

Research Article

Analysis of the Effect of Regional Original Revenue Contributions and Balanced Funds on the Level of Regional Financial Independence of Provinces in Indonesia in 2019-2023

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Abstract: This study shows that the contribution of Regional Original Income (PAD) has a significant positive effect on the level of financial independence of provincial regions in Indonesia in 2019-2023. This means that the greater the contribution of PAD, the higher the level of regional financial independence. On the other hand, the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) have a significant negative effect on regional financial independence, indicating that dependence on transfer funds from the central government can hinder regional efforts to increase their fiscal independence. Meanwhile, the Revenue Sharing Fund (DBH) does not show a significant effect on the level of regional financial independence, indicating that although this fund is important, it does not directly contribute to increasing regional financial independence.

Keywords: PAD; DAU; DAK; DBH; Level of Regional Financial Independence.

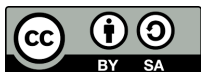
1. Introduction

Indonesia, as a country with a very large territory and consisting of thousands of islands, faces major challenges in building an efficient and responsive government system. The geographical, social, economic, and cultural diversity of each region in Indonesia requires a more decentralized approach in order to optimally accommodate local needs. In addition, factors of disparity in development between regions, dependence on the central budget, and differences in regional government capacity also exacerbate these challenges. Therefore, regional autonomy emerged as a solution that allows regions to have greater authority in managing local government affairs and resources. By giving broader authority to regional governments, it is hoped that a more responsive, efficient government can be created that is able to improve the welfare of the community evenly. However, the implementation of regional autonomy is not free from challenges, one of which is the extent to which regions can achieve a sufficient level of financial independence to support local development without relying too much on transfer funds from the central government.

2. Literature Review

This research employs a quantitative approach with a descriptive-analytical research design, aimed at analyzing the influence of the contribution of Local Own Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH) on the Fiscal Independence Level of provinces in Indonesia from 2019 to 2023. The dependent variable in this study is the Fiscal Independence Level (TKKD), which is measured using the fiscal independence ratio, calculated by comparing local own revenue (PAD) with total regional income. This ratio reflects how much a region can finance its activities and development from local resources, which in turn indicates its fiscal independence. The independent variables in this study are the contribution of PAD, DAU,

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DAK, and DBH, calculated by comparing each revenue component with total regional income. Each of these revenue components plays a crucial role in measuring the extent to which a region relies on internal resources (PAD) compared to transfers from the central government (DAU, DAK, DBH). To analyze the influence of the contribution of PAD, DAU, DAK, and DBH on TKKD, this study utilizes multiple linear regression analysis. This regression model will be used to assess the extent to which each revenue component contributes to fiscal independence at the regional level.

2.1. Level Of Regional Independence

In his book written by Paul J. Smoke (2001), entitled "Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice", it is explained that fiscal decentralization has a very important role in increasing regional fiscal independence. This book discusses how Regional Original Income (PAD) and fiscal transfers such as DAU, DAK, and DBH affect the ability of regions to finance their expenditures independently. Fiscal decentralization provides more freedom to local governments in managing finances, allowing them to design and implement development policies that are more in line with local needs, while reducing dependence on funds from the central government. According to Rinaldi (2013), one of the main criteria or indicators for measuring the level of dependence of a region on the center is PAD. The ability of the region to collect PAD is considered an important indicator in assessing the level of regional independence (Halim, 2004).

2.2 Local Original Income Contribution

According to Article 1 of Law Number 1 of 2022 concerning the Financial Balance Between the Center and Regions, PAD is income obtained by the regional government through collection based on regional regulations in accordance with applicable laws and regulations. According to Halim and Khusufi (2012: 101–105), PAD is defined as all income obtained by a region from economic sources that are the original potential of the region.

2.3 General Allocation Fund Contribution

Law Number 1 of 2022 Article 1 No. 71 states that the General Allocation Fund (DAU) is part of the transfer to regions allocated with the aim of reducing the disparity in financial capacity and public services between regions. DAU is income obtained from the allocation of the APBN which aims to equalize financial capacity between regions in order to reduce this disparity (Anggoro, 2017). DAU itself consists of basic allocation and fiscal gap, where the basic allocation is generally calculated based on the amount of employee spending needs, while the fiscal gap reflects the difference between fiscal needs and fiscal capacity of a region (Siregar, 2017). The main objective of DAU is to reduce fiscal disparities between regions, ensure equal distribution of public services, and assist regions in carrying out decentralization functions.

