

# Regional Financial Management Reform in Relation to Increasing Regional Original Revenue (Pad) in The Government of Banten Province

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**Abstract.** The enactment of Law Number 32 of 2004 concerning Regional Government marked a significant milestone in Indonesia's decentralization policy, designed as a strategic response to address local governance challenges and strengthen regional autonomy. Decentralization aims to enhance regional economic capacity by empowering local governments to manage their financial resources independently, thereby reducing dependency on the central government. One of the key indicators used to evaluate the level of regional autonomy is Local Original Income (*Pendapatan Asli Daerah*, PAD), which reflects a region's fiscal self-reliance and governance effectiveness. In Banten Province, various governance reforms have been implemented to improve PAD management and optimize revenue generation. These reforms have progressively increased the province's PAD, indicating positive outcomes from decentralization efforts. This article examines the relationship between regional financial management reforms and the enhancement of PAD within the Banten Provincial Government through an extensive review of relevant literature and prior studies. The findings reveal that the implemented reforms have generally progressed well, particularly in institutional restructuring. Nevertheless, significant challenges remain, as reform initiatives have yet to comprehensively address technological innovation and digital transformation—sectors that hold substantial potential for strengthening fiscal performance and advancing sustainable regional financial management.

**Keywords:** Bureaucratic Reform, Local Revenue, Decentralization, Finance

## 1 Introduction

The enactment of Law Number 32 of 2004 concerning Regional Government, as subsequently amended by Law Number 12 of 2008, which constitutes the second amendment to the original law, represents a pivotal milestone in Indonesia's governance reform. The policy of broad, real, and responsible decentralization to regional administrations serves as a strategic initiative with dual objectives. First, decentralization functions as a comprehensive response to persistent local challenges faced by the Indonesian nation, including issues of national disintegration, poverty, regional development disparities, low quality of life, and limited human resource development.

Second, it is designed to strengthen the foundations of regional economic resilience by granting greater fiscal and administrative autonomy to local governments. Under this framework, regional financial management must be conducted independently and accountably, reflecting the principles of transparency and good governance. The implementation of decentralization is thus expected to catalyze improvements in community welfare and social equity, beginning at the local level and progressively reducing reliance on the central government for socio-economic advancement (Jayanti et al., 2014).

Decentralization, in practice, is not merely a transfer of administrative authority from the central to regional governments but encompasses the comprehensive delegation of governance processes, regulatory frameworks, and decision-making mechanisms that can be exercised at the regional level in accordance with prevailing laws and regulations. One critical dimension of this process is regional financial management, which plays a central role in realizing fiscal autonomy. Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments underscores that, within the framework of regional autonomy and fiscal decentralization, local governments are granted the discretion to manage and utilize their financial resources based on the aspirations and needs of their communities. The enactment of this law marks a paradigm shift in regional financial governance toward a more transparent, accountable, and public-oriented model. It necessitates that regional governments prepare comprehensive financial reports and ensure budgetary transparency accessible to the public. Consequently, the law reinforces the principles of good governance, fiscal responsibility, and participatory development, positioning financial decentralization as a foundation for strengthening democratic governance and regional economic resilience (Yani, 2013).

According to Suhadak and Nugroho (2007), the management of regional finances and budgets constitutes a critical aspect that must be meticulously governed by regional authorities. Regional financial management encompasses a comprehensive set of activities, including planning, implementation, administration, reporting, accountability, and supervision of financial resources—each of which plays an essential role in ensuring sound fiscal governance. Effective management of these processes is fundamental to achieving regional fiscal stability and transparency. Furthermore, the principle of regional autonomy extends beyond the mere transfer of authority and financial responsibility from the central government to regional administrations. More importantly, it embodies a strategic effort to enhance the efficiency and effectiveness of regional financial resource utilization. The ultimate objective of this process is to promote equitable development, improve public welfare, and strengthen the quality of government services delivered to local communities. Thus, regional financial management serves not only as a technical function of budgeting but also as a key instrument for realizing the broader goals of good governance and sustainable regional development.

