Regional Fiscal Landscape : Examing the Dynamics of District Balance in the Context of Regional Development

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A B S T R A C T

This research analyzes the dynamics of Indragiri Hulu Regency's financial balance sheet for 2019-2024 and its regional development implications. This study uses a quantitative descriptive approach to examine trends, composition, and economic performance based on solvency ratios and fiscal independence. The results show a shift in asset structure from liquid to illiquid assets, with fixed assets reaching 90.05% by 2024. Significant decreases occurred in current assets by 48.22% (2024) and cash equivalents by 85.95% (2024). Solvency ratios are excellent, with a debt-to-asset ratio below 1% and no long-term liabilities, but fiscal independence remains low (8.2%-11.5%). The Local Revenue Effectiveness Ratio is considered adequate (101.2%), while the financial efficiency ratio is less efficient (100.8%). The research recommends strengthening cash management, adopting asset performance management, reforming receivables management, diversifying revenue, and developing innovative financing strategies to enhance fiscal sustainability and support regional development.

INTRODUCTION

Regional development is crucial in the national agenda for realizing community welfare and sustainable economic growth in Indonesia. Decentralization policies have granted greater authority to regional governments to manage resources and determine development priorities according to regional characteristics (Lewis, 2023). In this context, regional fiscal policy becomes the main instrument determining the ability of regional governments to mobilize resources, allocate budgets, and encourage the implementation of development programs at the regional level.

The regional budget functions as a financial document and reflects policy priorities and development strategies pursued by regional governments (Mardiasmo, 2018a). Regional fiscal policy is fundamental in realizing regional development goals through optimal resource allocation, income redistribution, and regional economic stabilization (Lewis & Smoke, 2017). According to Setiawan et al. (2022), regions with healthy and sustainable fiscal management tend to provide better public services and create a conducive environment for regional economic growth.

Indragiri Hulu Regency, situated in the eastern part of Sumatra Island, is a region in Riau Province with distinct features in the context of development and fiscal management. Covering an area of approximately 8,198.26 km² and a population of around 417,733 people (BPS Kabupaten Indragiri Hulu, 2025), this regency's economy is primarily supported by the plantation sector (especially oil palm and rubber), agriculture, mining, and service sectors. Despite its rich natural resources, Indragiri Hulu Regency grapples with several development challenges, such as infrastructure inequality between urban and rural areas, economic reliance on the primary sector, and limited economic diversification (Bappeda Kabupaten Indragiri Hulu, 2022).

The fiscal challenges confronting Indragiri Hulu Regency reflect a broader trend across Indonesia, where reliance on volatile natural resources, limited economic diversification, and persistent infrastructure disparities between urban and rural areas commonly strain regional budgets. Although decentralization policies have granted greater autonomy to regional governments, many regions, such as Indragiri Hulu, still face limited fiscal capacity and significant dependence on central government transfers, hampering their ability to finance development and public services optimally. This phenomenon, evidenced by Indragiri Hulu's ongoing struggles to mobilize adequate local revenue and its continued reliance on central government fund transfers (Fatimah et al., 2024), underscores a nationwide pattern. Indeed, data from the Directorate General of Fiscal Balance (2020) indicates that the average dependence of district/city governments on the General Allocation Fund (DAU) remains above 60% of their total revenue, highlighting suboptimal efforts by regional governments to explore and develop their revenue potentials and reinforcing the critical need for sustainable fiscal management and intensive efforts to diversify regional revenues to achieve community well-being and stable economic growth nationally. The analysis of regional financial balance sheets is an important instrument in assessing financial management performance and local governments' fiscal sustainability (Anggriawan et al., 2025). The financial balance sheet provides a comprehensive picture of the position of regional assets, liabilities, and equity, reflecting the cumulative results of fiscal policies pursued by regional governments over a specific period (Mahmudi, 2019).

