

## **Comparative Analysis of Local Government's Financial Performance Before and During the COVID-19 Pandemic**

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### **ABSTRACT**

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The COVID-19 pandemic has had an adverse impact on various sectors in Indonesia, including the national economy. This study aims to examine differences in local financial performance prior to the pandemic (2019) and during the pandemic (2020). It also aims to examine the effect of the ranking and status of local government administration published by the Ministry of Home Affairs on local financial performance in the period before the pandemic (2019) and during the pandemic (2020). Paired sample t-test and regression analysis were used to test the hypotheses on the financial performance of 118 local governments consisting of 16 provincial governments, 48 district governments, and 54 city governments. The financial performance indicators tested in this research are the local financial independence ratio (LFIR), the effectiveness and efficiency ratio of original local government revenue, the activity ratio, and the growth ratio. The research's results show the differences between before and during the COVID-19 pandemic in local financial performance in the Local Own-source Revenue effectiveness ratio, capital expenditure activity ratio, and growth ratio. However, there is no difference in local financial performance before and during the COVID-19 pandemic as measured by the local financial independence ratio, efficiency ratio, and operating expenditure activity ratio. The results also show that the ranking and status of local government administration do not affect local financial performance before and during the COVID-19 pandemic.

### **KEYWORDS:**

COVID-19 pandemic; financial performance; growth ratio; regression analysis

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## INTRODUCTION

The COVID-19 pandemic has adversely affected all sectors in Indonesia, including the national economy. The Central Bureau of Statistics stated that the pandemic caused economic growth to decline significantly, and the impact could even lead to an economic recession. These conditions have forced the government to establish several policies to save the economy, including 1) issuance of Government Regulation in Lieu of Law (Perpu) Number 1 of 2020 concerning State Financial Policy and Financial System Stability for Handling the Corona Virus Disease 2019 (COVID-19) Pandemic and/or in the Context of Facing Threats That Endanger the National Economy and/or Financial System Stability; 2) implement social restriction policies such as Large-Scale Social Restrictions and implementation of restrictions on community activities; 3) implement a policy of reallocation and refocusing of the budget to cope with the impact of the Covid-19 pandemic (Putra, 2021).

Perpu Number 1 of 2020 regulates the government's rapid measures to save state finances due to the impact of COVID-19 pandemic. Large-Scale Social Restrictions and restrictions on community activities affect the working mechanism by implementing a policy known as the "work-from-home" (WFH) scheme, which is further applied as part of the work arrangement in the New Normal (Mungkasa, 2020). Meanwhile, budget refocusing is to reallocate the budget to activities previously not allocated through a budget change mechanism by shifting/moving the allocated money from previous activities to other activities (Kumala, Sodik & Tahir, 2021). These policies ultimately affect the financial performance of both private and public sector organizations.

Studies concerning the impact of the COVID-19 pandemic on financial performance in pri-

vate sector organizations have been widely carried out in several countries, and the results clearly show that the pandemic has an impact on the financial performance of organizations (Nguyen, 2022; Alsamhi et al., 2022; Zhang & Zheng, 2022). Moreover, several studies related to the impact of the pandemic on the private sector were carried out in Indonesia, including by Devi, Warasnia-sih, Masdiantini, and Musmini (2020), Alviana and Megawati (2021), Esomar and Christianty (2021), Gaisani et al. (2021), Thamrin and Ilhami (2021), Lowardi and Abdi (2021), Pratama, Pontoh, and Pinatik (2021); Zulfikri, Lesmana, and Djuanda (2021) also Paranita and Siska (2022).

In Indonesia, various research related to the impact of the COVID-19 pandemic on public sector organizations were carried out by, among others, Andriyani et al. (2020), Sanjaya (2020); Anas (2021), Basri and Gusnardi (2021); Ishak (2021); Onibala et al. (2021) and Putra (2021). Research in the public sector concerning the impact of the COVID-19 pandemic on financial performance is mostly found in the form of a case study approach on one or several local governments (Anas, 2021; Andriyani et al., 2020; Basri & Gusnardi, 2021; Onibala et al., 2021). Among others, research in the form of empirical studies was conducted by Putra (2021), who studied the impact of the COVID-19 pandemic on-budget performance, and Ishak (2021), who studied the effect of the COVID-19 pandemic on original local government revenue. However, there is no research in the form of an empirical study that examines the impact of the COVID-19 pandemic on the financial performance of local governments.

