

Analysis of Regional Revenue of Palu City for the 2019-2023 Period

Original Article

Diki^{1*}, Musdayati², Edhi Taqwa³, Andi Herman Jaya⁴, Nuryana Haprin⁵, Mmaduabuchi Onwunyi Ugochukwu⁶, Oghenekparobo Ernest Agbogun⁷

¹⁻⁵Universitas Tadulako, Indonesia

^{6,7}Dennis Osadebay University, Asaba, Delta State, Nigeria

Email: ¹⁾ dikimanis05@gmail.com, ⁶⁾ ugochukwu.onwunyi@gmail.com, ⁷⁾ agbogunernest93@gmail.com

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Abstract

Indonesia's regional autonomy policies aim to enhance local fiscal independence, yet most regions, including Palu City, remain heavily dependent on central government transfers. This study analyzes the Local Revenue (*Pendapatan Asli Daerah/PAD*) of Palu City from 2019 to 2023. The research aims to understand the growth dynamics, contribution, elasticity, and effectiveness of PAD, particularly in the aftermath of the 2018 natural disasters and the Covid-19 pandemic. A quantitative approach was employed using formulas for growth, contribution, elasticity, and effectiveness to analyze secondary data on PAD components. The analysis focused on evaluating fiscal performance and resilience. PAD growth during 2019–2022 showed fluctuations, influenced by the 2018 earthquake, tsunami, and liquefaction, as well as the Covid-19 outbreak in 2021. These events led to decreased tax and retribution contributions and impacted other legitimate revenues. Elasticity analysis revealed that PAD is elastic which indicating that changes in revenue components significantly affect overall local revenue. Budget effectiveness analysis showed that PAD realization consistently met or exceeded targets. The findings highlight the need for diversification of revenue sources to enhance fiscal resilience. High elasticity values suggest that local financial planning must be adaptive to economic and social changes. The Palu City Government is advised to optimize tax and levy collection, explore alternative revenue streams, and build partnerships with the private sector. In anticipation of future shocks, establishing fiscal risk mitigation strategies such as reserve funds are essential. Effective budget management should continue to be prioritized through efficient expenditure practices.

Keywords: Disaster Recovery, Fiscal Resilience, Local Revenue (PAD), Regional Fiscal Management, Revenue Elasticity.

1. Introduction

Regional autonomy aims to empower local governments to manage resources and policies independently, so that they can respond more effectively to local needs (Esteves et al., 2020). However, its implementation still faces challenges such as corruption, overlapping authorities, and low local capacity (Rohim, 2024; Sunardi et al., 2024). Tensions between central and local governments due to political dynamics and legal complexities are also an obstacle (Djuniarti et al., 2023). In order to optimize regional autonomy, it is necessary to strengthen governance, central-regional synergy, and increase the capacity of the local bureaucracy (Sarpan, 2011). It is expected that this decentralisation policy can improve the ability and effectiveness of local governments in promoting development and improving people's welfare (Hutabarat et al., 2022; Mardiasmo, 2021). However, the implementation of regional autonomy is often faced with various challenges (Perugini, 2024), especially in terms of regional financial management (Muringani, 2022; Wiryawan & Otchia, 2022).



To facilitate the implementation of regional autonomy, various regulations have been issued by the government, such as Law Number 32 of 2004 concerning Regional Government which has been revised into Law Number 1 of 2022. These regulations give local governments the authority to manage their own local finances, including in an effort to increase Local Revenue, known as Local Revenue (*Pendapatan Asli Daerah/PAD*), in order to achieve greater fiscal independence. PAD indicates the extent of a region's ability to fulfil its needs without relying too heavily on financial assistance from the central government (Wati, 2017).

However, the fact shows that most regions in Indonesia still rely on transfer funds from the central government. This indicates that the ability of local governments to increase Local Revenue (hereinafter refers to PAD) has not reached the expected optimality. The dependence of local governments in Indonesia on transfer funds from the central government reflects the weak capacity of regions to optimize Local Revenue (PAD). Although fiscal decentralization has been in place for more than two decades, the reality is that most regions have not been able to achieve the expected fiscal independence. This is exacerbated by various structural factors, ranging from the low effectiveness of Local Revenue (PAD) collection, development inequality between regions, to inefficient regional spending patterns. Recent studies have shown that Local Revenue (PAD) effectiveness, the Human Development Index (HDI), and investment levels have a positive influence on regional financial independence, but this impact has not been evenly distributed across Indonesia (Syafri et al., 2024). On the other hand, economic growth and population density are also important factors, especially in the western and eastern regions of Indonesia, which show different fiscal dynamics between regions.

One of the main obstacles to optimizing Local Revenue (PAD) is the high proportion of regional expenditures allocated to personnel spending, which narrows fiscal space and limits budget allocation for productive activities and local economic development (Ariyanto et al., 2021) This dependency is reflected in the high ratio of transfer funds to the total regional budget, with many regions relying on central government transfers for more than 50% of their overall budget (Ariyanto et al., 2021; Haryanto, 2017). This situation also gives rise to the flypaper effect, where regions are more inclined to increase spending due to receiving transfers from the central government rather than exploring their own Local Revenue (PAD) potential (Pratiwi & Paramitha, 2016). Although there are arguments that central transfers can support regional development by financing infrastructure and public services, long-term dependency may in fact weaken local initiatives and slow the fiscal reforms necessary to achieve sustainable regional self-sufficiency. One of the main obstacles in increasing local revenue includes the lack of maximum results from local tax collection activities, lack of innovation in the management of local resources, and the low quality of public services that can encourage taxpayer compliance (Putra & Ulupui, 2015). In addition, excessive exploitation of Local Revenue (PAD) can also have a negative impact on the regional economy at a macro level (Sumawan & Sukartha, 2016).