Studies on regional fiscal policy and regional development have become the focus of various research in Indonesia. A study conducted by Lewis (2018) analyzed the determinants of regional fiscal independence in Indonesia and found that economic endowment factors, administrative capacity, and governance quality are the main factors influencing regional fiscal independence. Research by Fatimah et al (2024) and Hidayat et al (2025) focused more on evaluating the implementation of fiscal decentralization policies and their impact on regional economic performance and public service provision. At the regional level, research by Irfan et al (2023) analyzed the efficiency of regional government spending in Aceh Province, while Setiawan et al. (2022) examined the relationship between fiscal capacity and human development quality in Indonesia.

However, there is a noticeable gap in research that specifically delves into the dynamics of regional financial balance sheets and their relationship to regional development, particularly in the context of Indragiri Hulu Regency. Most existing studies tend to concentrate on revenue and expenditure aspects in the Regional Budget (APBD), with less attention given to balance sheet aspects that reflect the long-term fiscal position of regional governments (Ichsan et al., 2025).

Existing research on regional fiscal policy and development in Indonesia, while valuable, predominantly focuses on the annual dynamics of revenue and expenditure within the Regional Budget (APBD). This prevalent approach, as highlighted by Ichsan et al (2025), often overlooks the comprehensive insights offered by regional financial balance sheets, which provide a cumulative view of assets, liabilities, and equity—essential indicators of a regional government's long-term fiscal position and sustainability (Mahmudi, 2019). Consequently, there is a noticeable gap in understanding how these balance sheet dynamics directly relate to regional development outcomes. This study investigates explicitly the financial balance of Indragiri Hulu Regency, aiming to fill this critical gap by offering a more holistic assessment of its fiscal health and how past fiscal policies have shaped its current financial position, thereby contributing a crucial long-term perspective to the discourse on local government financial management and regional development in Indonesia.

This research aims to analyze the dynamics of Indragiri Hulu Regency's financial balance sheet during the 2019-2024 period and examine its implications for regional development. Specifically, this research seeks to (1) identify patterns and trends in the development of principal components in Indragiri Hulu Regency's regional balance sheet; (2) analyze regional financial ratios, especially from the perspective of solvency and fiscal independence; and (3) evaluate the implications of financial balance sheet conditions and trends for fiscal sustainability and regional development capacity.

METHOD

This study uses a descriptive-analytical approach with quantitative methods to systematically analyze the dynamics of the Indragiri Hulu Regency's financial balance and its impact on regional development. The researcher chose a descriptive-analytical approach because it allows for systematic descriptions of the phenomena studied based on factual data and analysis of the relationships between related variables (Sugiyono, 2020). This approach is ideal because it allows for precise, fact-based descriptions of financial phenomena and analysis of the relationships between key variables, thus providing a robust framework for understanding the complex dynamics of regional finances. By using quantitative methods, this study can effectively process and interpret numerical data from the balance sheet, such as assets, liabilities, and equity, to uncover trends and patterns in Indragiri Hulu Regency's financial position over time, thus ensuring a transparent and objective assessment of the regency's fiscal health.

The longitudinal study covers the 2019 to 2024 to capture the dynamics and development of the regional financial balance over time. According to Mahmudi (2019), longitudinal analysis of regional government financial reports allows researchers to identify trends, patterns of change, and factors influencing regional financial conditions over a specific period. This period provides sufficient time to observe significant financial performance changes and assess the fiscal policy's long-term effectiveness on the district's financial structure and regional development outcomes.

This study uses secondary data as the primary source of analysis, specifically Regional Financial Balance Sheet data from the Regional Financial and Asset Management Agency (BPKAD) of Indragiri Hulu Regency for the 2019-2024 period. This readily available, audited data provides a comprehensive and consistent record of the district's financial history, eliminating the need for primary data collection, which can be time-consuming and resource-intensive. Secondary data includes the main components of the balance sheet, namely assets (current assets, long-term investments, fixed assets, and other assets) and liabilities, providing a comprehensive picture of the district's financial position during the study period.

Data analysis in this study utilizes several analytical techniques to understand the dynamics of the regional financial balance sheet and its impact on regional development. The analysis method used includes Descriptive Analysis, which consists of horizontal trend analysis to compare the value of each balance sheet component between periods (time series), and vertical analysis (standard measure) to compare the proportion of each balance sheet component to total assets, total liabilities, or total equity in the same period (Ichsan et al., 2025). In addition, Financial Ratio Analysis is used to assess the financial health and fiscal performance of regional governments, with the ratios analyzed including the Solvency Ratio to measure the ability of regional governments to meet all their obligations, specifically: Debt to Equity Ratio, Debt to Assets Ratio, and Long-Term Debt to Equity Ratio.