In 2018, the Ministry of Home Affairs issued performance ratings for all Local Governments through the Decree of the Minister of Home Affairs of the Republic of Indonesia Number 100-53 of 2018 concerning work

rankings and performance status of local government administration nationwide. The performance rating is determined based on financial and non-financial performance as stipulated in Regulation Number 73 of the Minister of Home Affairs Number concerning Procedures for Implementation of Performance Evaluation of Local Government Administration. The results of the 2018 performance ranking reveal that 261 local governments have a rating classification of "Very High", 244 local governments have a rating classification of "High," and 18 local governments have a rating classification of "Medium." In 2020 the government enacted Regulation of the Minister of Home Affairs Number 18 of 2020 concerning Regulations for Implementing Government Regulation Number 13 of 2019 Concerning Reports and Evaluations of the Local Governments Implementation. However, thus far, the Ministry of Home Affairs has not yet published the latest ranking determinations that refer to those ministerial regulation. Therefore, this study also intends to examine the impact of the COVID-19 pandemic on financial performance related to the Local Government Ratings published by the Ministry of Home Affairs, which has never been conducted previously.

Based on the preceding, this study examines the differences in local financial performance before the pandemic happened in 2019 and during the outbreak in 2020. It also aims to examine the effect of ranking and status of local government administration with categories of "Very High," "High," "Medium," and "Low" issued by the Ministry of Home Affairs of the Republic of Indonesia as referred to in Decree Number 100-53 of 2018 on local financial performance. This study might provide empirical evidence that the COVID-19 pandemic impacts local financial performance measured by a set of comprehensive financial performance indicators. This study may serve as a comparative analy-

sis tool for Local Government financial performance with Local Government Implementation Ranks with the category of "Very high," "High," "Medium," and "Low" prior to the pandemic (2019) and during the pandemic (2020).

On March 9, 2020, the World Health Organization (WHO) officially established COVID-19 as a pandemic. The Indonesian government declared the COVID-19 pandemic a national disaster on March 14, 2020. Governments worldwide establish various emergency measures such as social restrictions, testing and quarantining policies, and economic and social assistance to minimize adverse economic impacts (Ashraf, 2020). The Indonesian government further determined that to break the chain of transmission of the COVID-19 virus, it had to implement social and physical distancing (Tertia & Subroto, 2021). Social and physical distancing is exercised through Large-Scale Social Restrictions and restrictions on community activities policies. These policies impact Indonesia's economic system since most government entities and private offices apply the WFH practice (Salain et al., 2021). In addition, the government also adopted a policy on budgeting by refocusing local government budgets in Indonesia. The refocusing concept is expected to be an alternative to minimize the economic recession to achieve national financial stability (Junaidi et al., 2020).

Local finances are all local rights and obligations that can be valued using money, including all wealth related to rights and obligations in administering local government context (Halim, 2004). In comparison, performance is a description of the level of achievement of the implementation of a program/activity in meeting the goals, objectives, vision, and mission of the organization that has been set previously (Mokodompit et al., 2014). Thus, local financial performance is the level of achievement of the Local Go-

vernment in managing local finances in carrying out programs/activities to achieve the goals that have been set.

Measurement of financial performance is needed to evaluate performance, measure the potential of economic resources, determine the financial condition and ability of the government to fulfill its obligations, and ensure that the government has implemented financial management which adheres to the laws and regulations (Mokodompit et al., 2014). The government's policy of reallocating and refocusing the budget is thought to affect the government's financial performance. The government's budget refocusing is aimed at the health and social budget. The government has also cut certain expenditures, such as official travel, meeting package, technical guidance, and counseling. Such expenditures were diverted to handling COVID-19, including such as costs for official travel and capital costs (Junaidi et al., 2020).

