

STRATEGY FOR INCREASING REGIONAL ORIGINAL INCOME THROUGH STRENGTHENING SOME FACTORS IN REGIONAL FINANCIAL INDEPENDENCE

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ARTICLE INFO	ABSTRACT
<p>Keywords: Local government financial autonomy PAD central transfer funds.</p>	<p>To reduce dependence on funds, the local government must look for potential alternatives to increase original local government revenue. This study uses a quantitative method with a path analysis approach. The scope of the research covers all regencies/cities in Indonesia receiving balanced funds in the form of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH). The results of the quantitative analysis found several results and findings related to key factors as a strategy for local government in increasing local government financial autonomy in each of the research data clusters. The results found that in Clusters I and II, Direct Expenditure and Indirect Expenditure were factors in encouraging local government financial autonomy through the mediation of the PAD variable. These results encourage regencies/cities governments in Cluster I and II to be able to optimize local government expenditure, both directly and indirectly to increase local government financial autonomy. Furthermore, in Cluster III, indirect expenditure and central transfer of funds were determining factors for increasing financial autonomy in regions/cities through the mediation of the PAD variable. These results encourage regencies/cities governments in Cluster III to focus on using fiscal transfers for productive sector spending in increasing local government financial autonomy. In Cluster IV, the central transfer of funds had a significant but negative influence on local government financial autonomy. These results prove that the regencies/cities governments in Cluster IV are still very dependent on the central transfer of funds to the local government.</p>
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1. INTRODUCTION

Original Local Government Revenue (PAD) plays an important role in contributing to local government expenditure. Good local government financial autonomy can be demonstrated by the increasing local government revenue in regions/cities [1]. Furthermore, based on this research, local government financial autonomy is still low, this is due to a large amount of funding that must be allocated. In addition, PAD contributes to the Regional Budget (APBD) to finance the implementation of administrative processes, government services, and regional development. In line with this, research at the Local Council in Kogi East Senatorial District on Local Government faces various difficulties in obtaining adequate revenue from the federal government, state government, and internally generated revenue [2].

As a form of decentralization, the original purpose of local government revenue is to give the local government authority to fund the implementation of regional autonomy in accordance with regional potential. With the regional autonomy policy, all regions are expected to be able to maximize their financial capabilities so that they can fund all government affairs in the regions independently. The contribution of local government revenue to local government financial autonomy in Indonesia is still low. Similar

Strategy For Increasing Regional Original Income Through Strengthening Some Factors In Regional Financial Independence - Vissia Dewi Haptari, et al

conditions occur in several countries in Africa and Europe, where the regions still depend on funds transferred from the central government, to carry out development and other public services.

Until 2016, the proportion of PAD to local government revenue had not reached 70%, the average provincial PAD only reached 37.8% of local government revenue. There were only 8 regions that reached above 50%, while there were 11 regions that were below 30%, and there were even 2 regions below 10%. Optimizing PAD requires a strategy and exploring the potential and competence of managers of local government financial autonomy [3]. Local taxes, retributions, separated regional government wealth, and other legitimate local government revenue can increase PAD from the province [4].

Low PAD is due to several problems in local government revenue management including local government has not been optimal in finding sources of income, the administration system is still manual and not integrated which can result in leakage of local government revenue, weak supervision over the collection of retributions and non-optimal performance of BUMD. The PAD of local government is still low reaching there is no local government that reaches the proportion of 70%. The provincial average only reached 37.8%. Low PAD is caused by income management that has not yet found its source of income. Furthermore, other problems arise from the non-optimal administration system, the weak oversight of regional retributions and the non-optimal performance of BUMN.

Research to describe local government financial autonomy and the effectiveness of PAD in East Kalimantan. The level of autonomy also describes the level of community participation in regional development. The higher the level of autonomy, the higher the participation of the community in paying retributions. Local government financial autonomy is directed at spurring equitable distribution of development and results. The conclusion of the research shows that local government financial autonomy, both at the provincial and regencies/cities levels, still depends on the balanced fund from the central government, even though it has decreased from 2009 to 2013. The dependence on balanced funds tends to decrease with an increase in original local government revenue. The effectiveness of the original local government revenue in East Kalimantan Province increased by 110.71 and 118.90 percent in 2009 and in 2010. The level of effectiveness from 2011 to 2013 decreased to 106.16 percent. This shows the ability of local government to realize original local government revenue. Thus, the ability of East Kalimantan Province to collect development funds from regional potential sources (income) is 39.68 percent of total revenue and the remainder comes from the central government in the form of balanced funds.

