

The Impact of Regional Revenue Structures on Regional Financial Independence: Evidence from Banten Province

Lira Diandra¹, Haryanto^{2*}

Department of Accounting, Faculty of Economics and Business, Diponegoro University

^{1*} Email: haryanto@lecturer.undip.ac.id

*Corresponding Author

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ABSTRACT

This study aims to analyze the regional financial independence. Regional financial independence is measured by the influence of regional revenue structures, which include PAD, DAU, DAK, and DBH. The method used in this study is multiple linear regression data covering 4 regencies and 4 cities in Banten Province over 6 years (2019-2024), yielding a total of 48 observations. The results show that PAD positively influences the regional financial independence. In-depth analysis reveals that this positive influence is driven primarily by Local Tax Revenue, which accounts for most regional revenue, with a sharp disparity in contributions between city and regency areas. Conversely, all transfer revenue components (DAU, DAK, and DBH) negatively affect regional financial independence. These findings indicate that high central government fund flows reduce regional incentives to optimize their independent fiscal potential. Local governments are advised to reduce their dependence on transfer revenue by optimizing Local Taxes through policies that strengthen the local tax base, a crucial step toward achieving sustainable financial independence.

Keywords: *Regional Financial Independence, Local Own-Source Revenue (PAD), Transfer Revenue, Banten Province.*

INTRODUCTION

One of the leading indicators of the success of regional autonomy is regional financial independence. Regional financial independence is the ability of local governments to finance their administrative functions without relying entirely on financial assistance from the central government (Nurcahya et al., 2026; Bahl, 2020; Mardiasmo, 2000; Oates, 1999). Local governments that are highly dependent on transfer revenues from the central government, due to their limited capacity to maximize locally generated revenues, tend to create an imbalanced distribution of components of total regional income used for regional expenditures (Fitrianti et al., 2025). On average, Indonesia's regions' fiscal dependency on transfer revenues remains very high, at 79.4% in 2024 (Maggara et al., 2024). This phenomenon of excessive dependence on central government transfers will become a long-term burden if not addressed promptly (Fitrianti et al., 2025; Sema & Riduwan, 2021; Canare & Francisco, 2019).

The impact of fiscal transfers from the central government to local governments has therefore become an essential topic in financial and fiscal management policy, particularly in Indonesia. Intergovernmental fiscal transfers aim to bridge budgetary gaps between central and local governments by providing the resources needed to support development and improve public services (Fitrianti et al., 2025; Rubiyanty et al., 2025; Mardiasmo, 2018; Litschig & Morrison, 2013). Fiscal decentralization represents a governance approach that transfers authority from the

central government to local governments, thereby granting regions greater autonomy in managing financial resources (Canare & Francisco, 2019; Oates, 1999). In Indonesia, decentralization policies were institutionalized through Law No. 32 of 2004, which aimed to enhance regional autonomy and promote economic development (Badrudin & Kuncorojati, 2017). This policy provides flexibility for local governments in managing revenues, including Locally Generated Revenue (PAD), while continuing to rely on intergovernmental transfers such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH). However, transfers from the central government to local governments often create dependency and discourage efforts to mobilize and optimize their own revenue sources (Andonova & Trenovski, 2023). Transfer dependence is not only behavioral, but also a measurement problem when fiscal independence is defined as PAD relative to assistance.

Various studies in developing countries highlight the widespread nature of fiscal dependency, particularly in regions with underdeveloped local revenue systems. Duan & Zhan (2011), in their study of China, found that fiscal transfers significantly increased local government spending but failed to improve local tax collection. Research by Andonova & Trenovski (2023) in Western Balkan countries shows that intergovernmental transfers reduce incentives to mobilize locally generated revenues, thereby creating fiscal dependence on the central government. Wati et al. (2022) demonstrate that under conditions of budgetary pressure, local governments respond more strongly to increases in intergovernmental transfers than to efforts to optimize locally generated revenues. Although these studies provide valuable insights, their findings are often generalized across districts and municipalities and tend to overlook the unique characteristics of regional fiscal conditions (Fitrianti et al., 2025).

