. Analyzing metrics such as fiscal independence ratio, effectiveness of local revenue, spending efficiency, and transfer dependency ratio can provide an empirical picture of the extent to which fiscal decentralization is supposed to function substantively in the regions. In this paper, we will specifically examine East Lampung Regency between 2020-2024 to determine the level of fiscal autonomy, the administrative performance of transfer funds, and the quality of regional spending based on financial statement information and national standards. It is assumed that the expected results will contribute scientifically and practically to the formulation of regional fiscal policy, enhance the financial strength of local residents, and form a strategic basis for the sustainable growth of fiscal autonomy in Indonesia.

METHODS

This research is based on a quantitative approach to descriptive research, as index analysis and ratio analysis tools are used to provide a detailed and systematic evaluation of the financial health of East Lampung Regency during the period 2020 - 2024. Descriptive research, as stated by Creswell & Creswell (2017), aims to explain phenomena as they naturally occur without attempting to control variables.

The selection of this methodology is based on consideration. First, longitudinal time series data requires analytical methodologies capable of plotting changes in fiscal performance over time. Second, the adopted strategy did not focus on causal inference but rather on empirical trend analysis, which is consistent with (Sekaran & Bougie, 2016). Third, the resulting indices and ratios are calibratable and have practical value in formulating regional fiscal policy. Fourth, this is a method that allows for a comprehensive assessment of local financial performance, as emphasized by (Vebiani et al., 2022)..

Secondary data was collected using available official documents from local government agencies and state financial institutions, including the 2020-2024 East Lampung Regency Regional Revenue and Expenditure Budget (APBD) Realization Reports, regional budget books, and Bupati regulations regarding regional revenue, as well as regional financial management performance reports (LKPKD). Further information was obtained thru specific government websites such as djpk.kemenkeu.go.id (budget transparency), baprd.lampungtimur.go.id (PAD data), and physical sources in the form of notes included in the East Lampung District Financial and Asset Management Agency (BPKAD). These sources were chosen for their credibility, verification status, and relevance to quantitative fiscal analysis.

To ensure clarity of analysis, this study uses six main indicators operationalized in the form of fiscal indices and ratios, namely: Fiscal Independence Index (IKF), Government Transfer Effectiveness Index (ETP), Regional Revenue Effectiveness Index (EPAD), Transfer Dependency Ratio (RKT), Degree of Fiscal Decentralization (DDF), and Capital Expenditure Growth (PBM), in line with the performance measurement approach widely used in the fiscal decentralization literature in Indonesia (Bastian, 2010; Halim, 2007; Vebiani dkk., 2022).

The Fiscal Independence Index (IKF), which is the measure of the ability of local governments to fund government and development activities out of the local sources of revenue, not utilizing the central government sources of transfers. The high degree of fiscal independence means that the contribution of local revenue to the local revenue structure is on the rise as compared to transfer funds hence providing the region with better fiscal autonomy. measures the extent to which a region is able to finance its government needs thru local revenue. The formula is:

$$IKF = \frac{PAD_{realization}}{Total\ Revenue} \times 100\%$$

The assessment categories follow Halim (2007), where $IKF < 10\%$ indicates high dependence, while $IKF > 50\%$ signifies strong fiscal independence.

The Government Transfer Effectiveness Index (ETP) is defines the rate of achievement of the local governments in the realization of the transfer fund receipts relative to those established within the Regional Budget (APBD). The effectiveness of transfer implies how well the transfer funds are planned and managed in relation to the budget stipulated.. The formula is:

$$ETP = \frac{Transfer_{realization}}{Transfer_{budget}} \times 100\%$$

Referring to Bastian (2010), a value $>100\%$ is categorized as very effective, while $<80\%$ indicates low effectiveness.

The Local Revenue Effectiveness Index (EPAD) is a metric which shows the capability of the government. The ratio is applied to determine how well the local revenue collection performance is with high level of local revenue effectiveness indicating greater capacity to access its revenue potential. The formula is:

$$EPAD = \frac{PAD_{realization}}{PAD_{budget}} \times 100\%$$

Referring to Bastian (2010), a value >100% is categorized as very effective, while <80% indicates low effectiveness.

The Transfer Dependency Ratio (RKT) which is a ratio used to indicate how much a local government relies on the central government to transfer funds to meet the total revenue in the region. The ratio is applied to determine the degree of the fiscal independence of the region, the greater the dependency ratio of transfer, the more the region will be dependent on the central government.. The formula is:

$$RKT = \frac{\text{Transfer}_{\text{government}}}{\text{Total Revenue}} \times 100\%$$

The higher the RKT, the higher the fiscal dependence of the region.