Palu City, which is the centre of Central Sulawesi, is one of the regions that has implemented the principle of regional autonomy in accordance with Law No. 23/2014 on regional government. Based on information released by BPS Palu City, this regional revenue continues to increase every year. In 2019, the local revenue of Palu City was recorded at IDR 2,176,218,360, while in 2023 it increased to IDR 352,427,985,398.51. Based on data from Statistics Indonesia (BPS), the Gross Regional Domestic Product (GRDP) of Palu City in 2023 reached IDR 30.79 trillion at current prices, an increase of IDR 2.34 trillion compared to IDR 28.44 trillion in 2022. The economic growth of Palu City in 2023 was recorded at 4.96% based on 2010 constant prices, with the GRDP valued at IDR 17.94 trillion. The economic structure of Palu City in 2023 was dominated by the construction sector, contributing 17.75% to the total

GRDP, followed by public administration, defense, and compulsory social security at 13.53%, wholesale and retail trade, repair of motor vehicles and motorcycles at 11.42%, and information and communication at 9.37%. Although the GRDP has increased, the reliance on specific sectors highlights the need for economic diversification to achieve regional fiscal independence. This condition makes Palu City a relevant case study for evaluating strategies to increase Local Revenue (PAD) and reduce fiscal dependence on the central government.

The largest contribution to local revenue comes from regional own-source revenues and equalisation funds. However, despite the increase, dependence on balancing funds is still a challenge in an effort to realise regional fiscal independence. Based on this phenomenon, the purpose of this study is to evaluate revenue receipts in Palu City during the 2019-2023 timeframe. It is expected that this study will help identify improvements in the management of local revenue receipts and the factors that influence local financial independence.

Research on local revenue analysis in Indonesia has identified various factors that influence the financial health and performance of local governments. However, there are research gaps that need to be further explored. For example, while some studies have shown the low contribution of Local Revenue (PAD) to local revenue in some areas, such as in South Konawe District (Jejen, 2022) and Banda Aceh City (Hasrina et al., 2019), there are still few studies that examine the specific factors that hinder the increase of Local Revenue (PAD) at the local level. Furthermore, research on local government financial performance, as described in a study of Sibolga City (Marbun et al., 2024), shows the importance of independence and solvency ratios, but there has not been much discussion on how the interaction between these financial ratios can influence fiscal policy decisions in more depth. In addition, while economic and demographic factors in Bengkulu, such as Gross Regional Domestic Product and government expenditure, have a positive influence on local revenue (Mujab, 2017), research on the role of socio-political and governance factors in influencing local revenue is limited.

Although there are several previous studies that examine local revenue management, these studies are still limited to a general analysis of the inhibiting factors and potential of Local Revenue (PAD) in various regions, without digging deeply into the specific case of Palu City. This study aims to fill the research gap by conducting a more detailed analysis of Palu City's local revenue during the 2019-2023 period. The focus of this analysis is important to provide a more comprehensive understanding of the factors affecting regional fiscal independence, as well as identify improvements in the management of Local Revenue (PAD) revenue that can encourage regional financial independence. With this approach, it is expected to provide a new contribution to the development of regional fiscal policy, especially in the context of Palu City.

2. Literature Review

2.1. Regional Revenue

Based on Law Number 1 of 2022, regional revenue is the right of the regional government that is recognised as an increase in net assets in a fiscal year. Meanwhile, Government Regulation Number 12 of 2019 states that regional revenue includes all cash receipts through the Regional General Cash Account, as well as other receipts in accordance with statutory provisions, which are recognised as additional regional equity in a fiscal year. Meanwhile, according to Law Number 23 of 2014 concerning regional government, regional revenue sources consist of Local Revenue (PAD), transfer revenue, and other legal regional revenues.

2.2. Classification of Local Revenues

2.2.1. Local Revenue (PAD)

Based on the rules written in Law No. 23/2014, Local Revenue (PAD) includes all local assets that are recognized as growth in net assets in a specific financial period. According to Siahaan (2005), revenue collected by local governments in accordance with laws and regulations is referred to as Local Revenue (PAD). While based on Law Number 1 of 2022, Local Revenue (PAD) is a source of local funds derived from the potential of the region. PAD consists of local tax revenue, local retribution revenue, management of separated local assets, and other legitimate local revenue in accordance with applicable laws and regulations. The main focus of Local Revenue (PAD) is to provide authority to local governments in supporting development and governance policies in the region.

2.2.2. Transfer Income

Based on Law Number 1 of 2022, transfer revenue is one of the main components in regional revenue. This revenue is divided into transfers from the central government and inter-regional transfers. Transfers from the central government include several types of funds, namely the Balancing Fund, Special Autonomy Fund, Special Autonomy Fund, and Village Fund. Meanwhile, inter-regional transfers consist of revenue sharing and financial assistance.