Banten Province, as a strategic buffer zone for the national capital, presents an interesting case regarding fiscal dynamics. Based on the Budget Realization Report (LRA) data for the period 2019–2024, there are sharp disparities in financial independence across regions. This inequality indicates that the objective of fiscal independence has not yet been achieved evenly across the province.

Previous studies examining factors influencing financial independence have produced inconsistent results. Saleh (2020) found that PAD has a positive effect on financial independence, while other studies, such as Nindita (2018), found that DAU does not have a significant impact. Moreover, most previous studies examine PAD in aggregate without analyzing its main component—Local Tax Revenue—as a key driver of regional financial independence. This study aims to address this gap by analyzing the effects of PAD, DAU, DAK, and DBH on regional financial independence. The novelty of this research lies in its focus on Banten Province, with Regional Financial Independence as a specific dependent variable, complemented by an in-depth analysis of the role of Local Tax Revenue as the primary explanatory factor of PAD performance in the study area using the most recent panel data from the 2019–2024 period. Transfer dependence is not only behavioral but also a measurement problem when fiscal independence is defined as PAD relative to assistance; hence, we propose alternative measures and conduct robustness checks.

Districts and municipalities in Banten Province serve as the main case study for examining this phenomenon. As a strategic buffer region for Jakarta, Banten Province exhibits notable fiscal dynamics. Based on the Budget Realization Report (LRA) data from 2019–2024, sharp disparities in financial independence across regions are evident. South Tangerang City demonstrates very high independence, with local tax contributions averaging 88.60%, while Lebak and Pandeglang Regencies continue to show high dependency, with tax contributions below 40% (BPS, 2020; 2021; 2022; 2023; 2024; 2025). This disparity indicates that the goal of fiscal independence has not been achieved uniformly across the province.

LITERATURE REVIEW

The primary indicator of successful autonomy is a region's ability to finance government administration and development activities through locally generated revenue (Locally Generated Revenue/PAD), thereby reducing dependence on external assistance (transfer revenues) from the central government. One hallmark of autonomy implementation is fiscal decentralization. Fiscal decentralization refers to the delegation of financial authority, aiming to create efficiency and independence in the management of local resources (Digdowiseiso & Djumadin, 2020; Arbani, 2020; Mardiasmo, 2000). Within this decentralization framework, the success of autonomy is not only measured by administrative authority but also by financial capacity. The effectiveness of fiscal decentralization policy implementation is therefore assessed through regional financial independence (Nadofah et al., 2025; Saragih & Nurlinda, 2023; Oki et al., 2020; Mahmudi, 2019b).

Regional financial independence is measured by comparing PAD with total regional government revenue from external assistance (Hendrik & Alexandra, 2024). From an internal perspective, PAD reflects independent fiscal capacity. From an external perspective, transfer revenue components—DAU, DAK, and DBH—represent fiscal dependency variables (Hendrik & Alexandra, 2024). PAD performance in Banten Province is primarily determined by its main component, Local Tax Revenue. Based on the Budget Realization Report (LRA) data, significant disparities in PAD structures across the Banten regions are evident. For example, in 2023, Local Tax Revenue in Tangerang Regency accounted for approximately IDR 3.49 trillion, or 79% of its total PAD of IDR 4.40 trillion (BPS, 2024). This indicates a PAD structure heavily reliant on formal tax sectors.

In contrast, Lebak Regency recorded Local Tax Revenue of only about IDR 169.43 billion, or 39% of its total PAD of IDR 434.29 billion in the same year. This disparity underscores the importance of not viewing PAD as a single aggregate figure, but rather analyzing the dynamics of its main component—local taxes—to understand the drivers of financial independence across regions. Another notable phenomenon in Banten's local tax management is reliance on specific tax types and ongoing digitalization efforts to optimize revenue collection. These dynamics are highly relevant, as the performance of significant tax revenues ultimately determines total PAD, which is examined in this study (Tauda et al., 2025; Mahmudi, 2019a).

