

Successful Cooperation between the Ministry of Finance and Local Governments for Implementing Regional Financial Management: Key Factors

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Abstract

This study aimed to evaluate the Ministry of Finance role in providing mentoring to Local Governments for the implementation of regional financial management. Financial advisor role is a strategic step to foster synergy and collaboration with Local Governments in the field of national financial management. A qualitative approach and an exploratory design were used followed by SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis. The analysis was used to provide recommendations for the Ministry of Finance and Local Governments to implement regional financial management strategies. Data collection methods varied for all subjects. Internal data from the Ministry of Finance were obtained through interviews and document studies, while external data were collected through the completion of questionnaires by 461 Local Governments and document studies. The results showed that Local Governments require coordination and mentoring from the Ministry of Finance regarding regional financial management. The Ministry of Home Affairs has the authority to guide Local Governments in terms of institutional structure. Moreover, the Ministry of Finance can voluntarily offer mentoring by demonstrating the positive aspects of work and illustrating the benefits of financial advisor role, as explained in the rational choice theory.

Keywords: Decentralization; Financial Advisors; Financial Relations between Central and Local Governments; the Ministry of Finance; Local Governments

Abstrak

Penelitian ini bertujuan untuk melihat seberapa jauh peran Kementerian Keuangan di dalam melaksanakan kerja sama pembinaan keuangan kepada Pemerintah daerah dalam implementasi pengelolaan keuangan daerah. Pelaksanaan peran financial advisor merupakan langkah strategis yang dijalankan oleh Kementerian Keuangan untuk menciptakan sinergi dan kolaborasi dengan Pemerintah Daerah dalam upaya pembinaan dalam bidang pengelolaan keuangan negara. Pendekatan penelitian ini kualitatif dengan studi eksplorasi untuk kemudian dianalisis menggunakan pendekatan SWOT (Strengths, Weaknesses, Opportunities, Threats). Analisis SWOT juga digunakan untuk memberikan rekomendasi terkait strategi yang dijalankan oleh Kementerian Keuangan dalam kerja sama pembinaan keuangan antara Kementerian Keuangan dan Pemerintah Daerah dalam implementasi pengelolaan keuangan daerah. Teknik pengumpulan data menggunakan dua pendekatan yang berbeda untuk kedua obyek penelitian. Data internal Kementerian Keuangan diperoleh dari wawancara dan studi dokumen sedangkan data eksternal Kementerian Keuangan diperoleh dengan pengisian kuesioner oleh 461 Pemerintah Daerah dan studi dokumen. Hasil kajian menunjukkan bahwa Pemerintah Daerah membutuhkan koordinasi dan pembinaan dari Kementerian Keuangan terkait pengelolaan keuangan daerah. Namun demikian secara struktur kelembagaan, kewenangan dalam melakukan pembinaan kepada Pemerintah Daerah adalah Kementerian Dalam Negeri. Kementerian Keuangan dapat melaksanakan pembinaan yang bersifat voluntary kepada Pemerintah Daerah dengan menunjukkan hal-hal positif yang telah dilakukan serta menunjukkan manfaat dari financial advisor tersebut sebagaimana dijelaskan pada rational choice theory.

Kata kunci: Desentralisasi; Financial Advisor; Hubungan Keuangan Pusat dan Daerah; Kementerian Keuangan; Pemerintah Daerah

INTRODUCTION

Regional autonomy is based on the principle of granting greater authority for Local Governments to manage the territories in line with the needs and characteristics (Brown, 2009). This provision aims to improve the efficiency and effectiveness of public services, as well as accelerate development in the regions (Usman, 2002). Furthermore, fiscal decentralization policies are

implemented to achieve regional autonomy.

The implementation of fiscal decentralization policy in 2001 has led to rapid progress in some cities and regions (Rahman, 2017), while others continue to struggle for development (Christianingrum, 2021). This condition indicates the need to improve the effectiveness of regional transfer fund allocation.