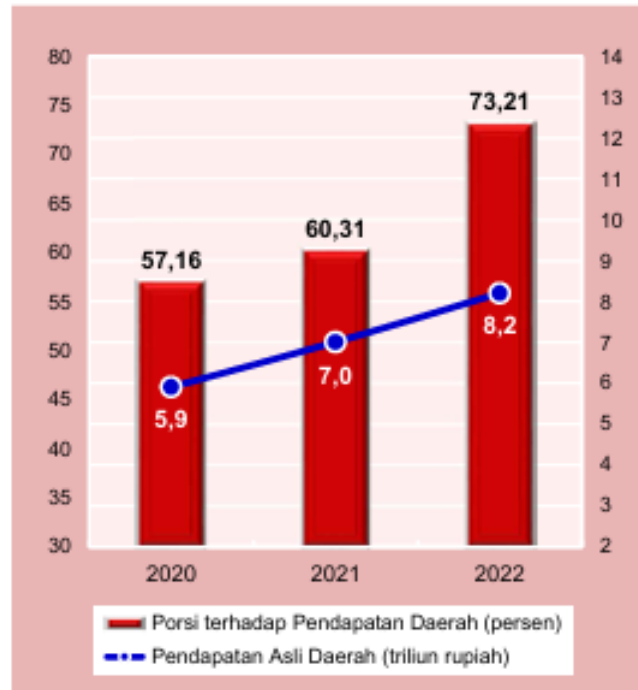
One crucial component of regional financial administration is **Regional Original Income (Pendapatan Asli Daerah, PAD)**. In accordance with the **Law of the Republic of Indonesia Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments**, PAD is defined as revenue derived from regional taxes, regional retributions, the management of separated regional assets, and other legitimate local income as stipulated by prevailing regulations. PAD serves as a fundamental indicator of a region's fiscal capacity and financial independence. The effectiveness of **fiscal decentralization** is largely reflected in a region's ability to optimize PAD as its primary source of financial support while

reducing reliance on fiscal transfers and assistance from the central government. Consequently, strengthening PAD management not only enhances regional fiscal autonomy but also fosters sustainable local development, accountability, and innovation in public service delivery. This underscores the importance of empowering regional governments to expand their revenue bases through efficient taxation systems, transparent financial governance, and strategic asset management aligned with regional economic potentials.

Regional Original Income (PAD) serves as a vital indicator in assessing the degree of regional financial independence. A higher contribution of PAD to the Regional Revenue and Expenditure Budget (APBD) signifies a reduced dependency on fiscal transfers from the central government, thereby reflecting a stronger capacity for self-financing and local governance. The level of regional autonomy and independence can be quantitatively measured through indicators such as the degree of decentralization and the regional independence ratio, which collectively illustrate the extent to which regional governments can sustain their development initiatives using internally generated revenues. Under the framework of Law of the Republic of Indonesia Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments, regional administrations are granted the authority to manage their own financial affairs responsibly and transparently. This fiscal decentralization policy is fundamentally designed to enhance regional competitiveness, encourage innovation in financial management, and promote equitable economic growth. Ultimately, a well-managed PAD framework strengthens local fiscal resilience and supports the broader national objective of achieving sustainable and inclusive development across regions.

This policy serves as a significant stimulus for regional governments to enhance competitiveness in managing regional finances, particularly in the domain of revenue generation. Through the implementation of fiscal decentralization, provinces are encouraged to optimize their Regional Original Income (PAD) as a reflection of financial autonomy and administrative effectiveness. The degree of regional independence is quantitatively measured using the independence ratio, which illustrates the extent to which a province can finance its development activities without relying heavily on external transfers. This ratio is determined by comparing the value of regional original income to the total amount of transfer revenues and regional loans. A higher independence ratio indicates stronger fiscal self-reliance and more efficient local financial governance. Consequently, this competitive framework motivates regional governments to innovate in revenue collection, improve fiscal accountability, and reduce dependence on central government assistance, thereby fostering sustainable and equitable regional economic growth. (Mahmudi, 2019).

