

Literature Review of Local Government Financial Performance in Indonesia: A Study of Covid-19 Pandemic

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ABSTRACT

This study aims to analyze the comparison of local government financial performance Indonesia before the Covid-19 pandemic occurred. The method used in this research is a systematic literature review based on 10 research articles on the topic of evaluating local government performance before and during the Covid-19 pandemic. From this study it was concluded that the majority of local government performance has decreased. This is due to restrictions on activities carried out during the Covid-19 pandemic.

Keywords: Covid-19 Pandemic, Local Government, Financial Performance, Indonesia, Literature Review

INTRODUCTION

Law No. 17 of 2003 (*UU 17 2003*) stipulates that the Regional Revenue and Expenditure Budgeting (*Anggaran Pendapatan dan Belanja Daerah*, hereafter *APBD*) is designed using work performance orientation to be achieved. In order to encourage the success of this policy, it is necessary to design a performance approach using financial ratios based on the decided and ratified Regional Revenue and Expenditure Budget (*APBD*) [1].

The Covid-19 pandemic has affected Indonesia's finances, the government is making various efforts to deal with the pandemic by emphasizing the rate of spread of Covid-19. Provincial government revenue tends to experience a decline as a result of the iCOVID-19 pandemic, and costs or expenses government increased drastically during the COVID-19 pandemic [2].

Regional Revenue Budgeting in the realization report in 2020 experiences the decreasing according to data obtained from <https://djpk.kemenkeu.go.id/>, when compared to 2019 before the Covid-19 pandemic. Total regional revenue receipts in Indonesia in 2020 amounted to 1,115,490.41 billion, much less compared to 2019 of 1,198,407.26 billion.

This article aims to review and analyze the research that has been done previously with the topic of research, namely the financial performance of local governments before and during the pandemic Covid-19. Analyzing financial performance can be known by using financial ratios such as growth ratio, independence ratio, effectiveness ratio, efficiency ratio, balance ratio, and economy ratio [3].

LITERATURE REVIEW

Agency theory is a theory coined by Jensen and Meckling [4]. Jensen and Meckling [4] explained that agency relationships occur when one or more people (principal) give work or authority to other people (agent) to provide a service and then delegate decision-making authority [2]. Financial reports are designed with the aim of making decisions for external parties of the organization and also those who will report the status and financial results of organization operations [5]. Regional finances can be the rights and obligations of regional governments valuation in the form of money or anything in the form of money and

goods belonging to an area that is used to carry out their rights and obligations [2]. Measurement of local government performance has the aim of realizing public responsibility, allocate resources, improve performance, as well as forms of institutional communication. With indicators that can be divided into two parts, namely (1) cost (economic and efficient) and (2) quality service (effectiveness) [6].

RESEARCH METHOD

The research method used in this research is systematic literature review. The stages carried out in this study using the method following the research stages conducted by Alvianto et al. [7], which consisted of identification problem, literature search, selection of literature search results and analysis of literature search results. The method can be seen as in figure 1.