Harmonizing central and regional financial management policies will effectively address fiscal imbalances, including vertical and horizontal. The policy of transferring funds to regions may not be sufficient in addressing these imbalances, as mentioned by Lazuardi (2013). Li & Du (2021) asserted that regional transfers have a disproportionate impact on regions with high fiscal imbalances, potentially leading to perceptions of unfairness in the allocation process. Furthermore, the lack of transparency and accountability in the use of budgets poses a significant challenge to harmonizing central and regional financial management policies. Fatoni (2020) mentioned that fiscal decentralization has positive and negative effects. It increases transparency but also heightens the likelihood of corruption at Local Governments level.

Nurchahyo & Raksaka Mahi (2022) found that corruption is more likely to occur in Block Grants, while Specific Grants have a lower probability of corruption due to the limited flexibility in use. Therefore, efforts to improve coordination between Central and Local Governments are needed.

The Ministry of Finance plays a crucial role in harmonizing fiscal policies between Central and Local Governments to ensure smooth and effective implementation. This helps achieve national development goals effectively and efficiently, as well as strengthens economic integration between Central and Local Governments. The Ministry sharpens financial supervision function in the

context of fiscal decentralization implementation. It is significantly enhancing support for economic growth and development in regions as demonstrated by the decisive and impactful Directorate General of Treasury's Decision Number KEP-2/PB/2023 on the Formation of a Shadow Organization at Regional Office of the Directorate General of Treasury. Regional Office serves as the Ministry of Finance representative in the region and provides expert financial advice to Local Governments as part of crucial fiscal responsibility.

This crucial role is intended to promote strong synergy and effective cooperation between the Ministry of Finance and Local Governments in financial supervision. In general, this study was conducted to examine the factors that contribute to the success of financial supervision between the Ministry of Finance and Local Governments. The institutional relationship is identified as the first factor. According to Thoha (2020:64), mentoring can significantly enhance the likelihood of a region development.

The second crucial factor is institutional infrastructure, which forms the solid foundation of the relationship. Law Number 1 of 2022 clearly defines financial relationship, providing a solid foundation for Local Governments finances. The effective interpretation and implementation of the regulations in subsequent legal products are essential factors in successful regional financial management.

The third factor is human resource factors (Anggara et al., 2023). According

to the interviews conducted by Yuliati et al. (2019), not all financial staff possess educational backgrounds in finance.

This study explores the key success factors in the mentoring relationship between the Ministry of Finance and Local Governments. The majority of previous studies only outlined the relationship between Central and Local Governments in general (Sudibya, 2020, Martira & Nursadi, 2020) without examining the characteristics of each mentoring institution. The Ministry of Finance acts as a financial advisor in this case. This study presents a confident and assertive tone, emphasizing the importance of examining the specific characteristics of each mentoring institution.

In most of Local Governments in Indonesia, specific challenges such as inadequate training for financial staff, lack of standardized financial procedures, and insufficient monitoring mechanisms have been recurrent issues. These issues have led to inconsistencies in financial reporting and budget use, thereby affecting fiscal health. Previous studies, such as Yuliati et al., (2019) and (Sudibya, 2020) outlined general challenges in Central and Local Governments relationships but did not delve deeply into the specific mentoring practices and the impact on local financial management.

The Ministry of Finance, acting as a financial advisor, has implemented various initiatives to address these issues. The effectiveness of the initiatives in Local Governments remains underexplored. Therefore, this study aimed to fill the gap by providing

a detailed analysis of the mentoring processes and outcomes in the specific region. SWOT (Strengths, Weaknesses, Opportunities, Threats) analysis was used to identify internal and external factors that influence the success of the mentoring efforts as well as provide recommendations for enhancing cooperation between the Ministry of Finance and Local Governments.

This study specifically focuses on the relationships and cooperation carried out by the Ministry of Finance, particularly the Directorate General of Treasury. Mentoring conducted by other institutions is not included.

As a reflection on the implementation of regional autonomy and fiscal decentralization, this study explored factors that can promote synergy and cooperation in the context of regional financial management.