Banten Province, recognized as one of Indonesia's leading regions in terms of fiscal performance, has demonstrated a consistent and significant increase in Regional Original Income (Pendapatan Asli Daerah, PAD) over the years. This upward trend reflects the province's improving capacity to generate and manage its own financial resources effectively. The substantial growth in PAD underscores Banten's success in optimizing key revenue components—such as regional taxes, levies, and returns from regional assets—which collectively serve as vital contributors to the province's overall income structure. As one of the principal sources of regional revenue, PAD plays a pivotal role in supporting the implementation of development programs, enhancing public services, and strengthening the province's financial independence. The following section presents a visualization that provides a comprehensive overview of the trends and composition of PAD in Banten Province, illustrating its progressive growth and the province's commitment to advancing fiscal sustainability through effective regional financial management.



**Fig. 1.** Value and Portion of Original Regional Income of Banten Province 2020-2022  
Source: BPS, 2022

Based on the presented figure, it is evident that Banten Province's Regional Original Income (PAD) experienced a steady and notable increase during the period 2020–2022. By 2022, the province's PAD had reached approximately 8.2 trillion rupiah, marking a substantial improvement compared to previous years. This upward trajectory also corresponds with an expanding share of PAD within the province's overall regional income composition. The continuous growth of PAD signifies a strengthening of regional fiscal independence, as it reflects the province's enhanced ability to generate revenue internally while reducing reliance on intergovernmental transfer funds or balancing allocations from the central government. This trend demonstrates the positive impact of effective fiscal management, improved governance, and strategic efforts undertaken by the provincial government to optimize local revenue sources. Consequently, the increase in PAD not only represents fiscal growth but also highlights Banten Province's progress toward achieving greater economic autonomy and sustainable regional development.

The increase that occurred was also influenced by various financial management policies issued by the Banten Provincial Government. In its implementation, Banten Province issued policies related to regional financial management, including Banten Provincial Regulation Number 3 of 2021 concerning Regional Financial Management. The regulation also updates its previous financial

management policy, namely Regional Regulation Number 7 of 2006 concerning the Principles of Regional Financial Management.(Regional Regulation No. 3, 2021)

The newly enacted policy introduces several revisions to the provisions contained in the previous regulation, reflecting the government's efforts to adapt to evolving administrative, economic, and technological conditions. These adjustments are strategically designed to strengthen the fiscal independence of Banten Province, particularly in the area of regional financial management. By modernizing regulatory frameworks, the provincial government seeks to enhance efficiency, transparency, and accountability in financial administration, thereby supporting sustainable fiscal growth.

In light of the broader developments concerning Regional Original Income (PAD) both nationally and within Banten Province, it is evident that the Banten Provincial Government has undertaken a series of financial management reforms to optimize revenue generation and reduce dependency on central transfers. These reforms embody a progressive shift toward performance-based budgeting, digital governance, and improved financial oversight. Consequently, examining the Reform of Regional Financial Management in Relation to the Enhancement of Regional Original Income (PAD) in Banten Province presents an important area of academic inquiry, offering valuable insights into the effectiveness of decentralization and regional fiscal governance in Indonesia's evolving policy landscape.

## **2 Methodology**

This article uses a qualitative method, by conducting various literature reviews of several previous studies, government documents and reports, and interviews with informants who have experience and direct involvement with Financial Management Reform and Increasing Regional Original Revenue (PAD) in Banten Province.