RESULTS AND DISCUSSION

Trends and Asset Composition

Based on Indragiri Hulu Regency's Regional Balance Sheet data for the 2019-2024 period, there was a significant decrease in Current Assets, with details as presented in Table 1.

Table 1. Current Assets of Indragiri Hulu Regency, 2019-2024

Year	Current Assets Amount (Trillion Rupiah)	Change (%)
2019	0.33	-
2020	0.36	8.40%
2021	0.37	2.61%
2022	0.35	-5.50%
2023	0.26	-24.57%
2024	0.14	-48.22%

Source: Results of Financial Analysis of Indragiri Hulu Regency, 2025

There was a positive growth trend in 2019-2021, followed by a very drastic decline in 2022-2024, with the most significant decrease occurring in 2024 at 48.22% (Table 1). Overall, the average growth of Current Assets was -5% during the 2019-2024 period. The main component affecting the sharp decline in Current Assets was Cash and Cash Equivalents, which decreased drastically from Rp278.51 billion in 2019 to only Rp28.59 billion in 2024, indicating an extensive use of cash for regional expenditure or liability payments. The drastic decline in current assets, particularly cash and cash equivalents, significantly hampers the region's financial capacity to meet its short-term obligations. Current assets are the most liquid resources available to local governments, quickly converted into cash to cover immediate expenses and debt maturities within one year. When these assets, particularly cash, are depleted, the district's liquidity will be severely compromised, increasing the risk of default on its short-term financial commitments.

This alarming trend directly impacts the regency's ability to cover operational expenses like routine payroll for civil servants, payment to contractors for ongoing projects, timely settlement of vendor invoices for supplies and services, and the repayment of short-term loans or interest due. The sharp decrease in current assets, particularly the almost 90% drop in cash and cash equivalents over five years, implies an unsustainable reliance on existing cash reserves without adequate replenishment from new revenues or a structural imbalance where expenditures consistently outpace liquid income.

The shift in asset structure from liquid assets (Current Assets) to illiquid assets (Fixed Assets) as shown by the decrease in the proportion of Current Assets from 9.86% in 2019 to 4.11% in 2024 is in line with Mahmudi’s (2019) findings, which state that regional governments in Indonesia tend to have a high proportion of fixed assets, often reaching 80-90% of total assets (Table 2).

The asset composition of Indragiri Hulu Regency shows a structural change during the 2019-2024 period, as presented in Table 2.

Table 2. Asset Composition of Indragiri Hulu Regency, 2019-2024 (%)

Year	Current Assets	Fixed Assets	Long-term Investments	Other Assets
2019	9.86%	83.76%	1.84%	4.54%
2020	10.68%	82.65%	1.81%	4.86%
2021	10.88%	81.47%	2.77%	4.89%
2022	10.22%	83.48%	2.52%	3.78%
2023	7.74%	85.21%	2.27%	4.78%
2024	4.11%	90.05%	2.15%	3.70%

Source: Results of Financial Analysis of Indragiri Hulu Regency, 2025

From the analysis above (Table 2), several trends are visible: (1) The proportion of Current Assets continues to decrease, especially in 2023-2024; (2) The proportion of Fixed Assets is increasingly dominant, reaching 90% of total assets in 2024; (3) The proportion of Long-term Investments is relatively stable with a slight increase; and (4) The proportion of Other Assets is relatively stable with slight fluctuations.

Regional governments will have difficulty paying office operational costs and purchasing basic office supplies, burdening daily government operations and reducing public service efficiency. According to Mardismo (2018b), the shift to fixed assets may indicate a focus on public infrastructure development that has long-term benefits but also poses liquidity challenges if not managed properly. A fairly drastic decrease in Cash and Cash Equivalents from IDR278.51 billion in 2019 to only IDR28.59 billion in 2024 (85.95%) proves the above situation. Zhang & Guo (2024), in their study on regional government fiscal sustainability, highlight that a decrease in current assets to below 5% of total assets can be an early indicator of liquidity problems requiring close monitoring, particularly if a consistent downward trend in liquidity ratios follows.