2.4 Special Allocation Fund Contribution

In the APBN, the Special Allocation Fund (DAK), both physical DAK and non-physical DAK, are part of the Transfer to Regions. DAK is a transfer that is intended to achieve a specific purpose (specific purpose transfer). The policy on the use of DAK is directed to support the achievement of national priorities that are the affairs of the regions, with a focus on achieving performance targets. To optimize DAK achievements, the government designs DAK planning and allocation through synergy with other funding sources. Wong (2004) stated that industrial infrastructure development directly contributes to increasing regional taxes.

2.5 Profit Sharing Fund

In Law No. 1 of 2022, Article 111 of the Law stipulates that the Revenue Sharing Fund (DBH) consists of two main categories, namely tax DBH and natural resource DBH. Tax DBH includes several types of taxes, namely Income Tax, Land and Building Tax (PBB), and Tobacco Excise. Meanwhile, natural resource DBH includes the results of the exploitation of various natural resources, namely forestry, minerals and coal, oil and natural gas, geothermal, and fisheries. The distribution of this DBH aims to support development in producing regions and reduce development disparities between regions.

3. Proposed Method

This research employs a quantitative approach with a descriptive-analytical research design, aimed at analyzing the influence of the contribution of Local Own Revenue (PAD), General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH) on the Fiscal Independence Level of provinces in Indonesia from 2019 to 2023. The dependent variable in this study is the Fiscal Independence Level (TKKD), which is measured using the fiscal independence ratio, calculated by comparing local own revenue (PAD) with total regional income. This ratio reflects how much a region can finance its activities and development from local resources, which in turn indicates its fiscal independence. The independent variables in this study are the contribution of PAD, DAU, DAK, and DBH, calculated by comparing each revenue component with total regional income. Each of these revenue components plays a crucial role in measuring the extent to which a region relies on internal resources (PAD) compared to transfers from the central government (DAU, DAK, DBH). To analyze the influence of the contribution of PAD, DAU, DAK, and DBH on TKKD, this study utilizes multiple linear regression analysis. This regression model will be used to assess the extent to which each revenue component contributes to fiscal independence at the regional level.

3.1. Level Of Regional Independence

In his book written by Paul J. Smoke (2001), entitled "Fiscal Decentralization in Developing Countries: A Review of Current Concepts and Practice", it is explained that fiscal decentralization has a very important role in increasing regional fiscal independence. This book discusses how Regional Original Income (PAD) and fiscal transfers such as DAU, DAK, and DBH affect the ability of regions to finance their expenditures independently. Fiscal decentralization provides more freedom to local governments in managing finances, allowing them to design and implement development policies that are more in line with local needs, while reducing dependence on funds from the central government. According to Rinaldi (2013), one of the main criteria or indicators for measuring the level of dependence of a region on the center is PAD. The ability of the region to collect PAD is considered an important indicator in assessing the level of regional independence (Halim, 2004).

$$\text{Rasio Kemandirian} = \frac{\text{PAD}}{\text{DAU} + \text{DAK} + \text{DBH} + \text{Dana Transfer Lainnya}} \times 100\%$$

The higher this ratio, the more independent a region is in financing its fiscal needs. Financially independent regions tend to have a high level of PAD contribution, are able to utilize local economic potential, and can design and implement development policies that are more flexible and in accordance with the needs of their region

3.2 Local Original Income Contribution

PAD is obtained from various local economic sources that are directly managed by the local government to finance development needs and public services in the region. PAD sources reflect the economic potential of the region and the government's ability to utilize local resources to improve community welfare.

$$\text{Kontribusi PAD} = \frac{\text{Realisasi PAD}}{\text{Realisasi Total Pendapatan Daerah}} \times 100\%$$

The higher this ratio, the more independent a region is in financing its fiscal needs.