According to Mahsun (2018), the measurement of financial performance can be undertaken, among others, by analyzing financial ratios. The government financial ratio analysis applied in this study is as follows (Mahmudi in Mokodompit, 2014).

#### 1. Local Financial Independence Ratio

Local Financial Independence Ratio (LFIR) is a ratio used to measure the ability of a region to finance its government activities as indicated by the percentage of Local Original Revenue compared to Transfer Revenue. The LFIR is declared very low if the value is less than 25%, Low if the value ranges between 25%-50%, Moderate if the value ranges between 50%-75%, and High if the value exceeds 75%.

#### 2. Effectiveness and Efficiency Ratio of Local Own-source Revenue

The effectiveness ratio measures the local government's ability to achieve Local Own-

sourced revenue (Pendapatan Asli Daerah, PAD) following the targets that have been set. The formula for calculating the effective ratio compares the realization of PAD to the PAD Budget. The effectiveness ratio is included in the Ineffective criteria if the value is less than 75%, Somewhat/less effective in ranges between 75%-89%, Effective Enough with 90%-99%, Effective if the ratio is 100%, and Very Effective if greater than 100%. The efficiency ratio measures the number of costs applied by the local government to achieve its original local government revenue. The formula for calculating the efficiency ratio compares the realization of local expenditure to the realization of PAD. Local government performance is Efficient if the calculated ratio is less than 100%.

#### 3. Activity Ratio

The activity ratio is the ratio used to measure the ability of the local government to prioritize its fund allocation for operating and capital expenditures optimally. The formula for calculating the activity ratio including the Operating Expenditure Ratio which compares the realization of Operating Expenditure to the realization of Local Expenditure, and Capital Expenditure Ratio, which compares the realization of Capital Expenditure to the realization of Local Expenditure. The activity ratio is in the "Not Good" criteria if the value is less than 50%.

#### 4. Growth Ratio

The Growth Ratio measures the ability of local governments to maintain and increase the success achieved. The Growth Ratio is calculated by dividing the difference between the final value and the initial value of realized revenue for the period analyzed and dividing it by the initial value. The Growth Ratio is Low if the value is less than 25%, Medium is between 25%-50%, and High is between 50%-100%.

The ranking and status of the performance of local government administration is the result

of an evaluation of local government administration based on the criteria set by the Ministry of Home Affairs. Evaluation of local government administration (Evaluasi Penyelenggaraan Pemerintahan Daerah, EPPD) is a process of systematically collecting and analyzing data on the performance of local government administration, the ability to administer local autonomy, and the completeness of aspects of governance in newly formed regions. Based on Regulation of the Ministry of Home Affairs Number 18 of 2020, which replaces Regulation of the Ministry of Home Affairs Number 73 of 2006, the evaluation includes an Evaluation of Local Government Administration Performance (Evaluasi Kinerja Penyelenggaraan Pemerintahan Daerah, EKPPD), Evaluation of Local Autonomy Implementation Capability (Evaluasi Kemampuan Penyelenggaraan Otonomi Daerah, EKPOD), and Evaluation of New Autonomous Regions (Evaluasi Daerah Otonom Baru, EDOB).

The performance of local government administration score in Table 1 is the accumulation of macro performance achievements, government affairs performance achievements, and changes in macro performance. The ranking and performance status of local government administration is stipulated in the Regulation of the Ministry of Home Affairs, which was last enforced through the Regulation of the Minister of Home Affairs Number 100 – 53 of 2018 concerning the Ranking and Status of the Performance of National Local Government Administration (Keputusan Menteri Dalam Negeri Nomor 100-53 Tahun 2018 tentang Peringkat dan Status Kinerja Penyelenggaraan Pemerintah

Daerah Secara Nasional). The ranking and performance status of local administration are grouped into five classifications, as in Table 1.