Factors influencing local government financial autonomy [5]. This research carries out further elaboration regarding the key factors for increasing local government financial autonomy in regions/cities in Indonesia and what are the obstacles and problems for local government to increase local government financial autonomy. The results of this research are expected to become a policy strategy for increasing PAD in regencies/cities in Indonesia.

2. METHOD

This study used a quantitative method with quantitative analysis carried out with a path analysis approach. The scope of the research covers all regencies/cities in Indonesia that receive balanced funds in the form of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH). The total number of regencies/cities as the unit of analysis in this study was 508 regencies/cities except for regencies/cities in the province of DKI Jakarta. The research period used was from 2013 to 2020. The time span for this period was chosen because there were several regions that had not become their own districts before the 2013 period.

This study used secondary data. Secondary data was obtained from the Ministry of Finance and the Central Bureau of Statistics (BPS). The following are some explanations regarding the research variables in this study:

1. Original Local Government Revenue (PAD) is an original local government revenue variable as a source of income obtained and comes from the region. The data were obtained from the data portal of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance.
2. The ratio of local government financial autonomy is a comparison between the realization of PAD to the realization of total income. The data was obtained from the data portal of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance.

3. Tax growth is the rate of tax revenue in a given year compared to the previous year. The data were obtained from the data portal of the Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance.
4. The growth of regional levies is the magnitude of the rate of local government revenue obtained from the payment of certain services or permits provided by the local government for the benefit of persons or entities. Data for this variable can be obtained from the DJPK data portal.
5. Central government transfers are balanced funds provided by the central government to each region in Indonesia to minimize fiscal imbalances between regions. These variable data can be obtained on the DJPK data portal.
6. Direct Expenditure is expenditure with the direct relationship with the goals of the organization. The availability of data for this variable can be obtained from the DJPK data portal.
7. Indirect expenditure is expenditure that has an indirect relationship to the objectives of the organization. The availability of data for this variable can be obtained from the DJPK data portal

This study has hypotheses among others:

- H1: Tax growth has a positive effect on PAD
- H2: Regional retribution growth has a positive effect on PAD
- H3: Central government transfers have a positive effect on PAD
- H4: Direct Expenditure has a positive effect on PAD
- H5: Indirect expenditure has a positive effect on PAD
- H6: PAD has a positive effect on local government financial autonomy
- H7: Tax growth has a positive effect on local government financial autonomy
- H8: The growth of regional fees has a positive effect on local government financial autonomy
- H9: Central government transfers have a positive effect on local government financial autonomy
- H10: Direct Expenditure has a positive effect on local government financial autonomy
- H11: Indirect expenditure has a positive effect on local government financial autonomy.

Based on the description of the explanation and the results of the hypothesis built, the research framework is shown in Figure 2.1. It can be seen that the independent variables were taxes, regional fees, balanced funds, direct expenditure and indirect expenditure from each Cluster regencies/cities. The PAD variable is the intervening variable in this study. This independent variable is predicted to affect the dependent variable in the sense that an increase or decrease in the independent variable that will increase local government financial autonomy.

Model 1

$$Z = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \varepsilon \dots\dots\dots(1)$$

Model 2

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \varepsilon \dots\dots\dots(2)$$

Description :

Y = independence of local government financial autonomy

Z = PAD

X1 = Tax

X2 = Regional Retribution

X3 = Central Government Transfer

X4 = Direct Expenditure

X5 = Indirect Expenditure = Regression Coefficient

ε = Errors

3. RELUST AND DISCUSSION

3.1 Cluster I

During the study period, the analysis was conducted of approximately 415 regencies/cities in Indonesia. In this study, not all regencies/cities were included in the research object because of the unavailability of research data in these regencies/cities. Cluster I used in this study were regencies/cities

*Strategy For Increasing Regional Original Income Through Strengthening Some Factors In
Regional Financial Independence - Vissia Dewi Haptari, et al*

that have additional funds in addition to providing balancing funds to local governments, for instance , regencies/cities in Papua/West Papua Province, Aceh that are provinces that receive special autonomy funds. Meanwhile, the Province of the Special Region of Yogyakarta is a province that receives privileged funds. The next step is to perform a path analysis using panel data regression analysis of the two existing equations. Equation I is used to determine the effect of the independent variables on PAD. Meanwhile, equation 2 is used to see the effect of independent variables such as taxes, regional fees, central government transfers, direct and indirect expenditures with the PAD variables on regional financial independence. The results of the quantitative analysis of regency/city data in Cluster I can be seen in the following section:

Structural Equation I:

$PAD = C + \text{Tax growth} + \text{retribution growth} + \text{central transfer} + \text{Direct expenditure} + \text{Indirect expenditure}$

Structural Equation I

$PAD = -19,72 + 0,19\text{Tax}^* + 0,02\text{Retribution} + 0,05\text{DP} + 0,53\text{BL}^* + 0,87\text{BTL}^*$

Description :

PAD : Growth of Regional Original Income

Taxes : Tax Growth

Levies: Levies Growth

DP : Central Government Transfer Growth

BL : Direct expenditure Growth

BTL : Indirect expenditure Growth

* : significant at 5% level

From the selected model, it can be seen that there were 3 variables with a significant effect on the growth of PAD, namely the variables of tax growth, growth of direct spending, and growth of indirect spending. When viewed from the coefficients, the direct expenditure variable had the greatest effect of 0.87, while the smallest tax was 0.19. The next step was to carry out a quantitative analysis of Structural Equation II to see the effect of independent variables including PAD on regional financial independence against regency/city data in Cluster I.

Structural Equation II

$KKD = c + \text{tax} + \text{retribution} + \text{PAD} + \text{direct expenditure} + \text{indirect expenditure} + \text{central government Transfer}$ Based on the Structural Equation II model, it is known that there were 4 variables with a significant effect on regional financial independence, namely the growth of user fees, the growth of PAD, the growth of indirect spending, and the growth of central government transfers. Of the 4 variables with significant effect on regional financial independence, only the PAD growth variable had a significant positive effect. The results of the PAD analysis had a positive and significant effect indicating with each PAD growth had an impact on increasing regional financial independence for regency/city data in Cluster I.

3.2 Cluster II

The next stage is to conduct an analysis of the regencies/cities in Cluster II. Cluster II used in this study was regency/city governments with a proportion of regional revenue compared to transfer funds greater than 50 percent. Quantitative analysis performed on data in Cluster II also used 2 Structural Equation. Structural Equation I is used to carry out quantitative analysis of the path to the effect of independent variables on PAD in regencies/cities in Cluster II. The models used are as follows:

Structural Equation I:

$PAD = C + \text{tax growth} + \text{retribution growth} + \text{central transfer} + \text{direct expenditure} + \text{indirect expenditure}$

Before conducting a quantitative analysis of model I, the model testing phase was carried out to select the best model used in the quantitative analysis using panel data regression.

Structural Equation I:

$PAD = C + 0,849\text{tax}^* - 0,0628\text{Retribution}^* - 0,028\text{central transfer} + 0,235 \text{ direct expenditure} + 0,322 \text{ indirect expenditure}^*$

Based on the model in Structural Equation I, it can be seen that the growth of taxes, user fees, direct spending and indirect spending had a significant effect on the growth of PAD. The tax growth variable had

a greater influence than other variables, namely a 1% increase in tax growth will increase PAD growth by 0.849%. Another variable that also has a positive effect was the growth of indirect expenditure, namely a 1% increase in the indirect expenditure variable will increase PAD growth by 0.322%. Meanwhile, the central government retribution and transfer variables with negative effect on the growth of PAD.

Meanwhile, fiscal transfer funds from the center had no significant effect on PAD to regency/city governments in Cluster II. These results showed that regency/city governments in Cluster II with a proportion of PAD that was greater than 50% of fiscal transfers and were already able to explore potential sources for increasing PAD.

The next stage is to analyze the Structural Equation II. Structural analysis of equation II was carried out to analyze the influence of independent variables and PAD on regional financial independence in regencies/cities in Cluster II.

Structural Equation II

The model used in Structural Equation II is as follows:

$KKD = c + \text{tax} + \text{retribution} + \text{PAD} + \text{direct expenditure} + \text{indirect expenditure} + \text{central government transfer}$

Structural Equation II

$KKD = c - 0.072\text{tax} - 0.03\text{retribution} + 0.78\text{PAD}^* + 0.127\text{direct expenditure}^* + 0.213\text{indirect expenditure}^* - 1.047\text{central government transfer}^*$

Based on the Structural Equation II model, the variables with a significant effect were PAD, direct spending, indirect spending, and central government transfers, while the growth variables of taxes and fees had no significant effect. Of the 4 variables with a significant effect, only the central government transfer variable had a negative effect, while the variables PAD, direct spending, and indirect spending had a positive effect on PAD growth.