The Balance Fund itself consists of Revenue Sharing Fund (refers to DBH), General Allocation Fund (refers to DAU), and Special Allocation Fund (refers to DAK).

- 1) Revenue Sharing Fund (DBH) is divided into two categories, namely Tax DBH and Natural Resources DBH.
 - a. Tax DBH includes revenue from income tax, land and building tax, and tobacco excise.
 - b. DBH Natural Resources includes revenue from forestry, mineral and coal mining, petroleum and natural gas, geothermal, and fisheries sectors.
- 2) The General Allocation Fund (DAU) is channelled to improve the development of infrastructure, facilities, and infrastructure, and support community empowerment.
- 3) The Special Allocation Fund (DAK) is used to finance programmes and activities in accordance with government policy, with the main objectives of achieving national priorities, accelerating regional development, and reducing inequality in public services.

In addition, there are special purpose funds, such as:

- a. Special Autonomy Fund, which is given to certain regions with special autonomy status in accordance with applicable regulations.
- b. The Special Autonomy Fund, which is specifically allocated to the Government of the Special Region of Yogyakarta based on statutory provisions.
- c. Village Fund, which is revenue sourced from the State Budget (APBN) and its use is directed to support national priority programmes in accordance with applicable regulations.

2.2.3. Other Legitimate Regional Revenues

Based on Law Number 23 of 2014, Other Revenue is a source of revenue that provides an opportunity for regions to obtain additional revenue outside of Local Revenue (PAD) and transfer revenue. This revenue source includes several categories, among others:

- a. Grant Income: Referring to Law Number 23 of 2004, grants are a form of assistance provided in the form of money, goods, or services originating from the Central Government to the regions.
- b. Emergency Fund Revenue: Based on the Regulation of the Minister of Finance of the Republic of Indonesia Number 81/PMK.07/2013, Emergency Funds are fund

allocations given to regions affected by national disasters or extraordinary events. The source of this funding comes from the State Budget (hereinafter refers to APBN).

3. Research Methods

This research utilises data derived from the second source, namely data taken from the database of the Central Bureau of Statistics of Palu City for the period 2019 to 2023. To examine more deeply about Palu City Local Revenue, the researcher used four types of analysis, namely growth analysis, contribution, elasticity analysis and effectiveness analysis.

Growth analysis aims to describe the development of the Palu City Regional Revenue component during the 2019-2020 period. To determine the growth rate of local revenue, calculations are carried out using the following formula (Halim, 2004):

$$GX = \frac{X_t - X_{(t-1)}}{X_{(t-1)}} \times 100\%$$

Description:

Gx = Growth rate of PAD/Fund Transfers/Other Legitimate Revenues

Xt = Revenue realisation

X(t-1) = Revenue realisation in the previous year

Contribution analysis aims to measure the extent to which the three main components of Local Revenue (PAD), transfer funds, and other legitimate income) contribute to total local revenue. The amount of this contribution can be calculated using the following formula:

$$\text{Contribution} = \frac{\text{Revenue Realisation}}{\text{Regional Revenue Realisation}} \times 100\%$$

Description:

Revenue Realization = The amount of revenue that has actually been earned from a particular revenue source (e.g., a particular tax, a particular levy, etc.).

Regional Revenue Realization = Total revenue that has been earned by the region from all its sources.

The list of contribution criteria is provided in table 1 below.

Table 1. Contribution Criteria

Precentage	Criteria
0.00-10%	Very Less
10.00-20%	Less
20.00-30%	Medium
30.00-40%	Good Enough
40.00-50%	Good
above 50%	Very good

Source: Ministry of Home Affairs, Kepmendagri No. 690.900.327 (Asmawati et al., 2019)

Elasticity analysis is used to explain how much the component of blood income changes to Palu City Regional Revenue for the 2019-2023 Period. This elasticity is expressed in the following formula:

$$\text{Elasticity} = \frac{\Delta \text{PAD, DT, LLPS}}{\Delta \text{Regional income}} \times 100\%$$

Description:

PAD = Local Revenue (Sources of local revenues, including the proceeds of taxes, levies, and management of separated regional assets)

DT = Regional Retribution (Local levies as payment for services or granting of certain licenses specifically provided and/or granted by the local government)

LLPS = Other Legitimate Local Revenue (Local own-source revenues other than local taxes, local retribution, local company proceeds, and management of separated local assets)

Effectiveness analysis is used to explain how effective the local revenue target is against the realised value. The effectiveness formula is explained as follows: (Halim, 2004)

$$\text{Effectiveness} = \frac{\text{Revenue Realisation}}{\text{Revenue Target}} \times 100\%$$

Description:

Revenue Realization = The amount of revenue that has actually been earned from a particular revenue source (e.g., a particular tax, a particular levy, etc.).

Revenue Target = The amount of revenue planned or expected to be received by the entity.