The Fiscal Decentralization Degree (DDF) is a measure that is used to determine the share of the revenue that is contributed by the local revenue to the total revenue in the region and it indicates the degree of implementation of fiscal autonomy in a region. Greater value of FDD means that the area is endowed with more fiscal capacity in the exercise of decentralized power. The formula is:

$$DDF = \frac{PAD}{\text{Total Expenditure}} \times 100\%$$

A value >30% indicates genuine fiscal autonomy, while <10% indicates pseudo-autonomy (Halim, 2007).

Capital Expenditure Growth (PBM) is a measure of capital expenditure growth between one period to another that evaluates the interest of the local government in long term investments like improvement of infrastructure and the provision of social assets. The growth in capital expenditure is a pointer of the policy of regional development in the long and medium term. The formula is:

$$PBM = \frac{\text{Expenditure}_t - \text{Expenditure}_{t-1}}{\text{Expenditure}_{t-1}} \times 100\%$$

Positive growth indicates an increase in regional investment, while a negative value shows a contraction in capital expenditure.

Data analysis is conducted thru several systematic stages. The first step involves data collection and verification, which is done by identifying official documents, ensuring the accuracy of the budget year, and meticulously recording the sources to maintain validity. The second stage involved calculations on six main indices using Microsoft Excel software with a double-check method to ensure the accuracy of the numerical calculations (Vebiani et al., 2022). The third stage involved interpreting the index and ratio results in the form of annual trends and comparing them with established categories to provide implications for regional fiscal policy.

RESULTS AND DISCUSSION

Analysis of Fiscal Independence Index

The Fiscal Independence Index (IKF) for East Lampung Regency during the 2020-2024 period reflects a consistent trend indicating high dependence on central government fund transfers. The average GPA during that period was approximately 7.92%, significantly lower than the minimum 10% recommended by (Halim, 2007). Therefore, East Lampung is still heavily reliant on central transfer allocations to meet its fiscal needs, fulfill its governmental role, and carry out regional development activities.

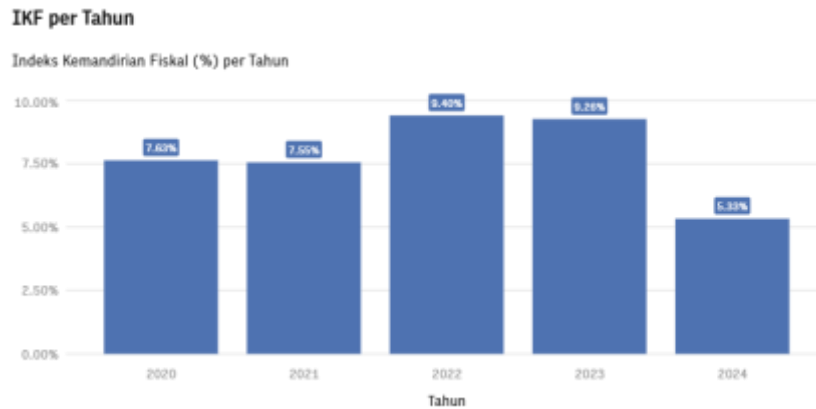


Figure 1. Fiscal Independence Index (IKF)

Chart The level of fiscal independence in 2020 and 2021 was the same, at approximately 7.6% and 7.55%, respectively. The increase in 2022 was relatively small despite the improvement in GPA to 9.4% and the recovery of the local economy during the post-pandemic period. However, this positive trend faded in subsequent years. From 2023 to 2024, the IKF value decreased again, even reaching its lowest point of fiscal independence at only around 5.33 percent.

This sharp decline was recorded in 2024, which aligns with a decrease in Regional Original Revenue (PAD) of approximately Rp 94 billion. This recession can be said to be caused by reduced economic activity in the trade and tourism sectors, poor performance in tax administration, and the inability of regional fiscal policy to adapt to the new circumstances. This result highlights the fact that fiscal decentralization, which was intended to achieve greater regional fiscal autonomy, has not been fully realized. According to the argument put forth by Vebiani et al. (2022), fiscal decentralization has the capacity to promote fiscal independence, but once again, the facts prove that it is far from delivering the promised results in East Lampung. Compared to the national average of approximately 9.35 percent stated by (Halim, 2007), East Lampung is far below this indicator and lags behind regions with higher levels of fiscal autonomy, including Bandung, Tangerang, and Bekasi, which have exceeded 20 percent.