Revenue performance from these main tax instruments is highly relevant, as it directly determines the total amount of Locally Generated Revenue (PAD) examined in this study. Positioning Local Tax Revenue as the primary analytical focus is further justified by examining the internal structure of PAD within district and municipal governments in Banten Province. Statistical publications from the Central Statistics Agency (BPS) of Banten Province indicate that non-tax PAD components—including Regional Retribution, Returns from Separated Regional Assets, and Other Legitimate PAD—consistently account for relatively small and marginal proportions compared to the dominance of tax revenue. For instance, in 2023 in South Tangerang City, Local Tax Revenue contributed approximately 88.9% (IDR 1.91 trillion) of total PAD, while Regional Retribution accounted for only about 2.7% (IDR 58.9 billion). Given this central and dominant role, it can be concluded that the overall dynamics, challenges, and potential of PAD essentially reflect the performance of the local tax sector. Therefore, by emphasizing local taxes, this study offers a sharper, more relevant analysis of the primary drivers of PAD's influence on regional financial independence.

Effect of PAD on Regional Financial Independence

PAD represents a region's ability to explore and utilize its own economic potential. Higher PAD provides regions with greater discretionary funds and flexibility to finance public needs without central government intervention. Studies by Saleh (2020) and Kristina et al. (2021) show that PAD positively affects financial independence. To deepen this analysis, this study also provides a descriptive examination of the performance of Local Tax Revenue, which is identified

as the primary contributor to fluctuations in PAD realization in the study area. However, it is not tested as a separate regression variable.

H1: PAD has a positive effect on Regional Financial Independence.

Effect of the DAU on Regional Financial Independence

DAU functions as a block grant to equalize fiscal capacity. However, based on fiscal dependency theory, large and general transfer revenues may create disincentive effects for local governments to optimize their own revenue potential. This is consistent with the findings of Marizka (2013) and Maharani & Haryanto (2025), who conclude that DAU has an adverse effect on financial independence.

H2: The DAU has a negative effect on Regional Financial Independence.

Effect of the DAK on Regional Financial Independence

DAK is earmarked to finance national priority programs, with its use determined by the central government. High DAK allocations indicate strong regional dependence on central government program directives and limited fiscal flexibility in setting local priorities. This aligns with the findings of Marizka (2013) and Maharani & Haryanto (2025), which suggest that DAK's dominance in budget structures tends to weaken regional fiscal independence.

H3: The DAK has a negative effect on Regional Financial Independence.

Effect of the DBH on Regional Financial Independence

Although the Revenue Sharing Fund (DBH) originates from regional potential (such as taxes and natural resources), its distribution mechanism remains centrally controlled as a form of transfer revenue. A heavy reliance on DBH may reduce regional motivation to develop innovation in other economic sectors beyond the DBH base. Chabibillah & Wahyono (2019) found that DBH is negatively correlated with financial independence.

H4: The DBH has a negative effect on Regional Financial Independence.

METHOD

This study analyzes the impact of locally generated revenue (PAD) and transfer revenues—namely, the DAU, DAK, and DBH—on regional financial independence. This analysis provides insights into how PAD, DAU, DAK, and DBH influence the financial independence of regencies and municipalities in Banten Province. This study employs a quantitative approach. The population includes all local government entities in Banten Province. A census (total sampling) method is used, yielding a sample of 8 entities: 4 regencies and 4 municipalities. Panel data are used to capture variation over time (2019–2024) and across regions (eight regencies/municipalities in Banten Province). Panel data combines time-series data across years with cross-sectional data across regions.

The data consist of secondary data derived from the Budget Realization Reports (LRA) of regency and municipal governments in Banten Province for the 2019–2024 period, published by the BPK RI and the Central Statistics Agency of Banten Province (BPS, 2020; 2021; 2022; 2023; 2024; 2025). The panel data structure yields 48 observations (8 entities × 6 years), ready for analysis.

This study involves one dependent variable and four independent variables. For measurement clarity, the operational definitions of each variable are summarized in Table 1.