3.3 General Allocation Fund Contribution

The main objective of DAU is to reduce fiscal disparities between regions, ensure equal distribution of public services, and assist regions in carrying out decentralization functions.

$$\text{Kontribusi DAU} = \frac{\text{Realisasi DAU}}{\text{Realisasi Total Pendapatan Daerah}} \times 100\%$$

The higher this ratio, the less independent a region is in financing its fiscal needs.

3.4 Special Allocation Fund Contribution

DAK is specific in nature and is allocated for programs that support equitable development between regions, as well as strengthening the function of government in the regions, with priority on certain sectors such as education, health, infrastructure, and housing.

$$\text{Kontribusi DAK} = \frac{\text{Realisasi DAK}}{\text{Realisasi Total Pendapatan Daerah}} \times 100\%$$

The higher this ratio, the less independent a region is in financing its fiscal needs.

3.5 Profit Sharing Fund

DBH is given as a distribution of tax revenues and natural resources originating from the region, but managed by the central government. DBH contributions are used to measure the level of regional dependence on fiscal transfers from the center and provide an overview of regional fiscal independence.

$$\text{Kontribusi DBH} = \frac{\text{Realisasi DBH}}{\text{Realisasi Total Pendapatan Daerah}} \times 100\%$$

The higher this ratio, the less independent a region is in financing its fiscal needs.

4. Results and Discussion

Table 1. Descriptive Statistics

Keterangan	Jumlah Sampel
Population: Provinces in Indonesia	38
Newly developing provinces 2022	(4)
Total province	34
Total years of research	5
Total observation data (34 x 5)	170
Outlier Data (Extreme)	(18)
Total analysis data	152

This study aims to see the effect of the contribution of local revenue, special allocation funds, and revenue sharing funds on the level of regional financial independence. This study uses a census sampling process in which all data is taken.

Table 2. Statistical Results Description

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
KPAD	152	4,00	82,00	36,88	14,68
KDAU	152	0,00	55,00	27,75	12,92
KDAK	152	2,00	50,00	19,69	9,12
KDBH	152	0,00	59,00	9,41	9,85
TKKD	152	4,00	269,00	68,46	44,24
Valid N (listwise)	152				

Based on the table above, the analysis data obtained is 152 data. The data is based on Provinces that published their financial reports from 2019 and Provinces that have existed since 2019 with a total of 5 years. The exceptions are several Provinces that experienced expansion in 2022, namely Central Papua, South Papua, Papua Mountains, and Southwest Papua. Outlier data also occurs due to the Regional Financial Independence Level value which has a ratio that is too high compared to other TKKD, where the existence of this outlier data value can interfere with the validity of the analysis and cause bias in processing data.

Table 3. One Sample Normality Test-KS

One-Sample Kolmogorov-Smirnov Test			
			Unstandardized Residual
N			0,152
Test Statistic			0,078

Based on the Monte Carlo test results, the data can be considered normally distributed since the significance value exceeds the 0.05 threshold, indicating no sufficient evidence to reject the normality assumption. According to Gujarati and Porter (2013), a good regression model must have a normal or near normal residual distribution.

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5,498	1,043		-5,274	0,000
	KPAD	0,027	0,015	0,188	1,853	0,066
	KDAU	-0,013	0,018	-0,076	-0,698	0,486
	KDAK	-0,021	0,022	-0,088	-0,928	0,355
	KDBH	-0,034	0,021	-0,159	-1,642	0,103
Dependent Variable: LN RES						

Heteroskedasticity test results show that there is no heteroscedasticity problem in the regression model used. Based on the significance value (Sig.) for each variable, namely KPAD (0.066), KDAU (0.486), KDAK (0.355), and KDBH (0.103).

Table 7. F Statistical Test Results (F test)

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1017,216	4,000	254,304	4969,523	0,000 ^b
	Residual	7,522	147,000	0,051		
	Total	1024,739	151,000			
a. Dependent Variable: TKKD						
b. Predictors: (Constant), KPAD, KDAU, KDAK, KDBH						

The F test is used to test whether the independent variables (PAD, DAU, DAK, DBH) as a whole have a significant effect on the dependent variable (Level of Regional Financial Independence). With a significance value of F 0.000 (less than 0.05), the hypothesis is accepted, which means the regression model is feasible and has a significant effect.