Analysis of Government Transfer Effectiveness



Figure 2. Chart Government Transfer Effectiveness Index (ETP)

According to the 2020-2024 period, government transfers (ETP) in East Lampung Regency are mostly rated as very good. Overall government transfer revenue performance reached 98.5 percent, reflecting a high degree of consistency between budget planning and revenue collection. Implicitly, these findings indicate good coordination between local governments and the Ministry of Finance, as well as an accurate process for reporting and disbursing transfer funds. The transfer effectiveness rate was 97% in 2020. In the following years, 2021 and 2022, this increased to 100%, indicating that payments were within the predetermined budget. As of 2023, this indicator decreased to 97%, showing a slight decline but still falling within the excellent category. As of 2024, the transfer efficiency rate reached 99%, highlighting the effectiveness of local governments in managing and distributing funds according to the budget plan.

Although the overall effectiveness of government transfers is high, these measures indicate a high level of fiscal dependence on central transfers. East Lampung Regency has not yet developed a strong independent revenue base; therefore, the need to build Regional Original Revenue (PAD) still exists to increase regional fiscal autonomy. This corresponds to the study by Maria et al. (2019) as it indicates that effective supervision is required to make sure that the funds are redirected with the confidence to the already set objectives and reduce the risk of abuse.

Analysis of Regional Original Revenue Effectiveness

The trend of Regional Original Revenue (PAD) in East Lampung Regency was not very strong during the years 2020-2024. The average performance of regional revenue during this period was only around 63%, which means that only about two-thirds of the actual target was achieved.

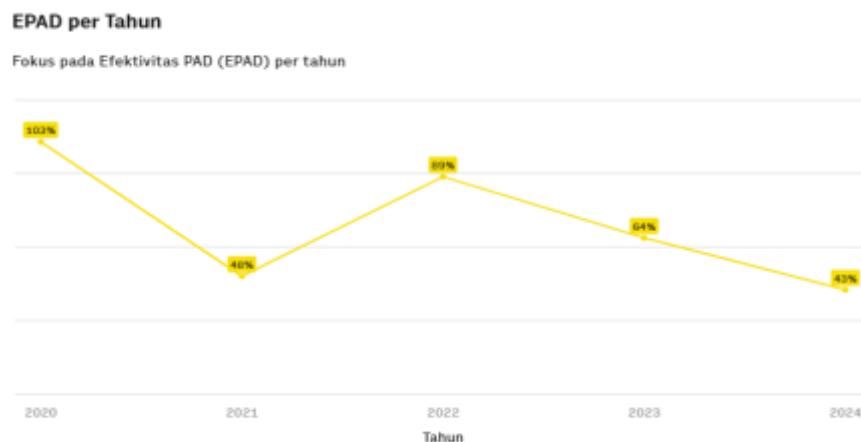


Figure 3. Regional Revenue Effectiveness Chart (EPAD)

Regional revenue was slightly above the 103 target in 2020, indicating fairly strong fiscal performance before the pandemic hit. However, since 2021, the effectiveness of regional revenue has decreased to 48, proving a gap between the recommended target and the region's financial capacity. Recovery began simply in 2022, with effectiveness increasing to 89%; however, in 2023, effectiveness declined again to 64%, and in 2024, it fell further to 43%. Such a high decrease in the effectiveness of regional revenue reflects structural shortcomings in regional financial performance. Local taxes and levies are the most affected elements because they only performed poorly compared to the targeted levels. Meanwhile, there are unpredictable fluctuations in results related to regional wealth and other legitimate sources of income. Some contributing factors include low local economic activity, low fiscal administration capacity, a lack of coordination between local government agencies, and revenue targets not based on a solid evaluation of the region's true potential.

Overall, the poor performance of local government revenue indicates the poor ability of East Lampung Regency to realize its fiscal potential. This also makes regional fiscal independence increasingly difficult to achieve, increases dependence on central transfers, and worsens fiscal decentralization problems in the region Bastian (2010).

Analysis of Transfer Dependency

Ratio The Transfer Dependency Ratio (RKT) is used to measure the extent to which fiscal resources in the regions depend on central government grants. TDR recorded a gradual upward trend, with the highest figure being 82 percent in 2020, 83 percent in 2021, 86 percent in 2022 and 2023, and finally, 89 percent in 2024.