METHODS

The exploratory method was used to investigate the perceptions of regional financial managers on the relationship between Local Governments and the Ministry of Finance. The uniqueness of this study lies in the novelty, as it has not been conducted before. Surveys of Local Governments and internal interviews with the Ministry of Finance, specifically the Directorate General of Treasury were used as primary data collection tools. The aim was to provide a comprehensive overview of the relationship between Central and Local Governments. The exploratory approach is often used to examine issues or phenomena that are not well understood and to develop initial ideas, as well as more detailed questions

(Neuman, 2014).

SWOT analysis was carried out to assess both internal and external potentials of the Ministry of Finance (Rangkuti, 2016). Both internal and external factors that drive the success of mentoring cooperation with Local Governments by the Ministry of Finance were identified. To achieve this, two different data collection methods were used.

A. Data Collection Method for Local Governments (External)

Data were collected from respondents using questionnaires. These respondents represent the population related to the object under study, namely Local Governments at the Provincial and District/City levels. Primary data were collected from officials at the Echelon 2 and 3 levels in Regional Finance and Asset Management Agency (BPKAD) or similar agencies dealing with financial and fiscal balance matters. Respondent selection was based on the partnership relationship with the Ministry of Finance in regional financial management, which is funded by the State Budget (APBN). The questionnaire completion period spanned July 20 to August 20, 2023.

B. Internal Ministry of Finance Data Collection Method

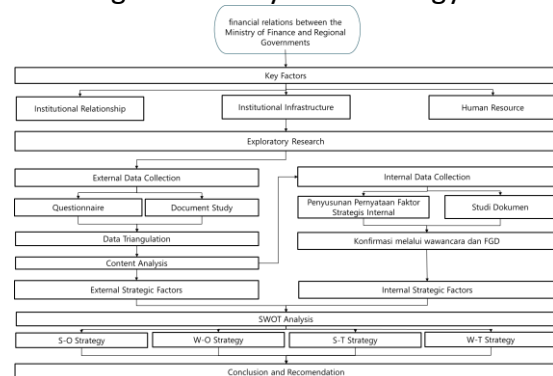
Respondents were carefully selected from the population using purposive sampling, which is a method based on specific criteria (Sugiyono, 2011). Interviews were used for internal data collection to confirm the statements based on professional judgment. The statements were supported by data interpretation obtained from completed

questionnaires that match relevant factors. Confirmation interviews were conducted with the key person of the Secretariat of the Directorate General of Treasury and the Directorate of Budget Implementation, the Directorate General of Treasury (regulators), and two Head Officers of the State Treasury Service Office (executors). Interviews were conducted with the Head of the State Treasury Service Office, officials of the Secretariat of the Directorate General of Treasury, and the Directorate of Budget Implementation on September 19, 20, and 22, 2023, respectively.

C. Document Study

A thorough document study was conducted to supplement the results. Data were collected through document analysis of the object under study, including legislation and Standard Operating Procedures. The sources of data include internal parties of the Ministry of Finance and related publicly available publications.

Figure 1. Study Methodology



RESULT AND DISCUSSION

A. Descriptive Analysis of Respondents

This study covered 546 Local Governments, consisting of 38

provincial-level and 508 district-level Local Governments. The 6 Administrative Cities in the Jakarta Capital Region were excluded due to the position as delegated authorities from the DKI Jakarta Provincial Government. Therefore, the management of regional finances falls under the jurisdiction of the DKI Jakarta Provincial Government. Among 569 respondents who completed the questionnaire, data cleansing was required as 108 respondents were found to be from the same Local Governments. To mitigate this issue, only one respondent was selected from each Local Government. Respondents were selected using a rigorous process that included excluding officials with lower rank positions, identifying and removing duplicate submissions, and selecting those from the same Local Governments who had previously completed the questionnaire. These efforts produced a total of 461 respondents who completed the questionnaire, representing an impressive 84.43% of the total number.

The distribution of respondents was even across all regions of Indonesia, further demonstrating the strength and reliability of data. The response rate was highest in the Kalimantan region at 95.08%, followed by Bali and Nusa Tenggara at 95.45%, Sumatra at 89.02%, Java at 86.55%, Sulawesi at 73.56%, as well as Maluku and Papua at 67.61%. The survey respondents consisted of 65% Agency and 35% Division Heads.