Table 8. Results of Determination Coefficient Test (R2)

Model Summary ^b					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,996 ^a	0,993	0,992	0,226	1,173
a. Predictors: (Constant), KDBH, KPAD, KDAK, KDAU					
b. Dependent Variable: TKKD					

The R value = 0.996 indicates a very strong relationship between the independent variables and TKKD, the closer it is to 1, the stronger the relationship.

Table 9. the stronger the relationship

Coefficients ^a							
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Hasil
		B	Std. Error	Beta			
1	(Constant)	1,679	0,112		14,984	0,000	
	KPAD	0,174	0,002	0,983	109,457	0,000	H1 Terdukung
	KDAU	-0,004	0,002	-0,020	-2,101	0,037	H2 Terdukung
	KDAK	-0,006	0,002	-0,021	-2,500	0,014	H3 Terdukung
	KDBH	-0,003	0,002	-0,010	-1,217	0,226	H4 Tidak Terdukung
a. Dependent Variable: TKKD							

4.1 The Influence of Regional Original Income Contributions on the Level of Regional Financial Independence

The influence of Local Original Income (PAD) on the Level of Regional Financial Independence (TKKD) shows a significant and positive relationship. Based on the analysis results, the value of $t = 109.457$ with $\text{Sig.} = 0.000$ indicates that KPAD has a very significant influence on TKKD. Because the Sig. value is smaller than 0.05, the hypothesis stating that PAD has a positive effect on regional financial independence is statistically supported. This indicates that the greater the contribution of PAD to total regional income, the higher the fiscal independence of the region. This means that regions with large PAD have a better capacity to fund government and development activities independently without excessive dependence on transfer funds from the central government.

Previous studies, such as those conducted by Sebastiana and Cahyo (2016), revealed that low PAD results in a low level of independence, which reflects a direct relationship between the level of fiscal independence and the region's ability to optimize local resource potential. This is in line with findings showing that regions with low PAD management tend to have

difficulty in financing development and meeting operational needs without assistance from DAU, DAK, and DBH sourced from the central government. Other studies, conducted by Apriana & Suryanto (2010), Nindita (2018), and Setiawan et al. (2021), also support this statement by stating that PAD contributions have a positive effect on the level of regional fiscal independence. The higher the PAD contribution, the greater the capacity of the region to manage finances independently and achieve fiscal independence.

On the other hand, the Regional Independence Theory supports this finding by emphasizing the importance of fiscal independence in reducing regional dependence on the allocation of funds from the central government. PAD, which comes from local resources, is a major component in achieving regional fiscal independence. The greater the contribution of PAD to total regional income, the greater the fiscal independence that can be achieved by the region. Therefore, regions that are able to improve PAD management will have more freedom to plan and implement development without relying on fiscal policies from the central government.

4.2 The Influence of General Allocation Fund Contributions on the Level of Regional Financial Independence

The results of this study indicate that KDAU (DAU) on the Level of Regional Financial Independence (TKKD) has a significant negative effect. Based on the analysis conducted, the t value for KDAU is -2.101 with Sig. = 0.037, which means that the effect of DAU on TKKD is statistically significant. Because the Sig. value is smaller than 0.05, the hypothesis that DAU has a negative effect on regional financial independence is strongly supported. More clearly, this finding shows that the greater the contribution of DAU to total regional income, the lower the level of fiscal independence of the region. High dependence on DAU causes regions to make less effort to explore the potential of their Regional Original Income (PAD), which should be the main source of income for the region.

This finding is in line with the results of research conducted by Ariani and Putri (2016), which stated that regions with high DAU tend to have low fiscal independence. This shows that regions that are highly dependent on DAU will tend to rely more on funds from the central government, rather than focusing on utilizing available local resources. Another study conducted by Tahar & Zakhiya (2011) revealed that regions that receive larger DAU tend to rely more on fund allocations from the central government, rather than optimizing revenues that can be obtained locally. Musfirati & Sufgiyanti (2021) also strengthen this view by stating that a decrease in DAU will actually encourage regions to focus more on managing local resources, which in turn will increase regional fiscal independence.