4. Results and Discussion

4.1. Research Results

4.1.1. Analysis of Regional Revenue Growth of Palu City for the Period 2019-2023

The regional revenue component consists of three parts, namely Regional Original Revenue, General Allocation Fund and legal Non-Tax State Revenue. According to the study results, it was revealed that the value of Palu City's regional income from 2019 to 2023 is as follows:

Table 2. Regional Revenue of Palu City for the 2019-2023 Period

Year	Description			
	Regional Revenue (IDR)	Local Revenue (IDR)	Fund Transfer (IDR)	Other Legitimate Income (IDR)
2019	2,176,218,360,100	283,255,362,937	933,678,485,000	94,100,146,689
2020	1,304,323,670,761	235,922,534,962	940,428,625,740	999,867,199,398
2021	1,391,503,816,135	260,179,152,644	886,421,012,129	157,723,505,988
2022	1,384,205,147,673	341,303,521,614	987,164,953,521	63,035,341,000
2023	1,469,308,277,706	297,245,708,755	1,038,000,528,881	48,958,910,037

Source: Palu City Statistics Agency (BPS Kota Palu), 2024.

Based on Table 2, it is known that the value of Palu City Regional Revenue in the last 5 years has fluctuated. In 2019 the Regional Revenue figure is higher than in the year IDR 2,176,218,360,100 tends to be higher than in 2020 to 2021. However, the PAD figure continues to experience a significant increase. Meanwhile, the Transfer Fund in 2020 is higher than in

2019 and 2021. The figure for other legitimate income has decreased in 2020 and 2021. The economic conditions that have decreased from 2019 to 2021 are due to the fact that Palu City is facing two main problems, namely the recovery stage after the 28 September 2018 earthquake, tsunami and liquefaction disaster and the Covid 19 outbreak in 2020-2021. In this period, the independence of Palu City from the central government is still very large. In 2022, the economy of Palu City began to improve, this was shown by the value of PAD which made a high contribution to the economy of Palu City. Public awareness in paying taxes, levies and other legal PAD is getting better. On the other hand, transfer funds from the government also increased as the economic restructuring of Palu City improved. The higher transfer funds show that Palu City's regional independence from the central government is getting lower.

The development of Palu City's regional revenue is explained through Table 3 of the growth rate of Palu City's regional revenue for the 2019-2023 period as follows:

Table 3. Regional Revenue Growth of Palu City for the 2019-2023 Period

No	Description	Year				
		2019	2020	2021	2022	2023
1	Regional Revenue	66	(40.065)	6.684	(0.525)	6.148
2	Local Revenue	-17	10.282	31.180	(12.909)	18.679
3	Fund Transfer	1	(5.743)	11.365	5.150	7.518
4	Other Legitimate Revenues	963	(84.226)	(60.034)	(22.331)	(98.970)

Source: Palu City Statistics Agency (BPS Kota Palu), 2024.

The data in Table 3 shows that the economic growth of Palu City is still fluctuating. In 2019 the growth rate of Regional Revenue still showed a positive number. However, in 2020 there was a very sharp decline, reaching -40.065%. This was due to delays in PBB payments to Palu City residents due to the 2018 Earthquake, Tsunami and Liquefaction disasters coupled with the Covid 19 disaster that hit Indonesia which paralysed the regional economy as well as a decrease in transfer funds and other legal revenues. In 2021, there was a positive increase in the PAD of Palu City, Transfer Funds experienced low growth, while the decline in growth in the Other Legitimate Income component also showed a significant figure. In 2022, the growth rate of regional revenue decreased again by 0.25%. The decline in PAD and other legitimate income is the biggest influence on the decline in regional income figures. Economic improvements that continue to be made, such as tax restructuring, orderly levy collection, have increased the value of Palu City PAD in 2023. This condition provides a significant increase in the increase in local revenue of Palu City.

4.1.2. Contribution Analysis of Regional Revenue Components of Palu City

The fluctuating Regional Revenue of Palu City in the 2019-2023 period did not escape the contribution of each of its components. Based on the results of the calculation, the contribution results of PAD, Transfer Funds and Other Legitimate Revenues to the Regional Revenue of Palu City are as follows:

Table 4. Contribution of PAD, Transfer Funds and Other Legitimate Revenues to Regional Revenue of Palu City for the 2019-2023 Period

No	Description	Year				
		2019	2020	2021	2022	2023
1	Local Revenue	10.84	19.95	24.53	21.47	24.01
2	Transfer Funds	43.21	67.96	70.94	74.99	75.96
3	Other Legitimate Income	45.94	12.09	4.53	3.53	0.03

Source: Palu City Statistics Agency (BPS Kota Palu), 2024.

PAD contributions have shown a fluctuating trend in the last five years. In 2019, the PAD contribution was 10.84%, then increased significantly in 2020 (19.95%) and 2021 (24.53%). This increase can be attributed to the optimisation of regional tax and levy revenues and increased economic activity after the recovery from the 2018 natural disasters. However, in 2022, the contribution of PAD decreased to 21.47%, which was most likely influenced by the decline in local tax revenue due to the economic slowdown or tax relaxation policies. In 2023, the PAD contribution increased again to 24.01%, which could be due to increased taxpayer compliance, optimisation of the tax collection system, and local tax extensification efforts.

On the other hand, Other Legitimate Revenues has experienced a drastic decline in the last five years. In 2019, its contribution reached 45.94%, but experienced a sharp decline in 2020 (12.09%) and continued to decline until 2023 only 0.03% remained. This decline is due to the reduction in grants as well as uncertainty in the receipt of Financial Assistance from the Provincial Government and Regional Incentives, which are not always available every year. Overall, this trend shows that Palu City is still heavily reliant on Fund Transfers from the central government, while Local Revenue (PAD) experienced unstable growth, and Other Legitimate Revenues continued to decline dramatically.