Analisis Rasio Ketergantungan Transfer (RKT)



Figure 4. Transfer Dependency Ratio (RKT)

This trend indicates a reversal of the fiscal decentralization goal, which aimed to reduce regional dependence on central fiscal transfers. The further increase in the value of the Regional Revenue and Expenditure Budget (APBD) can be largely explained by two interconnected processes: a sharp decline in Regional Original Revenue (PAD) and the fact that central transfers remained at a high level, still accounting for a significant portion of revenue. As a result, the region's ability to develop and control independent sources of revenue did not develop.

Compared to the normative benchmark suggested by (Bastian, 2010), East Lampung can be considered highly dependent, as its dependency ratio is over 80 percent. Thus, fiscal decentralization has not met the desired expectations in East Lampung because the region has failed to meet its demands without the support of the central government.

Analysis of the Degree of Fiscal Decentralization

The Degree of Fiscal Decentralization (DDF) indicates the extent to which Regional Original Revenue (PAD) is able to cover all regional expenditures. Empirical analysis for the period 2020-2024 proves that the DDF of East Lampung Regency is highly volatile. The average DDF over five years was only 7.92%, which is still far below the usual level and indicates a strong dependence on central government transfers.

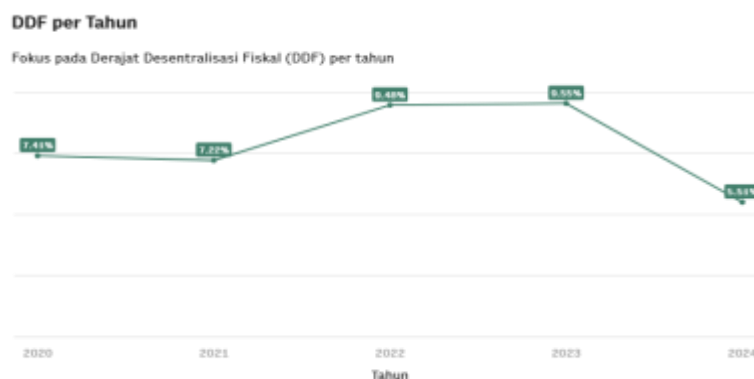


Figure 5. Degree of Fiscal Decentralization (DDF)

DDF was at 7.41 in 2020 and decreased slightly to 7.22 in 2021. Stronger increases occurred in 2022 and 2023, reaching 9.48 and 9.55 percent of DDF, respectively, reflecting the recovery of regional fiscal capacity levels after the shock caused by the pandemic. However, DDF further decreased in 2024 to 5.51 percent, a decline that can be explained by the fact that regional revenue shrank sharply and government spending increased.

The fact that the DDF value fluctuates supports the instability of local financial resources and indicates that short-term fiscal independence gains are not followed by long-term gains. The misconception that East Lampung is dependent on central transfer funds can be seen from the fact that the region has limited capacity to make independent decisions regarding its fund allocation, as evidenced by the continuation of development programs based on Special Allocation Funds (DAK) or General Allocation Funds (DAU). This addiction burdens the region's capacity to plan and implement independent and sustainable development projects.

Comparing it to the reference standard introduced by Halim (2007), which states that a DDF above 30 percent indicates true fiscal autonomy, East Lampung falls far short. Therefore, fiscal decentralization in East Lampung is not yet effective, and the region remains highly dependent on resources provided by the central government.

Analysis of Capital Expenditure

Growth In East Lampung Regency, the trend of capital expenditure growth from 2020-2024 is quite negative, with a sharp decline in the early years followed by a recovery in 2024. The growth rate of capital expenditure during this period experienced an average decline of 14% per year.

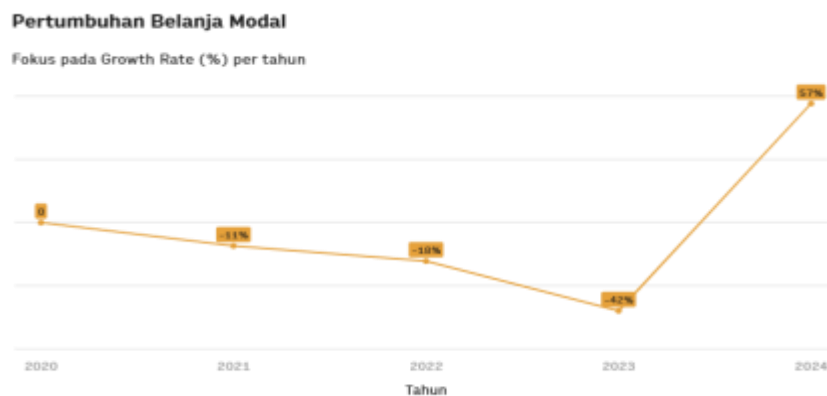


Figure 6. Expansion in Capital Expenditure (PBM)

In 2020, capital expenditure began to show 0 percent growth, indicating no significant fluctuations. However, from 2021 to 2023, there was a sharp decline with negative percentage growth of -11, -18, and -42 respectively. This sharp decline can be explained by the fact that during the pandemic, budget funds were diverted to the healthcare and social protection sectors, and were needed to manage the consequences of COVID-19. Additionally, the downward trend is an indicator of a structural shift in fiscal priorities, and not a temporary one (Vebiani et al., 2022).