Table 1 Measurement of Variables

Variable	Symbol	Measurement
Dependent Variable		
Regional Financial Independence	Y	Measured by comparing Locally Generated Revenue (PAD) to total government assistance (Central & Provincial Transfers + Loans). Formula: (PAD / Government Assistance) × 100%
Independent Variable		
PAD	X1	Contribution of PAD to total regional revenue. Formula: (PAD / Total Revenue) × 100%
DAU	X2	Contribution of DAU to total regional revenue. Formula: (DAU / Total Revenue) × 100%
DAK	X3	Contribution of DAK to total regional revenue. Formula: (DAK / Total Revenue) × 100%
DBH	X4	Contribution of DBH to total regional revenue. Formula: (DBH / Total Revenue) × 100%

Source: Processed secondary data (2026)

Analytical Method

Data analysis is conducted using multiple linear regression. The regression equation employed in this study is as follows:

$$Y = \alpha + \beta_1X_1 - \beta_2X_2 - \beta_3X_3 - \beta_4X_4 + \varepsilon$$

Before hypothesis testing, the regression model is evaluated through classical assumption tests. Hypothesis testing is carried out using the F-statistic to assess simultaneous effects and the t-statistic to evaluate partial effects.

1. Result

Descriptive Statistical Analysis

This study uses secondary panel data combining cross-sectional data from eight regencies/municipalities in Banten Province with time-series data from 2019 to 2024, yielding a total of 48 observations. Descriptive statistical analysis is conducted to provide an overview of the characteristics of the variables studied, including minimum, maximum, mean, and standard deviation values.

Table 2 Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Regional Financial Independence	48	11.52	201.51	84.3292	64.5382
PAD	48	7.70	74.35	32.0931	11.1880
DAU	48	14.35	50.25	31.5227	11.1880
DAK	48	2.45	23.06	12.0390	5.9410
DBH	48	1.88	8.70	4.9657	1.9561
Valid N (listwise)	48				

Source: Processed secondary data (2026)

Based on Table 2, the dependent variable—Regional Financial Independence—shows an average value of 84.33%. Although this mean value is relatively high, the significant standard deviation (64.54) and wide range of data (minimum 11.52% and maximum 201.51%) indicate substantial disparities in financial independence across regions. Urban areas (such as South Tangerang City) tend to exhibit substantially higher financial independence than regencies.

From the independent variable perspective, the average contribution of Locally Generated Revenue (PAD) is recorded at 32.09%, slightly exceeding the average General

Allocation Fund (DAU) contribution of 31.52%. This suggests a gradual shift in budget structure toward greater independence, although cumulative dependence on transfer revenues remains dominant. Further analysis of PAD's internal components reveals that Local Tax Revenue plays a dominant role, accounting for an average of 66.59% of total PAD. This tax dominance is a key factor explaining variations in PAD performance across regions in Banten Province.

Model Selection Test

In panel data regression analysis, selecting the appropriate estimation model is crucial to ensure accurate, efficient, and unbiased results.

Table 3 Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	5.872726	33.216	0.0000

Source: Processed secondary data (2026)

The results of the Chow test show that the cross-section F-statistic is $0.0000 < 0.05$, indicating that the appropriate model for estimating the regression equation is the fixed-effects model.

Table 4 Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	9.144625	4	0.0254

Source: Processed secondary data (2025)

Based on Table 4, the p-value is $0.0254 < 0.05$; therefore, the most appropriate estimation model is the one with the lowest p-value. Consequently, the Lagrange Multiplier test is not required, as the best model has already been determined.

Classical Assumption Tests

Before hypothesis testing, the regression model was evaluated using a series of classical assumption tests to ensure it met the Best Linear Unbiased Estimator (BLUE) criteria. The results indicate that the model satisfies all classical assumptions. First, the normality test using the One-Sample Kolmogorov–Smirnov test shows an Asymp. Sig. (2-tailed) value of 0.142 (> 0.05), indicating that the residuals are normally distributed. Second, the multicollinearity test shows that all independent variables have Tolerance values greater than 0.10 and Variance Inflation Factor (VIF) values less than 10, indicating no multicollinearity. Third, the heteroskedasticity test using scatterplot analysis shows a random distribution of data points without any discernible pattern, indicating homoskedastic residual variance. With all assumptions satisfied, the regression model is deemed appropriate for hypothesis testing.

Regression Analysis and Hypothesis Testing

Hypothesis testing is conducted using multiple linear regression analysis. The first step is to assess model feasibility (Goodness of Fit) using the F-statistic to ensure the regression model is suitable for testing the effects of independent variables on the dependent variable.