4.1.3. Elasticity Analysis of Local Revenue of Palu City

The elasticity of PAD, Transfer Funds, and Other Legitimate Revenues on Local Revenue of Palu City illustrates how much local revenue changes as these factors change. The calculation results show the following results:

Table 5. Elasticity of PAD, Transfer Funds and Other Legitimate Revenues on Regional Revenues of Palu City for the 2019-2023 Period

No	Description	Elasticity (%)				
		2019	2020	2021	2022	2023
1	Local Revenue	0	(0.61)	(0.17)	(0.08)	(11.72)
2	Transfer Funds	0	(0.62)	3.03	(0.41)	(1.45)
3	Other Legitimate Income	0	(7.94)	(1.98)	0.45	1.46

Source: Data Processed, 2024

Based on Table 5, the elasticity of Local Revenue (PAD), Transfer Funds, and Other Legitimate Revenues to Local Revenue of Palu City experienced significant changes during the 2019-2023 period. In general, the elasticity of Transfer Funds shows a greater value than the other two components, indicating that changes in Transfer Funds have a greater impact on the total Regional Revenue of Palu City. In 2021, the elasticity of Transfer Funds reached 3.03%, showing a fairly high increase compared to other years. However, in 2022 and 2023, the elasticity returned to negative -0.41% and -1.45% respectively, reflecting a decrease in sensitivity to the growth of Local Revenue.

Meanwhile, the elasticity of regional own-source revenue tends to show negative numbers from 2020 to 2023. In 2020, the PAD elasticity reached -0.61%, then slightly

improved to -0.17% in 2021, and -0.08% in 2022. However, in 2023, the PAD elasticity dropped dramatically to -11.72%, indicating that the growth of PAD was not proportional to the growth of Regional Revenue, and even showed a smaller impact on total revenue. This could be the result of various factors, such as the decline in local tax and levy revenues or the limited sources of PAD that can be relied on in a sustainable manner.

Although the value of PAD elasticity in 2023 was recorded very drastically, at -11.72%, this very high negative number indicates that although in nominal terms PAD has increased, its contribution to total regional revenue has decreased significantly. This can occur due to the large increase in transfer funds in the same year, so that proportionally the role of PAD in the regional revenue structure becomes very small. Thus, PAD growth did not have enough impact on increasing total local revenue, which caused the elasticity to be negative and very low. In addition, the decline in PAD effectiveness in 2023, which only reached 87.63% of the target, also indicates that PAD realization was not optimal, reinforcing the notion that existing PAD growth is not in line with expectations of its fiscal contribution to overall local revenue. This phenomenon reflects a structural imbalance in the composition of local revenue, which requires a thorough evaluation of PAD planning and management strategies.

On the other hand, the elasticity of Other Legitimate Revenues experienced quite fluctuating changes. In 2020, the elasticity was recorded at -7.94%, indicating a sharp contraction. However, this figure began to improve in 2021 and 2022, at -1.98% and 0.45% respectively. In 2023, the elasticity of Other Legitimate Revenues even shows a positive growth of 1.46%, which may indicate additional revenue from grants or financial assistance that is greater than the previous year. Overall, the results of this elasticity analysis show that Transfer Funds remain the dominant factor in changes in Palu City's Regional Revenue. Meanwhile, own-source revenues still face major challenges in increasing their contribution to total local revenues, while Other Legitimate Revenues experience high volatility.

4.1.4. Effectiveness of Palu City Regional Revenue 2019-2023

The effectiveness of local revenue of Palu City is obtained from comparing the realisation with the target. Based on the calculation results obtained the following results:

Table 6. Effectiveness of Palu City Regional Revenue for the 2019-2023 Period

Year	Target	Realisation	Effectiveness
2019	2,151,228,808,801.80	2,176,218,360,100.61	101.16
2020	1,231,232,010,908.66	1,304,323,670,761.00	105.94
2021	1,304,695,508,265.00	1,391,503,816,134.75	106.65
2022	1,321,873,346,552.65	1,384,205,147,673.47	104.72
2023	1,529,217,858,498.00	1,469,308,277,706.32	96.08
Total	7,538,247,533,024.00	7,725,559,272,374.00	514.55
Average	1,507,649,506,604.80	1,545,111,854,74.80	102.91

Source: Data Processed, 2024

Based on Table 6, the effectiveness of Palu City's local revenue in the 2019-2023 period shows a very good trend, where the realisation of local revenue each year consistently exceeds the predetermined target, except in 2023. The average effectiveness of local revenue in the last five years reached 102.91%, which is included in the highly effective category. The highest effectiveness occurred in 2021 with an achievement of 106.65%, which indicates optimisation in achieving revenue targets, both from Local Revenue (PAD), Transfer Funds, and other sources. In 2023, revenue realisation decreased to 96.08%, so that the effectiveness of revenue decreased from the previously set target. This decline can be caused by various factors, such

as the economic slowdown, fiscal policy, or a decrease in revenue from certain revenue sources. Nevertheless, overall, the performance of Palu City's local revenue effectiveness in the last five years remains very good, indicating that the local government is able to manage and optimise revenue receipts quite effectively.