The COVID-19 pandemic has had a tremendous impact on various sectors in Indonesia. The policies implemented by the Government of Indonesia in dealing with the burden of the COVID-19 pandemic affect the financial performance of both private and public sector organizations. According to institutional theory, the COVID-19 pandemic is one example of external factors that affect local government performance. Based on the isomorphism theory, local governments are competing to create organizational changes in the same direction (homogenization) to achieve "Very High" performance status to achieve the award for local government administration. Meanwhile, the local government will try to maintain its financial performance during the pandemic.

EPPD is an evaluation of macro performance achievements, government affairs performance achievements, and changes in macro performance. Thus, the results of the EPPD through the provision of performance status can affect the financial performance of the local government. As previously mentioned, during the COVID-19 pandemic, local governments experienced problems managing local finances. Therefore, it is necessary to analyze whether the ranking and performance status affected the local government's financial performance before the pandemic in 2019 and during the pandemic in 2020.

The COVID-19 pandemic impacts the com-

**Table 1.** Performance Score

Performance Score	Performance Status
1.00 – 1.80	Very Low
1.81 – 2.60	Low
2.61 – 3.40	Moderate
3.41 – 4.20	High
4.21 – 5.00	Very High

pany's financial performance, affecting the solvency, activity, and profitability ratios (Alviana & Megawati, 2021; Devi et al., 2020; Esomar & Christianty, 2021; Lowardi & Abdi, 2021). The pandemic also impacts original local government revenue, budget performance, and financial management (Basri & Gusnardi, 2021; Ishak, 2021; Putra, 2021). Therefore, the COVID-19 pandemic can also affect the financial performance of the local government. Based on the background, theoretical basis, and previous research, the hypotheses developed in this study are:

H1a: There is a significant difference in the local government's financial independence ratio (LFIR) in the period before and during the pandemic

H1b: There is a significant difference in the local government's effectiveness ratio in the period before and during the pandemic

H1c: There is a significant difference in the local government's efficiency ratio in the period before and during the pandemic

H1d: There is a significant difference in the local government's operational expenditure ratio in the period before and during the pandemic

H1e: There is a significant difference in the local government capital expenditure ratio in the period before and during the pandemic

H1f: There is a significant difference in the local government's growth ratio in the period before and during the pandemic

H2a: The ranking of local government administration affects the LFIR in the period before the pandemic

H2b: The ranking of local government administration affects its effectiveness ratio in the period before the pandemic

H2c: The ranking of local government administration affects its efficiency ratio in the period before the pandemic

H2d: The ranking of local government ad-

ministration affects its operational expenditure ratio in the period before the pandemic

H2e: The ranking of local government administration affects its capital expenditure ratio in the period before the pandemic

H2f: The ranking of local government administration affects its growth ratio in the period before the pandemic

H3a: The ranking of local government administration affects its LFIR during the pandemic

H3b: The ranking of local government administration affects its effectiveness ratio during the pandemic

H3c: The ranking of local government administration affects its efficiency ratio during the pandemic

H3d: The ranking of local government administration affects its operational expenditure ratio during the pandemic

H3e: The ranking of local government administration affects its capital expenditure ratio during the pandemic

H3f: The ranking of local government administration affects its growth ratio during the pandemic.

## RESEARCH METHOD

The data used in this study is the audited Local Government Financial Reports for 2019 and 2020. Ratios will be calculated based on these data that will reflect the financial performance of local governments. The data is obtained from the Audit Result Report on Local Government Financial Reports issued by the Audit Board of The Republic of Indonesia. The population in this study were all local governments based on the Decree of the Ministry of Home Affairs Number 100 - 53 of 2018 concerning the Ranking and Performance Status of Local Government Administrators Nationwide,

namely 423 local governments consisting of 33 provincial governments, 297 district governments, and 93 city governments. The sample selection was carried out by purposive sampling method with the criteria: 1) the availability of financial statements in 2019 and 2022; 2) representation of provinces, districts, and cities in Indonesia; and 3) representation of local government from the west, central and east of Indonesia. Based on these criteria, the number of samples used in this study was 118 local governments consisting of 16 provincial governments, 48 district governments, and 54 city governments. Hypothesis testing uses paired sample t-tests to test the H1 hypothesis and regression analysis to test the H2 and H3 hypotheses.