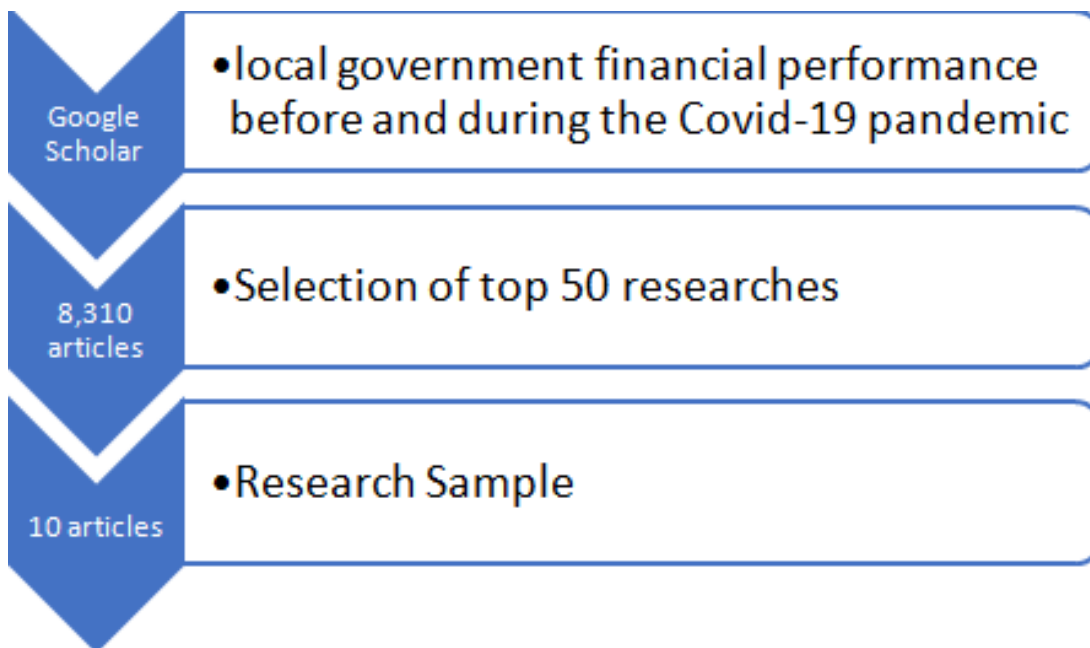


Fig 1. Literature Findings and Selection

The first step is problem identification. In the problem identification stage, it is possible to determine the goals and results to be achieved research using the systematic literature review method. The purpose of this study is to examine and analyze performance. Formulation of two research questions (RQ) related to research objectives, which are:

RQ1. What ratios have been used in previous research in assessing the regional government's financial performance?

RQ2. What is the comparison of the financial performance of regional governments in Indonesia before and when the Covid-19 pandemic happens?

The second step is literature selection. The focus of the research is devoted to local government in Indonesia, a literature search was carried out in indexed journals in the Google Scholar portal database on the website <https://scholar.google.com/>. Selection of literature search based on the title, namely "local government financial performance before and during the Covid-19 pandemic". The results of the literature search obtained 8,310 articles which were research from 2018 to 2022. Since the focus of this research is regional government, literatures that are examined include 10 journal articles.

RESULT AND DISCUSSION

TABLE I SYSTEMATIC LITERATURE REVIEW

No.	Authors	Title in Indonesian (Title in English)	Ratio	Resul
1	Tiarso [8]	Analisis Laporan Keuangan Balai Desa Kemanggungan Dukuh untuk Menilai Kinerja Keuangan di Masa Pandemi Covid-19 (Financial Reporting Analysis in Village of Kemanggungan Dukuh for Performance Evaluation in Covid-19 Pandemic)	Independence	Increasing of 1% independence ratio
			Efficiency	Decreasing of 84% efficiency ratio
			Effectivity	Decreasing of 3% effectivity ratio
2	Puspita and Pangastuti [3]	Analisis Kinerja Keuangan Pemkot Batu Sebelum dan Saat Pandemi Covid-19 (Analysis of Financial Performance in City Government of Batu before and in Covid-19 Pandemic)	Growth	There are increasing of revenue growth and decreasing of expenses growth.
			Independence	Independence level is dominated by central government
			Effectivity	Increasing of effectivity
			Efficiency	Efficiency is sufficient
			Balance	Expense balance is dominated by operational expense
3	Soraida [9]	Analisis Kinerja Keuangan Pemerintah Daerah Kota Banjarmasin Sebelum dan Selama Pandemi (Analysis of Financial Performance in City Government of Banjarmasin before and in Covid-19 Pandemic)	Economy	Economy level is good
			Effectivity	Regional revenue effectiveness decreases 73.98%
4	Hidayah et al. [1]	Analisis Kinerja Keuangan Pemerintah Daerah Se-Provinsi Jawa Tengah Sebelum dan Saat Pandemi Covid-19 (Analysis of Financial Performance in Province Government of Central Java before and in Covid-19 Pandemic)	Independence	There is a difference of financial independence before and in Covid-19 pandemic
			Flexibility	There is no difference of financial flexibility before and in Covid-19 pandemic
			Operational Solvability	There is a difference of operational solvability before and in Covid-19 pandemic
			Long-term Solvability	There is no difference of long-term solvability before and in Covid-19 pandemic