B. External Strategic Factors

To identify strategic external factors, questionnaires were distributed to gain

an understanding regarding the relationship between the Ministry of Finance and Local Governments in the implementation of regional financial management. Additionally, literature review was carried out on legislation and regulations.

1. Institutional Relationship

The implementation of financial advisor function is an effort by the Ministry of Finance to achieve synergy and cooperation with Local Governments in terms of guidance on financial aspects. Coordination is crucial in managing national and regional finances. About 90% of respondents considered coordination to be of utmost importance, while the remaining 10% considered it somewhat important. The Ministry of Finance can provide valuable collaboration and assistance to Coordination. However, the responsibility for mentoring falls under the coordination of the Ministry of Home Affairs, as stipulated in Law Number 23 of 2014 concerning Local Governments.

2. Institutional Infrastructure

Local Governments have the authority to create legal documents, while still complying with higher-level legislation issued by Central government. Legal documents issued by the Ministry of Finance are widely recognized, with 99% of respondents operating based on the provision. Respondents overwhelming belief in the existing legislation supporting synergy has led to a lack of perceived obstacles in implementation, with 93% expressing this sentiment. Furthermore, 94% of respondents felt confident in the legal foundation for

cooperating with the Ministry of Finance.

3. Human Resources

Certification reflects financial management professionalism. Based on the questionnaire results, 33% of respondents reported that all or most financial managers have been certified, while 66% believed only a small portion of financial managers have been certified. Only 1% reported having no certified financial managers. At the time of this study, there was no legislation mandating local financial managers to have competency certificates. However, it is essential to provide training to enhance and maintain the competence. All respondents unequivocally acknowledged the need for training in various aspects of financial management. The majority believed the training provided to financial managers was insufficient (58%), with only 6% feeling adequate. Furthermore, 26% of respondents believed that the training was only sufficient for a small portion of employees. There is a need for more comprehensive training programs to effectively address these concerns.

C. Internal Strategic Factors

Interviews were conducted to confirm statements prepared based on professional judgment. The objective was to identify strategic internal factors that could influence the relationship between the Ministry of Finance and Local Governments.

1. Institutional Relationship

The Ministry of Finance role as a financial advisor is a strategic step to promote collaboration and cooperation

with Local Governments in developing financial management. However, the competencies required by Local Governments are not consolidated in a single vertical unit of the Ministry of Finance.

Regional Office of the Directorate General of Treasury, a vertical unit of the Ministry of Finance, is authorized to establish cooperation with Local Governments as per the Minister of Finance Regulation Number 262/PMK.01/2016. This regulation serves as a formal basis for conducting cooperation activities. The authority for managing regional finances lies under the jurisdiction of the Ministry of Home Affairs as stipulated in Law Number 23 of 2014 concerning Local Governments. However, this cooperation has the authority to provide mentoring.

The Ministry of Finance cannot regulate the types of services provided by Local Governments but may voluntarily offer replicable services.

2. Institutional Infrastructure

The institutional infrastructure plays a crucial role in facilitating financial relations between central and local governments. Therefore, it is important to showcase competence and expertise by providing clear and concise statements. Local Governments deeply rely on the regulations issued by the Ministry of Finance as a reference when drafting regulations. Harmonizing legislation is essential to provide a clear reference, particularly when regulations are associated with multiple sectors. This requires time and support from all related parties.

3. Human Resources

Human resources are crucial for successful cooperation in regional financial management. The Ministry of Finance has extensive experience in providing training and certification for functional positions in managing the State Budget. This greatly contributes to the standardization of financial manager competencies. The expertise in mentoring officials who manage the State Budget sets a benchmark for supporting the development of financial management competencies at regional level.

D. Development of Strategies using SWOT Matrix

According to David (2008), SWOT matrix is an essential tool that enables managers to develop four types of strategies by combining internal and external factors.