## **3 Result**

In the implementation of decentralization and regional autonomy, the jargon or term about regional independence is not new. Theoretically, the measurement of regional independence is measured from the Regional Original Income (PAD), (Erlangga, 2005). The implementation of decentralization and regional autonomy began with the enactment of Law No. 22 of 1999 revised by Law No. 32 of 2004 concerning Regional Government and Law No. 25 of 1999 revised by Law No. 33 of 2004 concerning Financial Balance between the Central and Regional Governments, the implication of the enactment of these two laws is that the central government gives broader, real, and responsible authority to regional governments in organizing their government, (Josef (1991); Imron (2015)). This provides an opportunity for regional governments to explore the potential of their financial sources as long as they meet the established criteria and are in accordance with the aspirations of the community, (Hartoyo, 2015). In almost all regions, PAD is still the main source of funding for regional development, so the PAD structure is important for determining targets and

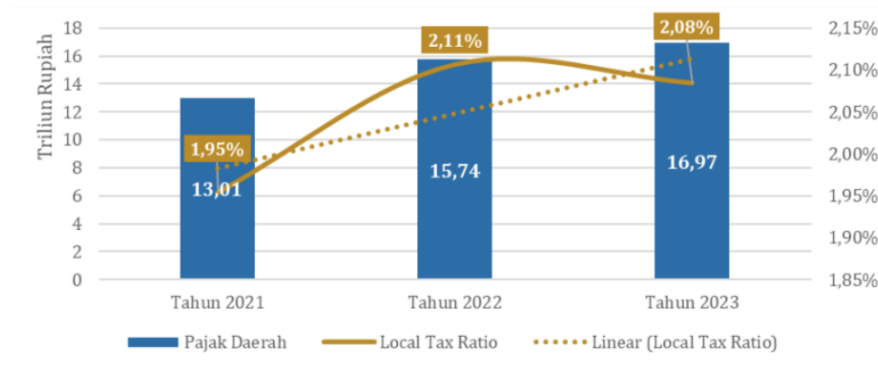
strategies for increasing PAD in the following year, one of which is Banten Province.



**Fig. 2.** Nominal Trends and Distribution of Regional Income  
Source: KFR Banten Province, 2023

Based on data from the Banten Province LKPK from 2021 to 2023, regional income in Banten has increased both in total and in detail, namely Regional Original Income (PAD) and Transfer Income. This increase shows that the regional government in Banten has succeeded in increasing its ability to collect PAD and getting support from the Central Government through the allocation of transfer funds to the regions which has also increased. Although based on the contribution to total income decreased, PAD of IDR 15.67 trillion in 2021 increased to IDR 19.70 trillion in 2023. Meanwhile, the Transfer Income of the regional government in Banten in 2021 was IDR 20.11 trillion, increasing to IDR 20.73 trillion in 2023.

One of the ways to increase PAD is by supporting regional taxes, which are the main source of regional original income (PAD), which plays an important role in supporting regional independence and autonomy.



**Fig. 3.** Nominal Trends and Distribution of Regional Income  
Source: KFR Banten Province, 2023

As a regional fiscal instrument, regional taxes play an important role in supporting development and public services in the region. In 2023, regional tax revenues in Banten reached 16.97 trillion rupiah, or an increase of 7.82% compared to 2022, which was 15.74 trillion rupiah. This increase shows that the Banten regional government has succeeded in improving the performance of regional tax management amidst global economic conditions.

### **3.1 Financial Management Reform in Banten Province**

In the process of regional financial management in Banten Province, various changes have occurred. These changes are certainly caused by environmental factors in Banten Province. The changes that have emerged are caused by various policies issued by the central government in the process of governance.