## RESULT AND DISCUSSION

Table 2 shows the minimum ratio values before the pandemic (2019) and during the pandemic (2020). The results of the descriptive statistical tests also reveal that the average value of financial ratios during the pan-

demically decreased compared to the pre-pandemic period. The ratio that experienced an increase during the pandemic was only the LFIR ratio and the Effectiveness Ratio, but it was insignificant. The LFIR ratio during the pandemic was 45%, while it was 44.75% before the pandemic, and the effectiveness ratio before the pandemic was 90.82%, increasing to 102.89% during the pandemic.

### Hypothesis Test H1

The normality test in this study used the Kolmogorov-Smirnov test and the Shapiro-Wilk test. Normality testing was used to determine whether the research sample had a normal distribution. The results of the normality test of the research sample are presented in Appendix 1. The results of the Kolmogorov-Smirnov test, with a significance level  $> 0.05$ , imply that the data have a normal distribution, except for the LFIR Before Pandemic variable (0.044). The Effectiveness Ratio Variable During the Pandemic and the Capital Expenditure Ratio variable before the Pandemic showed a value of less

**Table 2.** Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
Performance Status	118	1.10	1.39	1.2696	.1435
LFIR Before Pandemic	118	.24	.76	.4475	.1321
LFIR During Pandemic	118	.24	.73	.4530	.1204
Effectiveness Ratio Before Pandemic	118	.53	1.25	.9082	.1280
Effectiveness Ratio During Pandemic	118	.56	1.37	1.0289	.1586
Efficiency Ratio Before Pandemic	118	.34	1.24	.8018	.2114
Efficiency Ratio During Pandemic	118	.37	1.23	.7896	.1952
Operating Expenditure Ratio Before Pandemic	118	.47	.93	.7214	.0792
Operating Expenditure Ratio During Pandemic	118	.43	.94	.7258	.0817
Capital Expenditure Ratio Before Pandemic	118	.07	.31	.1943	.0473
Capital Expenditure Ratio During Pandemic	118	.05	.31	.1527	.0535
Growth Ratio Before Pandemic	118	-.03	.18	.0673	.0465
Growth Ratio During Pandemic	118	-.15	.07	-.0514	.0462
Valid N (listwise)	118				



than 0.05. However, based on the results of the Shapiro-Wilk test, the two variables of the Effectiveness Ratio during the Pandemic and the Capital Expenditure Ratio Variable before the Pandemic showed a value greater than 0.05. Based on the Shapiro-Wilk test alone, the two ratios are normally distributed. The LFIR variable before the pandemic was not normally distributed based on the Kolmogorov-Smirnov test or the Shapiro-Wilk test.

This study uses paired sample t-tests for different tests. The purpose of the paired sample t-test is to see if there is a difference in mean between two paired samples or related. The decision-making criteria to determine the existence of a difference in the average between the two samples is if the significance (sig 2-tailed) < 0.05, there is a difference, while the significance (sig 2-tailed) > 0.05 shows no difference. The results of the paired sample t-test hypotheses H1a to H1f are presented in Table 3.

The test results show the supported hypotheses are H1b, H1e, and H1f means that the effectiveness ratio, capital expenditure ratio, and growth ratio differ significantly before and during the pandemic. Meanwhile, H1a, H1d, and H1f are not supported, implying no difference in the LFIR ratio, efficiency ratio, and capital expenditure ratio before and dur-

ing the pandemic.

### Hypothesis Testing of H2 and H3

The normality test results for H2 dan H3 are shown in Appendix 1. The two regression models with the Asymp value. Sig. (2-tailed) residual LFIR Before Pandemic and Asymp value. Sig. (2-tailed) residual Capital Expenditure Before Pandemic are not distributed normally. Thus, regression analysis cannot further analyze the two data that are not normally distributed. Therefore, two hypotheses, H2a and H2e, were excluded from the regression analysis. The heteroscedasticity test is a test to determine the existence of variance inequality and residual from one observation to another observation in a regression model. The test results show no symptoms of heteroscedasticity for the hypotheses, as presented in Appendix 3.