In 2024, there was a significant recovery, with positive growth of 57% compared to the previous year. This recovery is clear, but it is not enough to fully offset the sharp decline in recent years, and the sustainability of the improvement may be questionable if regional fiscal policies are reactive and not well-planned in the long term. As a result, regional investment policies appear conditional on specific situations and are not designed with a long-term strategic development perspective.

CONCLUSIONS

Empirical evidence supports the fact that the fiscal decentralization process in East Lampung Regency during the 2020-2024 period has not yet reached a level of substantive effectiveness, as developed within the framework of regional autonomy theory. As indicated by financial indices and ratios, regional fiscal performance continues to be highly dependent on central government transfer funds, demonstrating limited capacity to mobilize existing fiscal resources. A Fiscal Independence Index (IKF) of 8.13 percent and a Fiscal Decentralization Level (DDF) of 8.2 percent indicate that regional financial capacity is still below the semi-autonomous category. This is further reinforced by the observation that East Lampung is dependent on its central location, with 90.5 percent of its fiscal structure modeled after the reproduction of vertical dependence, rather than fiscal independence. The drastic decline in Regional Original Revenue (PAD) from 102.93% to 36.04% between 2020 and 2024 consecutively proves the existence of structural damage in fiscal planning, a poor tax base, and a lack of innovation in regional revenue. Although government transfers (ETP) continue to show fairly high utility in the range of 97-99, they are unable to compensate for the shortfall in local revenue sources, especially in the case of declining transfer realization in 2024. Capital spending, which contracted by an average of -14.2% per year, proves that the current fiscal policy in the country is not conducive to investment-oriented growth and is largely characterized by routine expenditures.

This result aligns with existing literature (Astriana & K Khoirunurrofik, 2024; Salma Nazikha & Rahmawati, 2021; Wibowo & Oktivalerina, 2022) that identifies fiscal dependence traps in Indonesia. East Lampung is therefore an example of the fiscal illusion phenomenon, demonstrating large fiscal capacity, but not supported by endogenous fiscal strength, solely because its large fiscal capacity is due to central transfers. Theoretically, the concept of fiscal decentralization in East Lampung is merely administrative and has not yet reached the stage of substantive autonomy, where the region can determine its own development path, relying on local potential and priorities. Therefore, the effective implementation of fiscal decentralization requires policy actions that not only improve fund allocation but also strengthen governance, human resource capacity, and responsive and intelligent fiscal management mechanisms.

Based on the above analysis, the author has written down several recommendations for solutions that can be implemented.

Reform of Local Revenue Management.

The East Lampung Regency government needs to multiply and strengthen regional revenue sources by digitizing the tax and regional levy systems, strengthening the tax base, and regularly implementing fiscal regulations. Utilizing unproductive assets in the region could become a new source of sustainable income.

Empowering Fiscal Institutional Capacity.

There is a need to improve human resource standards in local financial planning and management. The need to improve institutional competitiveness requires technical training on fiscal analysis, revenue management, and performance-based budgeting systems.

Performance-Based Budgeting

Local governments should embrace the concept of value-for-money in budget development and focus on expenditures that will bring short-term economic and social benefits to the community. Capital expenditure must be increased to scale up production and facilitate local economic development.

Optimization of Productive Center Transfers.

The central government's allocation of funds must be channeled toward productive activities, not consumption. Local governments need to develop synchronization policies to ensure local programs are consistent with national priorities, so that fiscal transfers strengthen local economic leverage, rather than just addressing revenue deficits.

Multi-level Fiscal Collaboration and Public-Private Partnerships (PPP).

Considering the region's financial limitations, East Lampung needs to develop partnerships between the government and businesses to fund strategic infrastructure and public service initiatives. The PPP scheme will be able to ease the fiscal burden and expand the local investment base.

Enhancing Fiscal Transparency and Accountability.

To increase social participation and strengthen social control mechanisms, local governments are expected to improve the availability of budget information and financial realization reports to the general public. This kind of transparency is a basic requirement for transparency and the effectiveness of decentralization among the public.

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