Table 5 F-Test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	189636.160	4	47409.040	332.680	0.000
Residual	6127.775	43	142.506		
Total	195763.935	47			

Source: Processed secondary data (2026)

Based on Table 5, the calculated F-value is 332.680 with a significance level of 0.000. Since the p-value is well below 0.05, the regression model is considered fit for use. This result also demonstrates that PAD, DAU, DAK, and DBH simultaneously have a significant effect on regional financial independence. After confirming model feasibility, the next step is to assess the model's explanatory power using the coefficient of determination (R^2).

Table 6 R^2 Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.984	0.969	0.966	11.93760457

Source: Processed secondary data (2026)

Based on Table 6, the Adjusted R-Square value is 0.966. This indicates that the independent variables (PAD, DAU, DAK, and DBH) account for 96.6% of the variation in regional financial independence, while other factors outside the research model account for the remaining 3.4%. To determine the direction and significance of each variable's partial effect, the t-statistic test is conducted, as presented in the following table.

Table 7 t-Test

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	129.511	25.081		5.164	.000
	1.949	.312	.529	6.251	.000
	-2.510	.408	-.435	-6.146	.000
	-1.204	.482	-.111	-2.497	.016
	-2.845	1.130	-.086	-2.518	.016

Source: Processed secondary data (2026)

Based on Table 7, the resulting regression equation is:

$$Y = 129.511 + 1.949(X1) - 2.510(X2) - 1.204(X3) - 2.845(X4)$$

The results indicate that Locally Generated Revenue (PAD) has a positive coefficient of 1.949 and a significance value of 0.000 (< 0.05), indicating a positive and significant effect (H1 accepted). In contrast, the General Allocation Fund (DAU) has a negative coefficient of -2.510 with a significance value of 0.000 (H2 accepted). The Special Allocation Fund (DAK) shows a negative coefficient of -1.204 with a significance value of 0.016 (H3 accepted). At the same time, the Revenue Sharing Fund (DBH) exhibits a negative coefficient of -2.845 , with a significance level of 0.016 (H4 accepted). These results confirm that all three transfer revenue variables negatively affect regional financial independence.

DISCUSSION

Effect of PAD on Regional Financial Independence

The results of this study demonstrate that Locally Generated Revenue (PAD) positively affects regional financial independence. This finding confirms the first hypothesis (H1). It is consistent with the concept of fiscal decentralization, which posits that the greater a region's ability to exploit its own economic potential, the greater its fiscal discretion to finance development needs independently. These results are consistent with previous studies by Saleh (2020), Mahdawi et al. (2021), and Kristina et al. (2021). Higher PAD provides regions with

greater discretionary funds and flexibility to finance public needs without central government intervention.

The positive effect of PAD is primarily driven by Local Tax Revenue performance. Substantial empirical evidence shows significant disparities in tax performance across regions with high financial independence. Mean of Local Tax Revenue performance 66,59% of the total PAD in all regencies/cities in Banten Province. Compared with South Tangerang City, which accounts for the dominant share, averaging 88.60% of the total PAD. In contrast, regions with low financial independence, such as Lebak Regency, record minimal tax contributions, averaging only 36.83%. This implies that Local Tax Revenue is the primary determinant of fiscal independence in Banten Province.

Local Tax Revenue constitutes the primary contributor to PAD. As highlighted in the background section, the contribution of other PAD components, such as Regional Retribution, tends to be marginal. For instance, in South Tangerang City, tax revenue accounts for 88.9% of total PAD, far exceeding the Regional Retribution's contribution of only 2.7%. This confirms that the PAD variable reflects the performance of the local tax sector. These findings emphasize that local governments' capacity to accelerate "local economic vitality," as evidenced by tax optimization, is a fundamental determinant of the significance and influence of Locally Generated Revenue on regional financial independence.

In addition, this finding suggests that strengthening PAD is not merely about increasing revenue figures but also reflects the effectiveness of local governments in managing and expanding their tax base. Regions with strong administrative capacity, diversified economic activities, and higher levels of urbanization tend to exhibit superior tax performance, thereby enhancing their fiscal autonomy. Moreover, the dominance of Local Tax Revenue underscores PAD's structural dependence on tax-based instruments, underscoring the limited role of non-tax revenues in supporting fiscal independence. This condition indicates that policy efforts to improve regional financial independence should prioritize tax intensification and extensification strategies, particularly in economically lagging regions. Therefore, the positive and significant relationship between PAD and regional financial independence not only validates fiscal decentralization theory but also reveals the uneven capacity of local governments in translating economic potential into sustainable fiscal resources. Addressing these disparities is crucial to ensuring a more balanced and resilient decentralization framework across Banten Province's regions.