Regression testing was carried out separately for each hypothesis, with the results presented in Table 4. The supported hypothesis is the H3d hypothesis which states that performance status affects the capital expenditure ratio during the pandemic. This conclusion is supported by the performance status t-table value of 1.9804, the t-count value is higher than the t-table value, and the significance value is less than 0.05, which means that performance status affects the ratio of operational costs during the pandemic. The results

**Table 3.** Paired Samples Test Results

	Hypothesis	t	df	Sig. (2-tailed)	Hypothesis Conclusion
H1 <sub>a</sub>	LFIR_Before_Pandemic - LFIR_During_Pandemic	-1.456	117	.148	Not Supported
H1 <sub>b</sub>	Effectiveness_Ratio_Before_Pandemic - Effectiveness_Ratio_During_Pandemic	-8.171	117	.000	<b>Supported</b>
H1 <sub>c</sub>	Efficiency_Ratio_Before_Pandemic - Efficiency_Ratio_During_Pandemic	1.778	117	.078	Not Supported
H1 <sub>d</sub>	Operating_Expenditure_Ratio_Before_Pandemic - Operating_Expenditure_Ratio_During_Pandemic	-.976	117	.331	Not Supported
H1 <sub>e</sub>	Capital_Expenditure_Ratio_Before_Pandemic - Capital_Expenditure_Ratio_During_Pandemic	11.078	117	.000	<b>Supported</b>
H1 <sub>f</sub>	Growth_Ratio_Before_Pandemic - Growth_Ratio_During_Pandemic	17.597	117	.000	<b>Supported</b>



of the coefficient of determination  $H_3d$  show an adjusted R Square ( $R^2$ ) value of 0.039, meaning that 3.9% of performance status affects the ratio of operating expenses during a pandemic. Conversely, the remaining 96.1% is influenced by other independent variables.

The test results regarding the impact of the COVID-19 pandemic on local financial performance show significant differences in the effectiveness ratio, capital expenditure ratio, and growth ratio between the pre-pandemic and during the pandemic. On the other hand, the local financial independence, efficiency, and operating expenditure ratio did not show a significant difference. The study results also show that the pandemic situation in 2020 affects the realization of revenues, operating expenditures, and total local expenditures.

The government's 2020 policy to reallocate and refocus local government budgets impacts local government budgets and budget utilization. The realization of local government spending is focused on dealing with the impact of the COVID-19 pandemic, causing a reduction of the capital expenditure realization. This resulted in a decrease in the ratio of capital expenditure activity. The Large-Scale Social Restrictions and restrictions on community activities policies decreased the realized value of original local government revenue. This is due to reduced income from the

business sector that contributes to local taxes, such as hotels and restaurants, whose revenue has decreased significantly due to restrictions on community activities. These results align with the study conducted by Ishak (2021) that discovers a significant difference between PAD before and after the announcement of the first case of COVID-19 in Indonesia. The decrease in PAD realization inevitably results in a decreased effectiveness ratio.

The central government's budget reallocation and refocusing policy through budget cutbacks in local transfer funds resulted in a decrease in the realization of local transfer revenues. The decline was exacerbated by a decrease in PAD realization, causing aggregate local income to decline significantly during the COVID-19 pandemic. The decrease in the realized value of local income undoubtedly results in a decline in the growth ratio. Local income decreased along with the government's policy of implementing Large-Scale Social Restrictions and restrictions on community activities affecting the local government's growth ratio.