Fixed Asset Component Growth

Table 3 presents the analysis of the growth of Fixed Asset components from 2019 to 2024. Fixed Assets experienced positive growth in all components, with the highest growth in Other Fixed Assets (78.03%) and the lowest in Land (7.28%). The above situation reflects significant investment in developing public infrastructure, especially in roads, irrigation, and networks, as well as equipment and machinery.

Table 3. Growth of Fixed Asset Components, 2019-2024

Fixed Asset Component	2019-2024 (%)	Average Growth
Land	7.28%	2%
Equipment and Machinery	32.39%	6%
Buildings and Structures	21.21%	4%
Roads, Irrigation, Networks	32.19%	5%
Other Fixed Assets	78.03%	12%

Source: Results of Financial Analysis of Indragiri Hulu Regency, 2025

Managing significant, illiquid fixed assets amidst cash constraints, as experienced in Indragiri Hulu, requires an efficient asset management strategy. Includes implementing a comprehensive asset inventory and data collection system, developing a long-term maintenance plan, and considering optimizing asset utilization through public-private partnerships or the disposal of unproductive assets. These steps are crucial for converting illiquid assets into more flexible resources and ensuring regional assets can provide maximum benefits without burdening finances.The consistent increase in Fixed Asset components indicates the Indragiri Hulu Regency Government's commitment to developing infrastructure and physical assets to support regional development.

Liabilities and Equity Analysis

The liabilities trend of Indragiri Hulu Regency shows quite significant fluctuations, as presented in Table 4. Indragiri Hulu Regency's liabilities show high volatility, with a sharp increase in 2021 (101.01%) and significant decreases in 2020 (-36.29%) and 2023 (-23.29%). Despite fluctuations, total liabilities increased from Rp21.09 billion in 2019 to Rp29.17 billion in 2024, with an average growth of 15%.

Table 4. Debt to Equity Ratio and Debt to Asset Ratio of Indragiri Hulu Regency, 2019-2024

Year	Total Liabilities (Billion Rupiah)	Total Equity (Trillion Rupiah)	DER (%)	Total Assets (Trillion Rupiah)	DAR (%)
2019	21.09	3.36	0.63%	3.38	0.62%
2020	13.44	3.37	0.40%	3.38	0.40%
2021	27.01	3.38	0.80%	3.41	0.79%
2022	31.63	3.39	0.93%	3.42	0.92%
2023	24.27	3.39	0.72%	3.41	0.71%
2024	29.17	3.30	0.88%	3.33	0.88%

Source: Results of Financial Analysis of Indragiri Hulu Regency, 2025

The obligations of Indragiri Hulu Regency are only in the form of Short-Term Liabilities; there are no Long-Term Liabilities during the 2019-2024 period, indicating that the Indragiri Hulu Regency Government is free from long-term debt burdens in financing its activities. According to Arifin et al (2024), the absence of long-term debt reflects a very conservative financial management policy, where regional governments avoid long-term debt burdens. Positively, the above shows high fiscal discipline, but strategically, it can limit the capacity of regions to finance large-scale infrastructure projects that require long-term funding.

Indragiri Hulu Regency's equity is relatively stable, with minor changes in 2019-2022, but began declining in 2023-2024. The most significant decrease occurred in 2024 by 2.53%. Overall, the average equity growth was 0% during 2019-2024. The decline in equity in 2023-2024 indicates a deficit in regional government operations or the use of equity to cover local spending, and this needs attention because it can affect long-term fiscal sustainability.

The implications for long-term financial stability are profound: the region's capacity to bear risk, invest, and obtain loans will be weakened, threatening its future development potential. Requires decisive fiscal policy intervention to restore balance and ensure financial sustainability.