1. Strengths-Opportunities Strategy
Strengths-Opportunities strategy maximizes the internal strengths and external opportunities of the Ministry of Finance (Rangkuti, 2016:84). The advantages already possessed can be leveraged as attractive factors that significantly enhance the quality of relationships with various parties, prompting Local Governments to voluntarily (Bashatweh, 2018).

i. Institutional Relationship

Drummond & Mansoor (2003) asserted that good governance facilitates fiscal resilience, specifically in developing countries. Respondents emphasized that coordination with the Ministry of Finance is crucial. This requirement provides opportunities for the Ministry of Finance vertical units to enhance

support for close coordination efforts with Local Governments. Effective coordination can lead to clear program and activity schedules for both Central and Local Governments, thereby accelerating output achievement in the regions (Hofman et al., 2021), specifically during crises (Diamond & Laffin, 2022).

The Ministry of Finance can enhance regional financial management performance by replicating service governance models that have already been implemented. Displaying these abilities and experiences is a strong indication that the institution has credibility and legitimacy (Hahn & Kühnen, 2013). As stated by Bashatweh (2018), signaling theory significantly improves the quality of relationships with various parties, which will subsequently attract counterparts to voluntarily follow leads.

The presence of the Ministry of Finance offices in regions has significantly improved cooperation with the BPKAD. This has enabled closer support and assistance, maintained through information technology development strategies and regular meetings. Mkumbo et al. (2020) asserted that the advancement of information technology enhances customer engagement, thereby reinforcing institutional relationships.

ii. Institutional Infrastructure

Davila et al. (2018) found that strict control from Central Government is inversely related to the implementation of fiscal decentralization. Therefore, reconciliation between Central and Local Governments is necessary for

decentralization to have a positive impact on regional economy. The Ministry of Finance can provide valuable support by acting as a partner or advisor in the drafting of regional regulations. Moreover, the ministry needs to provide valuable insights into the philosophy and principles of regional regulations.

Central and Local Governments have distinct roles in managing national finances, which serves as a fiscal risk-sharing mechanism (Zahariadis, 2013). According to Sorens (2014), equal transfers can enhance equality among regions, and fiscal federalism is understood as autonomous local governance.

iii. Human Resources

Competency certificates are not yet widely held by financial management officials. However, the Ministry of Finance experience in providing training and competency certification for functional positions in managing the national budget can support the standardization of competency for Local Governments financial managers. This will expand the scope of training for functional officials in treasury management at regional level, including providing expertise certification.

Training in Local Governments financial management is crucial. Respondents mentioned that the number of training sessions in this region remains inadequate. However, the Ministry of Finance has extensive experience in providing training and competency certification for functional positions in managing the national budget. This experience can be leveraged to support the standardization of competency for

Local Governments financial managers.

2. *Weaknesses-Opportunities Strategy*

Weaknesses-Opportunities strategy minimizes internal weaknesses and capitalizes on external opportunities affecting the Ministry of Finance (Rangkuti, 2016:84).

i. Institutional Relationship

Local Governments require consultation regarding regional financial management. This concern has led to frequent visits to the work units of central agencies or vertical units of the Ministry of Finance in the region. Regional Office of the Directorate General of Treasury and the State Treasury Service Office (KPPN) are equipped to identify the needs of Local Governments and match with the competencies available in the work units. This collaboration ensures that Local Governments receive the necessary support to manage finances effectively.

Regional financial management is under the authority of the Ministry of Home Affairs, as regulated by Law Number 23 of 2014 concerning Local Governments. The Ministry of Finance has been acknowledged as an example in the establishment of Regional Inflation Control Teams (TPID). To foster regional financial management, adopting a pattern of delegation of authority is necessary. This is due to the Ministry of Home Affairs lacking vertical units in the regions. The statement is consistent with rational choice theory, stating that economic actors will use all available means to achieve economic objectives. When faced with multiple options, these actors make rational choices

based on preferences. The addition of Regional Office of the Directorate General of Treasury to TPID team is a logical decision that will optimize resource use and improve team performance (Lounsbury, 2008).