The capital expenditure ratio showed a significant difference because the government's policy during the pandemic at that time focused on health spending and related online activities. Capital expenditure is allocated to

**Table 4.** Regression Coefficient Value and R Square

Hypothesis	(Constant)	$\beta$	T	Sig.	Adjusted R Square	Conclusion
H2 <sub>b</sub>	.934	-.020	-.243	.808	-.008	Not Supported
H2 <sub>c</sub>	1.045	-.192	-1.413	.160	.008	Not Supported
H2 <sub>d</sub>	.682	.031	.603	.548	-.005	Not Supported
H2 <sub>f</sub>	.043	.019	.629	.531	-.005	Not Supported
H3 <sub>a</sub>	.305	.116	1.506	.135	.011	Not Supported
H3 <sub>b</sub>	.848	.144	1.402	.163	.008	Not Supported
H3 <sub>c</sub>	1.048	-.203	-1.630	.106	.014	Not Supported
<b>H3<sub>d</sub></b>	<b>.568</b>	<b>.124</b>	<b>2.408</b>	<b>0.018</b>	<b>.039</b>	<b>Supported</b>
H3 <sub>e</sub>	.212	-.047	-1.357	.177	.007	Not Supported
H3 <sub>f</sub>	-.041	-.008	-.268	.790	-.008	Not Supported

spending that supports online activities and handling the impact of the COVID-19 pandemic. The results of the test on the effect of the ranking of local government administration on local financial ratios before the pandemic (2019) showed no significant effect for all the financial ratios tested, the LFIR, effectiveness ratio, efficiency ratio, operating expenditure ratio, capital expenditure ratio, and growth ratio.

Meanwhile, the results of testing the influence of the ranking of local government administration on local financial ratios during the pandemic (2020) showed insignificant results, namely LFIR, effectiveness ratio, efficiency ratio, capital expenditure ratio, and growth ratio. On the other hand, the operating expenditure ratio shows significant results, which suggests that the ranking of local government administration affects the local government operating expenditure ratio during the pandemic. The results of the second and third tests show that the status and ranking of local government administration issued by the Ministry of Home Affairs in 2018 are no longer relevant to describe the performance of local governments in 2019 and 2020.

## CONCLUSION

Based on the discussion in the previous section, the conclusion is that there are differences in local financial performance before and during the COVID-19 pandemic in terms of the effectiveness ratio, capital expenditure ratio, and growth ratio with the subsequent explanation. First, the reallocation and refocusing policy of the local government budget causes local government spending to focus on handling the impact of the COVID-19 pandemic resulting in capital expenditure reduction. This causes the ratio of capital expenditure to decrease. Second, the Large-Scale Social Restrictions and restrictions on

community activities policies decreased the realized value of original local government revenue. This is due to reduced income from the business sector that contributes to local taxes, such as hotels and restaurants, whose income has decreased significantly due to restrictions on community activities. These results align with the research conducted by Ishak (2021) that discovered a significant difference between the PAD before and after the announcement of the first case of COVID-19 in Indonesia. The decrease in PAD realization inevitably results in a decreased effectiveness ratio. Lastly, the central government's reallocation and refocusing policy through budget cuts in local transfer funds resulted in a decrease in the realization of local transfer revenues. The decline was exacerbated by a decrease in Local Own-source Revenue realization, causing aggregate local income to decline significantly during the COVID-19 pandemic. The decrease in the realized value of local income automatically results in a decline in the growth ratio.

Another result from this study is that there is no difference in the local government's financial performance before and during the COVID-19 pandemic in the LFIR, efficiency, and operating expenditure activity ratio. The status and ranking of local government administration do not affect the financial performance of local governments before and during the COVID-19 pandemic. The results of this study provide empirical evidence of how the COVID-19 pandemic impacts local government financial performance at certain ratios.

The results of this study could serve as input for the government, particularly the Ministry of Home Affairs, to re-evaluate the status and ranking of local government administration, which was last published in 2018. The limitations of this study are in terms of collecting the number of samples and the study duration. That was conducted a year prior to

the pandemic and one year during the pandemic. Therefore, further research should study a larger sample size and a more extended period. By doing so, the analysis will be more accurate.