3.3 Cluster III

The next stage is a quantitative path analysis of regencies/cities in Cluster III. Regency/city governments in Cluster III used in this study were regency/city governments with a proportion of PAD compared to fiscal transfer funds between 25 percent and 50 percent. Quantitative analysis was carried out on 2 equations in the data in Cluster III. Structural Equation I is used to carry out path analysis on the effect of independent variables on PAD in regencies/cities in Cluster I II. The model used in Structural Equation I is as follows:

Structural Equation I:

$\text{PAD} = C + \text{tax growth} + \text{retribution growth} + \text{central transfer} + \text{Direct Expenditure} + \text{Indirect Expenditure}$
 $\text{PAD} = C + 0.719\text{tax growth}^* - 0.071\text{Pertumbuhan Retribusi}^* - 0.044\text{central transfer}^* + 0.314\text{Direct Expenditure}^* + 0.378\text{Indirect Expenditure}^*$

From the resulting model, it can be seen that all independent variables had a significant effect on the PAD growth variable. The variable that had the greatest influence was tax growth, a 1% increase in the tax variable will increase PAD growth by 0.719%, while retribution growth and transfers from the central government had a negative impact on PAD.

Structural Equation II

$KKD = c + \text{tax} + \text{retribution} + \text{PAD} + \text{Direct Expenditure} + \text{Belanja Tidak Langsung} + \text{Transfer Pemerintah Pusat}$

Structural Equation II

$KKD = c + 0.0013\text{tax} - 0.00049\text{retribution} + 0.238\text{PAD}^* - 0.0102\text{Direct Expenditure} - 0.029\text{Indirect expenditure}^* - 0.237\text{central government transfer}^*$

Based on the resulting model, it can be seen that there were 3 variables with a significant effect on the KKD variable, namely PAD growth, indirect expenditure growth, and central government transfer growth. The PAD variable was the only one with a positive effect, while central government transfers and indirect spending had a negative effect.

The results of this study showed that for regencies/cities in Cluster III, namely regencies/cities with a proportion of revenue compared to fiscal transfer funds between 25 percent and 50 percent. The results of this study showed that based on Structural Equation II, it is known that regional financial independence in these regions/cities was strongly influenced by the growth of PAD, the growth of indirect spending and the growth of fiscal transfers from the central government. These results showed that regencies/cities in Cluster III still really need fiscal transfer funds as a tool to accelerate regional financial independence.

The results of the study also found that PAD had a positive and significant influence on regional financial independence for regencies/cities in Cluster III. The results of this study also showed that the role of the local government in exploring local revenue sources also played an important role in supporting the independence of the regencies/cities in Cluster III.

3.4 Cluster IV

The next stage is a quantitative analysis of regencies/cities in Cluster IV. Regency/city governments in Cluster IV used in the study were regency/city governments with a proportion of PAD compared to fiscal transfer funds that was lower than 25 percent. Quantitative analysis was carried out on 2 equations in the data in Cluster III. Structural Equation I is used to carry out path analysis on the effect of independent variables on PAD in regencies/cities in Cluster III. The model used in Structural Equation I is as follows:

Structural Equation I:

$$\text{PAD} = C + \text{tax growth} + \text{retribution growth} + \text{central transfer} + \text{Direct Expenditure} + \text{Indirect Expenditure}$$

$$\text{PAD} = C + 0.36 \text{ tax growth} * - 0.02 \text{ retribution growth} * + 0.013 \text{ central transfer} + 0.394 \text{ Direct Expenditure} * + 0.621 \text{ indirect expenditure} *$$

From the Structural Equation I model in Cluster IV, it is known that there are 4 variables with a significant effect on PAD, namely tax growth, retribution growth, Direct Expenditure, and indirect expenditure. Indirect expenditure had the greatest effect compared to other variables on PAD growth.

Structural Equation II

$$\text{KKD} = c + \text{tax} + \text{retribution} + \text{PAD} + \text{Direct Expenditure} + \text{Indirect Expenditure}$$

Structural Equation II

$$\text{KKD} = c + 0.0082 \text{ tax} - 0.0003 \text{ retribution} + 0.0766 \text{ PAD} * + 0.022 \text{ Direct Expenditure} - 0.036 \text{ indirect expenditure} - 0.073 \text{ Central government Transfer} *$$

Based on the Structural Equation II model, it is known that of the 6 independent variables, only the PAD growth variable had a positive effect, while other variables had no significant effect on the regency/city PAD growth in Cluster IV.