Financial Ratio Analysis

Indragiri Hulu Regency's DER values are very low, ranging from 0.40% to 0.93% during 2019-2024. Mahmudi (2019) states that a low DER value indicates minimal financial risk. It illustrates that the regional government has a very conservative capital structure with a very low dependence on debt in financing its activities. According to a study conducted by Sedek & Kusumawati (2024), the average DER for district/city governments in Indonesia is in the range of 2-5%, which shows that Indragiri Hulu Regency has a very conservative position, even below the national average. Based on Indragiri Hulu Regency's Financial Balance Sheet data, the debt-equity ratio (DER) calculation shows results as presented in Table 4.

Indragiri Hulu Regency's DAR values are very low, ranging from 0.40% to 0.92% during 2019-2024. According to Winarna et al (2017), a safe DAR value for regional governments is below 10%, with an optimal recommendation of 3-7% to maintain fiscal flexibility. Thus, Indragiri Hulu Regency's DAR is far below the recommended threshold. Kooij & Groot (2021), in their research on regional government fiscal sustainability, states that a DAR value that is too low (below 1%) can indicate two things: first, a very healthy financial condition with minimal risk level; second, potential underutilization of debt instruments for financing infrastructure development that can generate long-term economic growth.

Based on Indragiri Hulu Regency's Financial Balance Sheet data, it appears that throughout 2019-2024, Indragiri Hulu Regency had no Long-term Liabilities. All liabilities consisted of Short-term Liabilities. Thus, the Long-term debt-to-equity ratio value is 0% for the entire analysis period. Halim & Iqbal (2020) argue that the measured and directed use of long-term debt to finance projects with economic-financial feasibility in sustainable regional development can accelerate infrastructure development and increase the region's fiscal capacity in the long term.

Implications for Regional Development

Based on the Fixed Asset analysis, there is a focus of the Indragiri Hulu Regency Government on infrastructure development, especially for the Roads, Irrigation, and Networks component, which increased from Rp1.73 trillion in 2019 to Rp2.28 trillion in 2024, with an average growth of 5%. This increase indicates consistent efforts to improve regional connectivity and accessibility.

In addition, growth in Buildings and Structures (4% per year) and Equipment and Machinery (6% per year) shows investment in improving public service capacity and government operations.

Investment in this infrastructure has the potential to drive economic growth and improve community welfare through multiplier effects and increased regional competitiveness. The analysis document notes, "The percentage of Accumulated Depreciation to Gross Fixed Asset Value consistently increased from 33.71% in 2019 to 43.31% in 2024". This increase in the depreciation percentage indicates aging infrastructure, thus requiring systematic handling.

Sumaryana et al (2024), in their study on regional government asset management, highlight that assets with a depreciation level above 40% require structured reinvestment and rehabilitation planning. They emphasize the importance of a lifecycle asset management approach to optimize government asset value. Although Indragiri Hulu Regency's financial condition is relatively healthy, as indicated by a low Debt to Asset Ratio (less than 1%), several indicators need attention:

1. A drastic decrease in Cash and Cash Equivalents, especially in 2024, can threaten short-term liquidity.
2. Consistent decrease in Current Ratio from 26.87 in 2020 to 4.69 in 2024
3. Decrease in equity in 2023-2024, indicating an operational deficit

The analysis shows "a significant decrease in Current Ratio from 26.87 in 2020 to 4.69 in 2024". Although this value is above the minimum standard, the sharp downward trend needs serious attention. According to Mahmudi (2019), a consistent decrease in the Current Ratio can indicate problems in short-term liquidity management. A study by Sari & Murtanto (2024) reveals that regional governments with a Current Ratio decrease trend of more than 75% over 5 years tend to experience difficulties meeting urgent operational expenditure needs. Specifically, Setianingrum & Haryanto (2020) recommend that the ideal current ratio value for regional governments should be 7-15 to maintain adequate financial flexibility. With the latest Current Ratio of 4.69, Indragiri Hulu Regency needs to be wary of potential liquidity problems in the future.

With the dominance of Fixed Assets in Indragiri Hulu Regency's asset structure (reaching 90.05% in 2024), there is potential to optimize the management of these assets to generate additional revenue for the region. Strategies to take include:

1. Utilization of idle assets for productive economic activities
2. Cooperation with the private sector in utilizing regional assets (public-private partnership)
3. Development of regional business units based on owned assets
4. Optimization of asset management to increase economic and social value.