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## APPENDICES

**Appendix 1.** Kolmogorov-Smirnov and Shapiro-Wilk Normality Test Results

	Kolmogorov-Smirnov <sup>a</sup>			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
LFIR Before Pandemic	.083	118	.044	.974	118	.023
LFIR During Pandemic	.068	118	.200*	.980	118	.069
Effectiveness Ratio Before Pandemic	.065	118	.200*	.976	118	.032
Effectiveness Ratio During Pandemic	.088	118	.027	.985	118	.221
Efficiency Ratio Before Pandemic	.058	118	.200*	.975	118	.028
Efficiency Ratio During Pandemic	.068	118	.200*	.976	118	.035
Operating Expenditure Ratio Before Pandemic	.069	118	.200*	.992	118	.739
Operating Expenditure Ratio During Pandemic	.056	118	.200*	.988	118	.364
Capital Expenditure Ratio Before Pandemic	.096	118	.010	.982	118	.107
Capital Expenditure Ratio During Pandemic	.080	118	.064	.981	118	.102
Growth Ratio Before Pandemic	.076	118	.095	.984	118	.162
Growth Ratio During Pandemic	.070	118	.200*	.989	118	.448

**Appendix 2.** Kolmogorov-Smirnov One-Sample Normality Test Results

Dependent Variable	Test Statistic	Asymp. Sig. (2-tailed)	Conclusion
LFIR_Before_Pandemic_Residual	.087	.029	Not normally distributed
LFIR_During_Pandemic_Residual	.065	.200	Normally distributed
Effectiveness_Ratio_Before_Pandemic_Residual	.064	.200	Normally distributed
Effectiveness_Ratio_During_Pandemic_Residual	.069	.200	Normally distributed
Efficiency_Ratio_Before_Pandemic_Residual	.040	.200	Normally distributed
Efficiency_Ratio_During_Pandemic_Residual	.051	.200	Normally distributed
Operating_Expenditure_Ratio_Before_Pandemic_Residual	.066	.200	Normally distributed
Operating_Expenditure_Ratio_During_Pandemic_Residual	.064	.200	Normally distributed
Capital_Expenditure_Ratio_Before_Pandemic_Residual	.083	.046	Not normally distributed
Capital_Expenditure_Ratio_During_Pandemic_Residual	.063	.200	Normally distributed
Growth_Ratio_Before_Pandemic_Residual	.067	.200	Normally distributed
Growth_Ratio_During_Pandemic_Residual	.058	.200	Normally distributed

**Appendix 3.** Heteroscedasticity Test Results

Hypotheses	t	Sig.	Conclusion
H2 <sub>b</sub> Performance Status Dependent Variable: LFIR_During_Pandemic	1.245	.807	No symptoms of heteroscedasticity
H2 <sub>c</sub> Performance Status Dependent Variable: Effectiveness_Ratio_Before_Pandemic	-.780	.437	No symptoms of heteroscedasticity
H2 <sub>d</sub> Performance Status Dependent Variable: Effectiveness_Ratio_During_Pandemic	-1.062	.290	No symptoms of heteroscedasticity
H2 <sub>f</sub> Performance Status Dependent Variable: Efficiency_Ratio_Before_Pandemic	-1.278	.204	No symptoms of heteroscedasticity
H3 <sub>a</sub> Performance Status Dependent Variable: Efficiency_Ratio_During_Pandemic	1.907	.059	No symptoms of heteroscedasticity
H3 <sub>b</sub> Performance Status Dependent Variable: Operating_Expenditure_Ratio_Before_Pandemic	-1.241	.217	No symptoms of heteroscedasticity
H3 <sub>c</sub> Performance Status Dependent Variable: Operating_Expenditure_Ratio_During_Pandemic	-.610	.543	No symptoms of heteroscedasticity
H3 <sub>d</sub> Performance Status Dependent Variable: Capital_Expenditure_Ratio_During_Pandemic	-.391	.697	No symptoms of heteroscedasticity
H2 <sub>e</sub> Performance Status Dependent Variable: Growth_Ratio_Before_Pandemic	-1.093	.277	No symptoms of heteroscedasticity
H2 <sub>f</sub> Performance Status Dependent Variable: Growth_Ratio_During_Pandemic	.133	.895	No symptoms of heteroscedasticity