			Service Solvability	There is no difference of service solvability before and in Covid-19 pandemic
5	Amal and Wibowo [10]	Analisis Kinerja Keuangan Pemerintah Provinsi DKI Jakarta Sebelum dan Sesudah Pandemi Covid-19 (Analysis of Financial Performance in Province Government of Jakarta before and after Covid-19 Pandemic)	Independence	Financial independence is 277% in 2019 and 188% in 2020
			Effectivity	Revenue effectivity is 90% in 2019 and 98% in 2020
			Efficiency	Financial efficiency is 140% in 2019 and 138% in 2020
			Activity	Operational expense is 81.98% in 2019 and 84.76% in 2020. Capital expense is 18.02% in 2019 and 6.14% in 2020.
			Growth	Revenue growth is 5.49% while expense growth is 11.93%
			Debt Service Coverage	Debt service coverage is above 2.5
6	Syahara and Aufa [11]	Analisis Kinerja Keuangan Pemerintah Daerah Provinsi Jawa Timur Sebelum dan Saat Pandemi Covid-19 (Analysis of Financial Performance in Province Government of East Java before and after Covid-19 Pandemic)	Independence	There is a difference of financial independence before and in Covid-19 pandemic
			Flexibility	There is a difference of financial flexibility before and in Covid-19 pandemic
			Operational Solvability	There is a difference of operational solvability before and in Covid-19 pandemic
			Long-term Solvability	There is no difference of long-term solvability before and in Covid-19 pandemic
			Service Solvability	There is no difference of service solvability before and in Covid-19 pandemic
7	Musdalifah [12]	Analisis Kinerja Keuangan pada Pemerintah Kota Makassar di Masa Pandemi Covid-19 (Analysis of Financial Performance in City Government of Makassar in Covid-19 Pandemic)	Independence	Financial independence is in low category

			Effectivity	Revenue effectivity is in sufficient category
			Decentralization	Fiscal decentralization is in sufficient category
			Efficiency	Financial efficiency is in efficient category
			Balance	Operational expense and capital expenditure are not balance yet.
8	Rahmawati and Kiswara [2]	Dampak Covid-19 terhadap Kinerja Keuangan Daerah: Studi Kasus pada 34 pemerintah Provinsi di Indonesia (The Effect of Covid-19 on Financial Performance of 34 Provinces in Indonesia)	Decentralization	There is no difference of fiscal decentralization before and in Covid-19 pandemic
			Independence	There is no difference of financial independence before and in Covid-19 pandemic
			Effectivity	There is a difference of revenue effectivity before and in Covid-19 pandemic
			Tax Contribution	There is a difference of tax contribution for revenue before and in Covid-19 pandemic
			Retribution Contribution	There is a difference of retribution contribution for revenue before and in Covid-19 pandemic
			Capital Expenditure	There is a difference of capital expenditure before and in Covid-19 pandemic
9	Onibala et al. [13]	Dampak Pandemi Covid-19 terhadap Kinerja Keuangan Daerah Kabupaten Minahasa Tenggara (The Effect of Covid-19 on Financial Performance of South-East Minahasa)	Decentralization	Fiscal decentralization is in low category
			Independence	Financial independence is in very low category
			Effectivity	Revenue effectivity is in sufficient category
			Efficiency	Financial efficiency is in inefficient category
			Balance	There is no decrease of financial performance

10	Vebiana etal. [14]	Analisis Kinerja Keuangan Daerah Sebelum dan Pada Saat Pandemi Covid-19: Studi Kasus pada Kabupaten dan Kota Provinsi Jawa Barat (Analysis of Financial Performance in Regional Government of West Java in Covid-19 Pandemic)	Independence	There is no difference of financial independence before and in Covid-19 pandemic
			Decentralization	There is no difference of fiscal decentralization before and in Covid-19 pandemic
			Effectivity	There is a difference of revenue effectivity before and in Covid-19 pandemic
			Efficiency	There is a difference of financial efficiency before and in Covid-19 pandemic