Table 7. Effectiveness of Palu City PAD 2019-2023

Year	Target	Realisation	Effectiveness
2019	193,946,852,222.00	235,922,534,962.00	121.64
2020	215,362,336,793.00	260,179,152,644.00	120.81
2021	276,431,341,318.00	341,303,521,613.00	123.47
2022	269,724,388,611.00	297,245,708,755.00	110.20
2023	402,579,311,439.00	352,767,942,672.00	87.63
Total	1,358,044,230,383.00	1,487,418,860,646.00	563.75
Average	271,608,846,076.60	297,483,772,129.20	112.75

Source: Data Processed, 2024

According to Table 7, the effectiveness of Palu City's Local Revenue (PAD) in the last five years is classified as highly effective, with an average effectiveness of 112.75%. This figure shows that PAD realisation has consistently exceeded the set target. The trend of PAD effectiveness showed a significant increase in 2021, reaching 123.47%, before experiencing a slight decline in 2022 to 110.20%. However, in 2023, the effectiveness of PAD dropped dramatically to 87.63%, indicating that the realisation of PAD in that year was unable to achieve the planned target. Overall, the increase in PAD effectiveness in recent years was driven by the increase in local tax realisation, which was most likely due to the optimisation of tax collection as well as increased taxpayer compliance. Although in general the effectiveness of PAD is high, the declining trend in 2023 is a concern because it indicates the challenge in maintaining the performance of PAD revenue to remain optimal and in accordance with the predetermined targets.

Table 8. Effectiveness of Fiscal Balance Fund of Palu City 2019-2023

Year	Target	Realisation	Effectiveness
2019	193,946,852,222.00	235,922,534,962.00	121.64
2020	215,362,336,793.00	260,179,152,644.00	120.81
2021	276,431,341,318.00	341,303,521,613.00	123.47
2022	269,724,388,611.00	297,245,708,755.00	110.20
2023	402,579,311,439.00	352,767,942,672.00	87.63
Total	1,358,044,230,383.00	1,487,418,860,646.00	563.75
Average	271,608,846,076.60	297,483,772,129.20	112.75

Source: Data Processed, 2024

Based on Table 8, the average effectiveness of the Balance Fund of Palu City during the 2019-2023 period reached 112.75%, which indicates that the realisation of Balance Fund revenue exceeded the set target and was classified as highly effective. However, this condition reflects the low level of financial independence of Palu City, as it is still dependent on the allocation of funds from the central government. The increase in Fiscal Balance Funds in previous years was mainly due to central government assistance following the earthquake, tsunami and liquefaction disasters in late 2018, as well as the COVID-19 pandemic that lasted from 2020 to 2022. However, in 2023, the effectiveness of the Balance Fund decreased significantly to 87.63%, which is classified as moderately effective. This decrease indicates that Palu City is starting to show improvement in its financial independence, with less dependence

on subsidies from the central government. This can be a momentum for Palu City to further optimise its local revenue sources to achieve more independent and sustainable financial stability.

Table 9. Effectiveness of Other Legitimate Revenues of Palu City 2019-2023

Year	Target	Realisation	Effectiveness
2019	982,841,597,579.00	999,867,199,398.00	101.73
2020	157,511,157,317.00	157,723,505,988.00	314.05
2021	75,720,722,082.00	63,035,341,000.00	83.25
2022	50,741,400,000.00	48,958,910,037.00	96.49
2023	50,223,106,618.00	504,106,618.00	1.00
Total	1,317,037,983,596.00	1,270,089,063,041.00	596.52
Average	263,407,596,719.20	254,017,812,608.20	119.30

Source: Data Processed, 2024

The effectiveness of Other Legitimate Revenues of Palu City during the 2019-2023 period showed a declining trend every year (Table 9), although the average effectiveness in the last five years was still quite high, at 119.30%. The high effectiveness value was mainly influenced by extraordinary achievements in 2019 and 2020, where the effectiveness reached 101.73% and 314.05%, respectively. However, after 2020, effectiveness experienced a drastic decline, with 83.25% in 2021, 96.49% in 2022, and only 1.00% in 2023. This decline indicates that Palu City Government's dependence on the provincial government is decreasing, which is likely due to reduced financial assistance and grants from external sources. In addition, the very low achievement in 2023 indicates that the revenue target could not be optimally realised, so a more effective strategy is needed to increase revenue from this revenue source to make it more stable and sustainable in the future.

4.2. Discussion

The results of research on Palu City Regional Revenue for the 2019-2023 Period show fluctuating figures. The economy of Palu City in this period was in a period of transition and repair due to the impact of successive disasters, namely the earthquake, tsunami and liquefaction on 28 September 2018, and the Covid-19 outbreak that occurred in mid-2020 to 2022. Both events put significant pressure on the regional economy, which is reflected in unstable income patterns. However, a gradual recovery began to take place along with economic restructuring and fiscal intervention from the central government.