Regency/city governments in Cluster IV are regency/city governments with a proportion of regional revenue compared to fiscal transfer funds that was lower than 25 percent. Based on the results of the quantitative analysis on Structural Equation II, it turns out that only the PAD variable had a positive and significant influence on the regional financial independence variable. These results were in line with research object of the Tasikmalaya regency government for the 2006-2015 period [6]. The results of this study found that the PAD variable had a positive and significant influence on regional financial independence.

The increase in regency/city government PAD is in accordance with the signaling theory whereby regency/city governments provide signals or information signs of increasing regional original income as a form of increasing regional financial independence. It is expected that local governments can enable regencies/cities to explore the potential of regional resources. However, the problem is that regencies/cities in Cluster IV are regencies/cities with a lower proportion of PAD by 25 percent compared to transfer funds, but the focus on increasing PAD must be the main agenda for regency/city governments in Cluster IV.

3.5 Effect of Tax Growth on PAD

Based on the results of quantitative analysis, the following results were found. The effect of tax growth on PAD was positive and significant for regencies/cities in Clusters I, II, III, and IV. The results of this study were in line with previous research [7]. The study found that based on research objects in regencies/cities in North Sumatra Province, a positive and significant influence was found on increasing

PAD in regencies/cities. Furthermore, it is important for regencies/cities to encourage increased taxes in order to increase local revenue. This increase in PAD is useful for increasing economic growth and social welfare [8].

3.6 The Effect of Regional Retribution on PAD

Based on the results of quantitative analysis on the four research data clusters, it was found the results. The effect of levy growth has a negative and significant effect on PAD for regencies/cities in clusters II, III and IV. Meanwhile, regencies/cities in Cluster I did not have a significant influence on PAD. The results of this study had a negative and significant effect on data in Clusters II, III and IV and were not even significant for Cluster I, one of the reasons is the very low determination of retribution rates. The aspects of regulatory revenue related to setting very low rates and implementation of collection was not be managed properly and not optimal that cause the contribution of retribution to PAD to be very low and even negative [9].

3.7 The Effect of Central Government Transfers on PAD

The results of the quantitative analysis of the four research data clusters found that : The effect of government transfer funds on PAD was positive and significant for regencies/cities in Cluster I, while the effect of government fiscal transfers on PAD was negative and significant for regencies/cities in Cluster III. Another finding was that the results of a quantitative analysis of the effect of government transfer funds on PAD were not significant for Cluster II and IV data. The positive effect of government transfer funds on PAD was in line with research conducted by several studies, one of which was the research that found a positive and significant effect of fiscal transfer funds on PAD [10].

The insignificant influence of government transfer and even negative on PAD for Clusters II, III and IV causes the dependence of local governments on government transfer funds every year. This condition had deviated from the main objective of providing transfer funds to the central government, namely to stimulate an increase in regional original income, especially in managing and obtaining financial resources [11].

3.8 The Effect of Direct and Indirect expenditure on PAD

The results of quantitative analysis of the four research data clusters found the following results. The effect of direct and indirect expenditure on PAD was positive and significant for Clusters I, II, III and IV regencies/cities. The results of this study were in line with research that found regional expenditure with a positive and significant effect on increasing regional income [12]. Regency/city regional governments must be able to focus and allocate regional expenditures to regional expenditures that can stimulate an increase in local revenue.

3.9 The Effect of PAD on Regional Financial Independence

The results of a quantitative analysis of regency/city data in the four research data clusters found the following results. The influence of PAD on regional financial independence was positive and significant for data on regencies/cities for Clusters I, II, III, and IV. The results of this study were in line with several previous studies [6], PAD had a positive and significant influence on regional financial independence.

3.10 The Effect of Tax Growth on Regional Financial Independence

The results of a quantitative analysis of regency/city data in the four Clusters can be found in the following results. The effect of tax growth on regional financial independence was positive and significant for Cluster III and IV regency/city research data, while for the effect of tax growth in regencies/cities in Cluster I and II was insignificant.

The significant and positive effect of taxes on regional financial independence is in line with research that found that regional tax contributions made a significant contribution to regional financial independence. Taxes with positive and significant influence on regional financial independence. Regional taxes collected by local governments are one of the main sources for the regions as a source of revenue to finance government funding needs.