The Theory of Regional Independence provides further explanation that fiscal independence can only be achieved if the region has the capacity to generate and manage its own revenue, without relying on fiscal transfers from the central government. DAU, although important for regions with limited fiscal capacity, should not be the main source of regional funding. Excessive use of DAU will actually reduce fiscal independence, because regions do not feel encouraged to explore the potential of their local resources. Conversely, regions that reduce their dependence on DAU will focus more on more efficient and sustainable PAD management, which in turn will increase their fiscal independence.

4.3 The Influence of Special Allocation Fund Contributions on the Level of Regional Financial Independence

The results of this study indicate that the contribution of the Special Allocation Fund (DAK) to the Level of Regional Financial Independence (TKKD) has a negative and significant effect. Based on the analysis conducted, the t value for KDAK is -2.500 with Sig. = 0.014 indicating that the effect of DAK on TKKD is statistically significant. With a Sig. value smaller than 0.05, the hypothesis stating that DAK has a negative effect on regional financial independence is statistically supported. This means that the greater the contribution of DAK to total regional income, the lower the level of fiscal independence of the region. Regional dependence on DAK reduces regional flexibility in managing their finances, because DAK is usually earmarked, namely funds allocated for certain projects, which limits the freedom of regions to allocate funds according to their local needs.

This finding is in line with the results of research conducted by Marizka (2013), which states that KDAK has a negative impact on regional financial independence due to its earmarked nature. Funds allocated for these specific projects reduce the ability of regions to plan and use funds according to regional development priorities, thereby reducing their fiscal independence. Research conducted by Sari (2015) also supports this finding, where he

concluded that DAK has a negative impact on fiscal independence, while DAU has a positive impact on regional financial independence. Although capital expenditures financed by DAK can encourage physical development, its effect on fiscal independence is not significant, because regions remain highly dependent on central funding. Another study by Machfud & Asnawi (2021) also supports this finding, which shows that balancing funds, including DAK, have a significant negative impact on regional fiscal independence. This shows that although balancing funds are used for important projects, high dependence on these funds can reduce regional fiscal autonomy, because regions do not have full freedom in managing their budgets.

4.4 The Influence of Revenue Sharing Fund Contributions on the Level of Regional Financial Independence

The results of this study indicate that the t value for KDBH is -1.217, with a significance value (Sig.) of 0.226, which is greater than 0.05. This indicates that KDBH does not have a significant effect on TKKD in this model. Based on these results, the hypothesis that KDBH has an effect on TKKD is not statistically supported. This indicates that DBH does not have a strong enough effect on the level of regional financial independence because there is a fairly extreme gap between provincial governments. Although DBH is an important part of regional funding, regional dependence on this transfer fund does not seem significant enough on the level of regional fiscal independence. DBH is a fund provided by the central government to regions based on the distribution of tax and natural resource revenues.

In addition, PMK No. 151/PMK.07/2020 concerning DBH Budget Preparation and DBH Payment. This regulation has regulated the mechanism for DBH distribution and allocation, both from taxes and natural resources. In this case, the central government determines which sectors are the priority for DBH use, for example for infrastructure development, education, health, and natural resources. These funds cannot be used to finance other activities outside those stipulated in central government regulations. This limits the flexibility of regional financial management, so that regions receiving DBH cannot be completely free to allocate these funds according to their local priorities.

This study is in line with the findings of Andriana (2020) and Novitasari, M., & Novitasari, L (2019), which concluded that DBH has no significant effect on the level of regional financial independence. High dependence on DBH indicates that the region has not been able to optimize other sources of income or that the region's KDAK is high. This indicates that a regional revenue diversification strategy needs to be implemented to reduce dependence on fiscal transfers from the central government.

5. Conclusions

PAD has a significant positive effect on TKKD, meaning that the greater the PAD contribution, the higher the regional fiscal independence because the region is freer to manage finances without relying on central funds. DAU and DAK have a significant negative effect on TKKD, because high dependence on DAU and DAK reduces the flexibility and efforts of the region in optimizing local revenue sources, thereby reducing fiscal independence. Meanwhile, DBH does not have a significant effect on TKKD, which shows that although important, DBH does not sufficiently influence fiscal independence because its use is limited and tied to certain objectives from the center.

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