This supports the Keynesian concept that the role of government intervention in the form of fiscal stimulus can accelerate economic recovery after contraction due to external factors. According to this approach, when aggregate demand declines such as during a recession, the government should increase public spending and lower interest rates to stimulate household consumption and investment (Alabdulkarim, 2015). Such interventions, including direct cash transfers, have proven effective during crises like the COVID-19 pandemic, when household consumption came under significant pressure (Osuoha, 2023). In this context, government spending becomes a key driver to compensate for weak private sector demand and to prevent rising unemployment. Additionally, fiscal stimulus can help restore consumer confidence, ultimately generating positive effects on investment levels and business growth (Unwin, 2017). However, the effectiveness of fiscal stimulus is not absolute. Several studies indicate that excessive and poorly targeted interventions may pose risks to long-term economic growth and can create new structural problems, such as prolonged budget deficits (Sy, 2016). Therefore, while Keynesian theory advocates for a strong government role in

economic recovery, a balanced approach between state intervention and market mechanisms is essential to ensure sustainable economic health.

One of the main mechanisms used is an increase in government spending, especially in the infrastructure sector, which can create jobs and increase aggregate demand. The multiplier effect of infrastructure spending can have a broad impact on the economy, as expressed by Majeed et al. (2024). In addition, strategically targeted government capital expenditure has also proven to be effective in addressing unemployment and promoting sustainable economic growth, particularly in crisis conditions (Abdulrazaq et al., 2024).

The composition of Palu City's Regional Revenue from 2019 to 2023 was dominated by Transfer Funds, followed by Local Revenue (PAD), and lastly, Other Legitimate Revenues. The large contribution of Transfer Funds to the overall Regional Revenue indicates that Palu City's fiscal independence has not yet reached an optimal level. The reliance on General Allocation Funds (DAU) and Special Allocation Funds (DAK) from the central government suggests that the local economy is still not strong enough to be self-sufficient. This condition aligns with the theory of fiscal decentralization, which posits that a high dependence on central transfers reflects a region's limited capacity to generate its own revenue. Elasticity analysis also shows that Transfer Funds are the most influential component in driving changes in regional revenue. In other words, fluctuations in Transfer Funds directly affect Palu City's fiscal condition, consistent with the theory of fiscal dependency.

Further, although PAD shows an increasing trend in nominal terms, its contribution to total regional revenue is still relatively small and insignificant. In 2023, for example, PAD only accounted for 24.01% of total regional revenue, while Fund Transfers reached 75.96%. This imbalance suggests that PAD growth has not been strong enough to have a major influence on the overall regional revenue structure. In addition, there are also structural factors that influence this condition, such as the narrowness of the local tax base, the low potential for revenue from productive economic sectors, and the high dependence on central funds. This condition reinforces fiscal dependency theory, which explains that weak regional fiscal capacity will lead to prolonged dependence on transfers from the central government, increase the risk of fiscal illusion, and hamper long-term fiscal sustainability. Therefore, strengthening local fiscal capacity through a strategy of diversifying revenue sources is a crucial step to increase the structural contribution of regional own-source revenues and reduce regional fiscal vulnerability.

Fiscal dependency theory emphasises that local governments are often highly dependent on transfers from the central government, which can lead to vulnerabilities in their fiscal health. Fiscal dependency is a crucial issue in local government financial governance, which is fundamentally explained in fiscal dependency theory. This theory emphasizes that the dependence of local governments on transfers from the central government creates potential vulnerabilities in their fiscal health. Limitations in own revenue generation capacity are a key issue, as reflected in the Boyacá region of Colombia, where the municipality has struggled to develop a local tax base independently (Ruiz & Jiménez, 2015). This condition is exacerbated by a system of fiscal centralization that limits the fiscal space of local governments to impose new taxes, thereby strengthening dependence on central funds (Ruiz & Jiménez, 2015).

Intergovernmental transfers indeed serve a fiscal stabilization function, especially in response to economic shocks or natural disasters, by helping local governments adapt to external fiscal pressures. However, when dependence on such transfers becomes excessive, the risk of suboptimal fiscal management increases (Liu et al., 2024). Local governments may focus on short-term funding needs while neglecting the development of a sustainable revenue base (Hanniman, 2020). This dependence also raises the likelihood of fiscal illusion, a

misperception that central government funds are permanently available, which can lead to expenditures exceeding actual fiscal capacity (de Oliveira & de Oliveira, 2024), as observed in several small municipalities in Brazil (Salomão & Santos, 2022). Hence, while transfers from the central government can act as short-term lifelines, excessive reliance poses long-term risks to regional fiscal sustainability. The implications of fiscal dependency underscore the importance of equitable fiscal policy design, effective decentralization, and strengthening local fiscal capacity as strategic measures to reduce regional vulnerability to macroeconomic pressures.

Local governments with low levels of fiscal decentralisation, such as Palu City, tend to rely on central transfers as their main source of revenue (Marlissa & Blesia, 2018). This dependency can lead to an increase in local expenditure that is not matched by growth in own-source revenues, thereby exacerbating fiscal dependency (Kuncoro, 2014). Economic instability can also further worsen local financial conditions, especially for regions whose transfer revenues account for a large portion of their total revenues (Ravanello & Bender Filho, 2019). Cities that have limited capacity to generate their own revenue are particularly vulnerable to changes in transfer allocations, due to their high dependence on external sources of funding to finance essential public services (Ruiz & Jiménez, 2015). In the context of fiscal responsibility and management, the type of transfers received by local governments also plays an important role. Voluntary transfers may encourage more responsible fiscal management practices, while mandatory transfers tend to risk encouraging less disciplined fiscal behaviour (de Araújo et al., 2020).