While the insignificant effect of taxes on regional financial independence is caused by many factors, including the very low average level of tax revenue so that the target cannot be achieved, then the second is that the inaccurate tax base, the third is the encouragement of negative influences from society, fourth is the expansion of tax objects, fifth is unequal government policies, such as there are still regions with implemented tax rules to the maximum and there are still many regions that have not implemented

rewards and punishments [13]. The combination of these things makes the taxes collected by local governments unable to be the main and significant source in encouraging regional financial independence.

3.11 The Effect of Regional Retribution on Regional Financial Independence

Based on the results of quantitative analysis of the four regency and city cluster data in this study, the following findings showed The effect of regional levies on regional financial independence was not significant in all regency/city data clusters. This insignificant effect of fees was in line with research that found that fees did not have a significant effect on regional financial independence [14]. There are still many obstacles and problems related to regional fees that occur in the regions. For instance, an example of the problem of parking fees, how the problem of parking fees on public roads or in traditional markets is still often misused by certain parties [14]. It is exacerbated by the rules or regulations on fees that have not been implemented so that the collection of fees is not optimal and does not have a significant impact on regional financial independence.

3.12 The Effect of Central Government Transfers on Regional Financial Independence

The results of a quantitative analysis of regency/city data in the four clusters regarding the effect of central government transfers on financial independence found the following results. The effect of central government transfers on regional financial independence had a negative and significant effect found in Clusters I, II, III, and IV regencies/cities. The results of the study strengthen the hypothesis that the central government's provision of transfer funds to regencies/cities had an impact on the dependency effect of regency/city governments on fiscal transfer funds. It is undeniable that most regency/city governments were very dependent on fiscal transfer funds provided by the central government to regional governments. The level of regional financial independence was very low and many local governments were still very dependent on transfer funds from the central government [15].

3.13 The Influence of Direct and Indirect expenditure on Regional Financial Independence

The results of Quantitative analysis of the effect of direct and indirect expenditure on regional financial independence according to this study found several things. The effect of direct expenditure on financial independence was positive and significant for Cluster II regencies/cities and on other clusters the effect of direct expenditure did not significantly affect regional financial independence.

Further related to the effect of indirect expenditure on financial independence, it had a positive and significant effect for Cluster II and III regencies/cities, while the effect of indirect expenditure on financial independence for Cluster I is negative and significant. Another finding is the result that the effect of indirect expenditure on regional financial independence for Cluster IV was insignificant.

3. CONCLUSION

Since 2001, the regional autonomy policy in Indonesia has given local governments the authority to collect taxes and fees to increase local revenue in regencies/cities throughout Indonesia. Increasing PAD in regencies/cities is expected to encourage regional financial independence. The results of the quantitative analysis found several results and findings related to key factors in increasing regional financial independence, especially in the context of encouraging regency/city government PAD in each research data cluster. The results of this study found that in Clusters I and II, direct and indirect expenditure become the factors that could encourage regional financial independence through the PAD mediating variable. These results encourage regency/city governments in Cluster I and II to be able to optimize local government spending, both directly and indirectly towards increasing regional independence. Furthermore, for Cluster III, it was found that indirect expenditure and central government fiscal transfers were the determining factors for increasing financial independence in regencies/cities through the PAD mediation variable. These results encourage regency/city governments in Cluster III to be able to focus on using fiscal transfers to be used for productive sector expenditure in increasing regional financial independence. The results of the quantitative analysis for regency/city governments in Cluster IV found that the central government transfer variable had a negative and significant impact on regional financial independence. Based on these results, it proves that regency/city governments in Cluster IV were still very dependent on central government transfer funds to local governments.

Research found several facts based on the results of the analysis. Based on these results, several recommendations and policy suggestions that can be issued to regency/city governments in each cluster have different policies. Regency/city governments in Cluster I and II is to be able to increase regional

financial independence, a strategic policy step is to optimize and refocus on expenditure both directly and indirectly that can encourage an increase in PAD so that in the end it can increase regional financial independence. Furthermore, based on the findings of this study, it can also be recommended to regency/city governments in Cluster III to increase regional financial independence through a policy of using fiscal transfer funds given to productive sector expenditure in the regencies/cities. Meanwhile, for regency/city governments in Cluster IV with the proportion of PAD is lower than 25 percent, the nature of dependence on transfers from the central government to regional governments must find the solution. Optimization and extensification policies as well as searching for the existing sources of local revenue coupled with refocusing the use of central government transfer funds for productive sector expenditure can be one of the policies to overcome the fiscal dependence of regency/city governments in Cluster IV.

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