ii. Institutional Infrastructure

Respondents had a comprehensive perception of Local Governments regulations. However, there is hesitation in implementing cooperation with the Ministry of Finance due to the lack of explicit provisions for collaboration and mentoring. The regulations can be amended to include provisions, which would facilitate a more effective partnership. This condition provides an excellent opportunity for Regional Office of the Directorate General of Treasury and the KPPN to establish synergy and collaboration with Local Governments voluntarily by demonstrating best practices.

iii. Human Resources

Local Governments currently lack certified financial managers. However, initiatives have been taken to establish partnerships with the Ministry of Finance for increased competency in financial management. Despite limited opportunities, the training needs must be fulfilled in the field of regional financial management. Financial Education and Training Agency (BPPK) cannot meet the needs of all Local Governments due to limitations in capacity.

3. Strengths-Threats Strategy

Strengths-Threats strategy is often used for leveraging internal strengths to mitigate threats from external factors

(Rangkuti, 2016:84).

i. Institutional Relationship

The Ministry of Home Affairs holds the authority to foster relationship with Local Governments, despite the potential support factors possessed by the Ministry of Finance. Policy harmonization is necessary to address this issue. Harmonizing central and local financial management policies aims to address vertical and fiscal imbalances. However, the current policy for transferring funds to regions is inadequate in closing these imbalances (Lazuardi, 2013). Comprehensive changes are required for organizational development, not only in working procedures. The plan should include all elements in the organization and be regulated from the top level (Thoha, 2020). To achieve effective organizational development, harmonization is necessary.

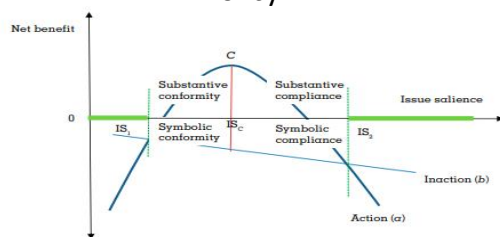
Although management studies typically focus on the impacts of mandatory and voluntary programs separately (Aragón-Correa et al., 2020), a balanced approach is essential for success. The mandatory programs may not always be fully effective due to deviations in law enforcement and interference in the political process (Aragón-Correa et al., 2020). However, voluntary programs have also been met with skepticism by some studies (Potoski & Prakash, 2013; Berliner & Prakash, 2015).

Implementing both mandatory and voluntary programs together can have a positive impact on performance (see Short & Toffel, 2010). In addition, Grešová & Fuka (2018) found that a managerial approach can improve

cooperation and enhance performance efficiency. The cooperation between Local Governments is organized voluntarily, but it is crucial to ensure synergy between mandatory and voluntary approaches (Aragón-Correa et al., 2020). Organizational leaders respond to important matters (Bundy et al., 2013) by analyzing the benefits and drawbacks of various decision alternatives (Durand et al., 2019).

Durand et al. (2019) state that Point C represents the threshold for implementing beneficial programs. Programs that fail to provide a net benefit will be carried out only symbolically while voluntary ones are abandoned. Conversely, programs that provide a net benefit are implemented substantively.

Figure 2. Organizational Response to Policy



Source: (Durand et al., 2019)

ii. Institutional Infrastructure

The Ministry of Finance regulations are highly trusted by Local Governments, which presents significant opportunities for Regional Office of the Directorate General of Treasury and the KPPN to act as financial advisors. This is specifically relevant when Local Governments intend to formulate regional regulations related to financial management. Regional Office of the Directorate

General of Treasury and the KPPN are highly qualified partners that can proactively assist Local Governments in formulating regional regulations on financial management. The competence and profound knowledge in national financial management is the ideal choice for the task. The human resources of Regional Office of the Directorate General of Treasury and the KPPN must continuously acquire sufficient competence to exceed the expectations of Local Governments.

iii. Human Resources

The Ministry of Finance has extensive experience in providing training and certification of competencies for functional positions in managing the State Budget. This experience can greatly support efforts to achieve standardization of competencies for finance managers. Therefore, it is recommended to establish cooperation with Local Governments Development Agency (BPSDM) to prepare training on certification for financial managers.

The Ministry of Finance provides comprehensive training programs that effectively enhance human resource competencies. Local Governments can confidently rely on these programs as a reference when determining the most suitable training options.