However, several studies have shown that a well-structured transfer system can improve local financial governance by ensuring the availability of funds necessary for long-term development. In the long run, effective local revenue management strategies are needed to reduce dependence on external sources and increase local fiscal independence. This confirms that sustainable fiscal stability depends not only on the amount of transfers received, but also on the capacity of regions to develop their own revenue sources. Nonetheless, the effectiveness of local revenue and its components shows a fairly good condition, where revenue realisation exceeds the budget target. Over the last five years, local revenues have averaged 102.91%, indicating that local governments have successfully implemented and utilised revenues well. The effectiveness of local revenue also reflects increased public awareness in paying taxes and levies, as well as efforts to intensify local tax collection. This is in accordance with the concept of local taxation, which suggests that increased tax compliance and efficiency in collection can make local revenue receipts increase. However, the downward trend in PAD effectiveness in 2023 signals the need for a new strategy in strengthening local own-source revenues.

The decline in PAD effectiveness in 2023 (down to 87.63%) indicates that PAD realization did not reach the target. To overcome this, Palu needs to implement strategies to increase taxpayer compliance, strengthen the tax information system, and expand the tax and levy object base. It is also necessary to evaluate the setting of PAD targets so that they are more realistic and adjusted to local economic conditions. In addition, increasing the human resource capacity of local tax officials and strengthening tax collection regulations are important to improve the effectiveness of PAD in the future.

Increased local revenue generation is a crucial element in achieving fiscal stability. Local governments are encouraged to increase their local revenues through tax and non-tax sources to reduce reliance on intergovernmental transfers (Levkivskyi et al., 2020). In addition, the identification and utilisation of alternative financial resources can open up greater budget opportunities for regions (Levkivskyi et al., 2020). The transfer of authority from the central

to local governments also encourages local governments to manage funds in innovative ways to meet development needs (Prathama, 2018).

Still, several regions face complexity when they continue to rely significantly on financial support from the central government. Some regions, especially those with limited tax potential, often experience fiscal fragility and difficulty in maintaining their financial sustainability despite receiving transfers (Barbosa, 2018). In addition, the unique economic structure of regions may also affect their capacity to generate sufficient local revenues, further complicating fiscal stability efforts (Kuzmenko et al., 2016). Thus, while developing local revenue sources is crucial, some regions continue to face structural economic constraints that lead to dependence on government transfers. This dependency has the potential to hamper overall fiscal sustainability and reduce long-term development opportunities for the region.

The economic development of Palu City is also evident from the increasing trend of PAD, indicating that the contribution from local economic activities is growing. However, further efforts are still needed to reduce dependence on transfer funds. One strategy that can be implemented is the diversification of PAD sources through the development of more productive local economic sectors and strengthening local taxation policies. In addition, optimising the management of local retribution and more effective utilisation of local assets can be a strategic step in increasing PAD revenue. This approach is in line with endogenous growth theory, which emphasises the importance of investment in local sectors to increase long-term economic capacity.

To reduce dependence on intergovernmental transfers, the recommended strategy in this paper is to diversify the sources of Local Revenue (PAD) by developing more productive local economic sectors and strengthening regional tax policies. In addition, optimizing the management of local user charges and more effective utilization of regional assets are also strategic steps to increase local revenue. These efforts align with endogenous growth theory, which emphasizes the importance of investing in local sectors to enhance long-term economic capacity. As such, Palu City must broaden its local tax base and improve collection efficiency to sustainably strengthen its fiscal capacity.

Based on this analysis, Palu City is on a positive economic recovery path, although it still faces challenges in achieving fiscal independence. Going forward, efforts to increase regional fiscal capacity should be a top priority so that Palu City can be more stable in managing its regional finances and less dependent on central transfers. With the right fiscal policy, strengthening local economic base, and optimising local revenue, it is expected that Palu City can achieve more independent and sustainable economic growth.

5. Conclusion

This study shed light that the level of fiscal independence in Palu City remains suboptimal, although the contribution of Local Own-Source Revenue (PAD) has shown gradual improvement, namely from 10.84% in 2019 to 24.01% in 2023. This indicates progress in tax administration and public compliance. However, the high dependency on intergovernmental transfers from the central government suggests that fiscal autonomy is still limited. Additionally, fluctuations in PAD revenues point to the need for stronger strategies to optimize local tax collection in order to achieve more stable revenue growth. Other legitimate income sources have sharply declined, indicating their limited reliability for long-term fiscal planning. In terms of effectiveness, local revenue collection has generally been efficient, often surpassing targets, despite a slight decline in 2023.

The implications of these findings suggest that the Palu City Government must develop strategies to enhance fiscal independence by optimizing revenue sources such as local taxes and user charges, while also reducing reliance on intergovernmental transfers. Diversifying revenue streams is also crucial to offset the decline in other legitimate income, for instance, by boosting local investment or developing new, sustainable sources of income. Furthermore, adaptive fiscal planning in response to economic dynamics should be strengthened to ensure more stable local revenues and to support sustainable development.

6. References

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