Optimizing asset management can increase Regional Original Income (PAD) and reduce dependence on transfers from the central government. Toha et al (2025) propose a strategic asset management approach that considers not only the book value of assets but also their strategic value and social impact on society. They recommend the development of an asset health index to prioritize investment in asset maintenance and replacement.

Based on the analysis of Indragiri Hulu Regency's financial ratios, this region appears to have an extreme solvency condition with a very low debt level. However, it has a relatively low level of fiscal independence, with still high dependence on transfers from the central government. The combination of low leverage and low fiscal independence indicates the need for a more aggressive regional economic development strategy to increase PAD and more strategic financing instruments for accelerating infrastructure development. Suharman et al (2024) state that regional governments with a DAR below 1% still have vast fiscal space to utilize long-term debt instruments, especially for infrastructure projects that can generate economic multiplier effects and increase PAD.

However, this leverage increase strategy needs to be balanced with efforts to increase regional expenditure efficiency, considering the Regional Financial Efficiency Ratio that tends to be above 100%. According to Lewis and Smoke (2017), regional expenditure reform through strengthening planning-budgeting linkage, developing performance-based budgeting, and sharpening expenditure priorities for productive sectors is a key step to increase the efficiency and effectiveness of regional financial management.

CONCLUSION

Based on the analysis of Indragiri Hulu Regency's Financial Balance Sheet for the 2019-2024 period, several conclusions can be drawn:

1. There has been a shift in asset structure from liquid assets (Current Assets) to illiquid assets (Fixed Assets), as shown by the decrease in the proportion of Current Assets from 9.86% in 2019 to 4.11% in 2024 and the increase in the proportion of Fixed Assets from 83.76% to 90.05%. The

Indragiri Hulu Regency Government has a very low debt level (Debt to Asset Ratio < 1%) and no Long-term Liabilities, indicating a conservative fiscal policy.
2. Although there was a significant decrease in the Current Ratio from 26.87 in 2020 to 4.69 in 2024, this value is still far above the minimum standard, showing good ability to meet short-term obligations. There is a focus on infrastructure investment, especially for roads, irrigation, networks, and equipment and machinery, which can drive regional development. The drastic decrease in Cash and Cash Equivalents and the beginning of equity decrease in 2023-2024 indicate challenges in long-term fiscal sustainability. Financial ratio analysis shows an extreme solvency condition with minimal fiscal risk. However, it reflects a still low level of fiscal independence with high dependence on central government transfers.
3. In the context of regional development, Indragiri Hulu Regency's fiscal landscape presents challenges and opportunities. Low leverage can be utilized as fiscal space to accelerate infrastructure development through innovative financing instruments. In contrast, low fiscal independence must be addressed by diversifying the regional economic base and optimizing regional asset management.

To address the financial challenges facing Indragiri Hulu Regency, a comprehensive short-term action plan should be implemented immediately, beginning with the establishment of a robust cash management system that maintains 3-6 months of operating expenses in liquid assets while implementing weekly cash flow monitoring and forecasting to prevent further deterioration of the current ratio. The regency should leverage its exceptionally low debt capacity by strategically issuing short-term municipal bonds or obtaining credit facilities for working capital needs. It should also accelerate revenue collection through early payment discounts and improved tax collection systems to enhance cash flow. Given the shift toward illiquid assets, the government should monetize underutilized fixed assets through leasing arrangements and public-private partnerships to generate immediate cash flow, while deferring non-critical capital expenditures for 6-12 months to preserve liquidity for essential operations. To address the low fiscal independence, the regency must immediately implement revenue enhancement measures, including updating property valuations, improving tax compliance, and introducing new local revenue streams, while establishing a regional investment fund and municipal development bank to attract private sector partnerships and financing local businesses. The government should negotiate extended payment terms with suppliers, pursue grant funding from international development agencies, and implement zero-based budgeting to optimize resource allocation, all while creating a fiscal sustainability dashboard with key indicators to monitor financial health in real-time and ensure the strategic use of the regency's strong balance sheet position for long-term fiscal sustainability.

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