In its current implementation, the process of managing regional revenue in Banten Province is the responsibility of the Regional Revenue Agency (Bapenda). Bapenda Banten Province is a relatively new Regional Apparatus Organization (OPD) and is the impact of the reforms carried out. The Organizational Structure and Governance (SOTK) in Banten Province is influenced by various policies from the central government. OPD in Banten Province is influenced by the emergence of Law Number 32 of 2004 concerning Regional Government, then followed up by Government Regulation of the Republic of Indonesia Number 18 of 2016 concerning Regional Apparatus. Before the emergence of this regulation, Bapenda Banten Province was in the form of the Banten Provincial Revenue Service. (PP No. 18, 2016)

Furthermore, there was also a change in SOTK based on Government Regulation Number 41 of 2007 so that it became the Regional Financial and Asset Management Service (DPKAD) by merging three agencies consisting of the Regional Revenue Service, the Finance Bureau, and the Regional Equipment Bureau. Furthermore, in 2012 it also changed to the Regional Revenue and Financial Management Service based on Banten Provincial Regulation Number 3 of 2012. It was only in 2016 based on Banten Provincial Regulation Number 8 of 2016 that it changed again to the Regional Revenue Agency (Bapenda).

In the process according to Banten Provincial Regulation Number 8 of 2016, the Provincial Regional Agency can form a Technical Implementation Unit (UPT). UPT is formed to carry out some of the operational technical activities and/or certain supporting technical activities of its parent regional apparatus. UPT in Bapenda certainly has the task of assisting Bapenda in increasing regional PAD.

### **3.2 The Impact of Reform in Increasing PAD**

In its realization, the reforms carried out have a positive impact on the portion of regional revenue sourced from PAD. Referring to Banten Provincial Regulation Number 3 of 2021, Regional revenue includes Regional Taxes, Regional Levies, Results of Management of Separated Regional Assets, and other legitimate regional revenues. With the presence of UPTs in the regions, there has

been an increase in revenue which shows a positive trend in Banten Province. This is also one of the factors that causes Banten Province to become one of the provinces with the highest independence ratio. The fairly large income from PAD allows Banten Province to reduce its dependence on budget transfers from the center. The following is income data from Banten Province:

**Table 1.** Realization of Regional Revenue and Expenditure of Banten Province 2021-2022

<b>Description</b>	<b>2021</b>	<b>2022</b>	<b>Change (Percent)</b>
<b>REGIONAL REVENUE</b>	39,931,268,982	41,148,041,500	3.05%
<b>Regional Income</b>	37,118,365,153	37,512,595,112	1.06%
1. Local Own-Source Revenue (PAD)	15,672,703,022	18,379,633,523	17.27%
2. Transfer Revenue	20,113,981,521	18,841,117,399	-5.83%
3. Other Legitimate Regional Income	1,331,680,610	191,844,189	-85.59%
<b>Financing Receipts</b>	2,812,903,829	3,635,446,388	29.24%
<b>REGIONAL EXPENDITURE</b>	36,406,182,514	37,961,908,194	4.27%
<b>Regional Spending</b>	36,102,655,782	37,758,579,233	4.59%
1. Operational Expenditure	25,173,678,051	26,054,932,133	3.50%
2. Capital Expenditure	5,311,571,816	6,326,902,275	19.10%
3. Unexpected Expenditure	277,174,714	138,156,385	-50.16%
4. Transfer Expenditure	5,340,231,202	5,238,588,198	-1.90%
<b>Financing Expenditure</b>	193,057,207	203,328,961	5.32%

Based on the data, there is a significant increase in terms of regional revenue. There is an increase in regional income of 3.05% in 2022. In addition, a significant increase emerged from PAD. In the PAD account, there was an increase of 17.27% in 2022. This shows that there is good regional financial management in Banten Province.

## 4 Conclusion

Based on the discussion that has been done, it can be concluded that Banten Province has undergone several reforms in its governance, especially in the financial management section. Various environmental changes and policies originating from the central government require the Banten Provincial Government to be able to adapt and adjust to existing conditions. Furthermore, the reforms that have been carried out have also had a positive impact on the realization of regional revenues. This fairly good financial management has made Banten Province the Province with the highest independence ratio in Indonesia. The improvements that need to be made are regarding programs to increase PAD which need to be intensified, because from the various existing tax sources, there are still several types of taxes that have quite high arrears.



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