4. Weaknesses-Threats Strategy

Weaknesses-Threats strategy minimizes existing weaknesses and avoids threats through defensive activities (Rangkuti, 2016:84). Identifying weaknesses is crucial in SWOT analysis for subsequent improvement actions and continuous improvement of the Ministry of Finance.

Collaboration with all stakeholders is necessary to effectively foster and mitigate external threats (David, 2008).

i. Institutional Relationship

To address the issue of hesitation among vertical units in the regions, the Ministry of Finance, coordinated by the Directorate General of Treasury, can confidently establish a Memorandum of Understanding (MoU) with the Ministry of Home Affairs.

The Ministry of Finance has limited authority to regulate the services provided by Local Governments. However, it can provide valuable information about the services offered and assist in developing similar services. The vertical units of the ministry are well-equipped to provide support and ensure that Local Governments offer high-quality services to constituents.

ii. Institutional Infrastructure

The absence of MoU for collaboration and synergy is a significant issue that demands attention. All vertical agencies must engage in MoU with Local Governments, rather than relying on the initiatives of leaders. The Ministry of Finance will create a MoU with Local Governments to establish a structured and standardized foundation for cooperation.

iii. Human Resources

Financial and Development Supervisory Agency faces limitations in meeting the needs of all Local Governments, particularly in providing technical training in financial management. The issue can be addressed by taking a strategic step to increase training in local financial management through e-learning. This will broaden market reach

and extend services to Local Governments in need with greater efficiency and effectiveness. Furthermore, there is a limitation in providing technical training in financial management. To address this issue, the Ministry of Finance can take a strategic step by increasing training in local financial management through e-learning. Financial and Education Training Agency accredits training institutions in different regions, enabling the provision of independent training.

CONCLUSION

In conclusion, this study thoroughly examined the Ministry of Finance role in fostering financial cooperation with Local Governments for regional financial management. The execution of financial advisor role is a strategic and decisive step towards creating synergy and collaboration with Local Governments in national financial management.

Local Governments have identified potential avenues for fostering and coordinating regional financial management with the Ministry of Finance, as evidenced by SWOT analysis. The strategy allows Regional Office of the Directorate General of Treasury to collaborate with Local Governments, as outlined in Minister of Finance Regulation Number 262/PMK.01/2016 regarding the Organization and Work Procedures of Vertical Institutions of the Directorate General of Treasury. However, the responsibility of fostering Local Governments falls under the purview of the Ministry of Home Affairs, as stipulated in Law Number 23 of 2014

concerning Local Governments. The Ministry of Finance does not have explicit authority to mandate the fostering of Local Governments on a formal basis.

To facilitate organizational growth, it is necessary to implement comprehensive changes comprising three key components, namely planning, inclusivity, and top-level regulation. The Ministry of Finance may wish to consider cheering Local Governments to engage in voluntary fostering in accordance with the principles of rational choice theory. The combination of mandatory and voluntary programs can yield optimal results, with a focus on managerial approaches to enhance cooperation and performance efficiency. There is a need to establish a synergy between mandatory and voluntary approaches. This can be achieved through the use of legally binding frameworks, such as Cooperation Agreements.

Although the number of competency certificates for financial management officials is limited, there are opportunities for collaboration on certification training. Regional and State Treasury Offices play a crucial role in identifying the certification needs of Local Governments financial managers. The Ministry of Finance expertise in training and certifying functional positions significantly enhances standardization. Additionally, e-learning courses on regional financial management and training institutions should be accredited for independent provision by leveraging BPPK.

Further studies must refine data

exploration methods, particularly regarding internal factors affecting vertical offices of the Ministry of Finance. This can be achieved through distributing questionnaires or conducting in-depth interviews to assess readiness as financial advisors. Although this study focused on Local Governments as external factors, conducting interviews would provide deeper insights into the needs for regional financial management development. Considering the crucial role of the Ministry of Home Affairs in fostering Local Governments, variables related to tasks and functions should be incorporated for a more comprehensive understanding of institutional relationships.

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