TABLE II NUMBER OF ARTICLES

Ratio	No. of Articles
Independence	10
Effectivity	8
Efficiency	6
Decentralization	4
Balance	3
Growth	2
Flexibility	2
Operational Solvability	2
Short-term Solvability	2
Long-term Solvability	2
Service Solvability	2
Debt Service Coverage	1
Economy	1
Tax Contribution	1
Retribution Contribution	1
Capital Expenditure	1

Tables 1 and 2 answer the RQ1 regarding the ratios used by local governments in Indonesia to assess financial performance, namely the Independence Ratio, Effectiveness Ratio, Efficiency Ratio, Decentralization Ratio, Balance Service Solvency Ratio, Debt Service Coverage Ratio, Economic Ratio, Regional Tax Contribution Ratio, Levy Contribution Ratio, and Capital Expenditure Ratio. The most common ratio used to assess local government financial performance from the analysis of several studies above is the independence ratio. To answer the RQ2 question, this study compared the financial performance of local governments in Indonesia between before and during the Covid-19 pandemic using the three ratios most frequently used in research that had been analyzed previously. The three ratios are the independence ratio, the effectiveness ratio, and the efficiency ratio.

Comparing the financial performance of local governments in Indonesia before and during the Covid-19

pandemic using the independence ratio, the majority of research articles analyzed concluded that financial performance in 2020 has decreased compared to the previous year. One of the reasons for the decline in performance is that there were budget adjustments and changes to the *APBD*, which is explained by Amal and Wibowo [10], the position of Regional Revenue during the pandemic experienced a contraction which caused economic activity to be hampered due to the limited number of activities that could be carried out and resulted in income not being optimal. But there are also several articles using the independence ratio that conclude that financial performance has increased, the reason is stated in article P1 that during the pandemic there was an increase of 1% compared to the previous year because at that time the local government focused on increasing local taxes to build shophouses that causing local revenue to also increase.

Comparison by using effectiveness ratios to assess the financial performance of local governments in Indonesia before and during the Covid-19 pandemic, the majority of the articles analyzed concluded that the financial performance of local governments in 2020 can be said to be more effective than the previous year. One of the reasons it is said to be effective can be seen from Puspita and Pangastuti [3] which explains that this increase occurred due to adjustments to the 2020 Regional Revenue budget due to restrictions on social activities and more on handling the Covid-19 pandemic, with a percentage of quite effective in 2019 to be more effective in 2020. However, there is also a decrease or ineffective financial performance in 2020, for example, in article by Tiarso [8] with a decrease of 3% because at that time the tax levy decreased due to the Covid-19 pandemic.

The last ratio to assess the comparison of local government financial performance in Indonesia before and during the Covid-19 pandemic is the efficiency ratio. In 2020 financial performance was inefficient compared to the previous year according to the majority of the articles analyzed, the reason for the decline in financial performance was disclosed in article by Amal and Wibowo [10] which explained that mobilizing local government revenues so that they had to spend more on large costs. But there is also financial performance in 2020 that is more efficient and has increased, for example in article by Puspita and Pangastuti [3] which explains that this increase occurred due to reduced local revenue received and also because there was a decrease in the nominal amount of spending which was quite stable.

CONCLUSION

The conclusion from this study is that the financial performance of several studies that have been analyzed when measured using the independence ratio and efficiency ratio, the majority of studies state that local governments in Indonesia have experienced a decline due to limited activities due to the pandemic, although some have experienced an increase due to the government's focus. However, if assessed using the effectiveness ratio, the majority of studies state that the financial performance of local governments has increased or been effective due to adjustments to Regional Revenue, while those have decreased due to tax retribution. The limitations of this study are the lack of discussion regarding the explanation of the financial performance ratios used and the results of ratios other than the three most commonly used ratios in research. And suggest that further research can explain in more detail the ratios for assessing financial performance used by local governments.

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