Effect of the DAU on Regional Financial Independence

Based on the statistical test results, the second hypothesis (H2) is accepted. In contrast to PAD, the General Allocation Fund (DAU) has been shown to affect regional financial independence negatively. This adverse effect confirms the presence of fiscal dependency or the flypaper effect. High allocations of DAU, which function as block grants, tend to reduce incentives for local governments to optimize their own revenue potential, as central government transfers broadly cover routine fiscal needs. This finding supports the results of Maharani & Haryanto (2025). This study strengthens the arguments of the fiscal dependency theory; large and general transfer revenues may create disincentive effects for local governments to optimize their own revenue potential (Marizka, 2013; Maharani & Haryanto, 2025).

Interpretively, these findings indicate an inverse relationship: a higher DAU ratio within the regional revenue structure corresponds to lower regional financial independence. This phenomenon aligns with the fiscal dependency concept, which holds that the dominance of large, readily accessible central government transfers can distort local government incentives. Consequently, the motivation to independently optimize PAD diminishes, ultimately hindering innovation in expanding new local revenue sources. These results are consistent with several previous studies, including Saleh (2020), which identified the negative impact of fiscal balance funds, as well as Sugiyanto & Musfirati (2021) and Zalza & Haryanto (2025), who also concluded

that DAU has a significant adverse effect on financial independence. However, this finding contrasts with that of Nindita et al. (2018), which found no significant impact of DAU.

Furthermore, the negative influence of DAU suggests that excessive reliance on unconditional transfers may weaken local fiscal discipline. When routine expenditures are primarily financed through DAU, local governments face fewer pressures to improve revenue administration efficiency or broaden the local tax base. This condition reinforces the argument that transfer-heavy revenue structures can create a moral hazard, leading local governments to prioritize transfer optimization over endogenous revenue generation. As a result, DAU may unintentionally perpetuate structural fiscal imbalances and prolong dependence on the central government. From a policy perspective, these findings imply that reforms in the DAU allocation mechanism are necessary to strengthen incentives for fiscal autonomy. Introducing performance-based elements or linking a portion of DAU to improvements in PAD capacity could mitigate the flypaper effect and encourage more sustainable regional financial independence.

Effect of the DAK on Regional Financial Independence

Based on the statistical test results, the third hypothesis (H3) is accepted. The empirical evidence strongly supports the conclusion that the Special Allocation Fund (DAK) has a negative and significant effect on regional financial independence in Banten Province. Interpretively, this adverse effect indicates that increases in DAK allocations to local governments are associated with declines in their financial independence. High DAK allocations indicate strong regional dependence on central government program directives and limited fiscal flexibility in setting local priorities.

This phenomenon can be attributed to the fundamental characteristics of DAK as a specific or earmarked grant. Unlike DAU, which is general in nature, DAK is explicitly determined by the central government to finance particular programs and activities aligned with national priorities. Rigidity in the utilization of funds limits local governments' fiscal discretion. Dependence on centrally funded programs financed through DAK may divert local government resources away from efforts to mobilize local revenue potential toward merely complying with technical guidelines for transfer fund implementation, thereby deepening fiscal dependency on the central government.

The negative influence of DAK on regional financial independence further indicates that its earmarked nature constrains regional fiscal flexibility. High DAK receipts suggest that regions are more focused on implementing centrally mandated priority programs rather than initiating independent development programs based on local initiatives. This finding is consistent with Sugiyanto & Musfirati (2021). Moreover, the results reinforce recent studies by Zalza & Haryanto (2025) and Pipit Mulyah et al. (2022), which also found that DAK has a significant adverse effect on regional financial independence. However, this result differs from Sugiyanto & Musfirati's (2021) study in the Special Region of Yogyakarta, which found a positive effect of DAK. This discrepancy may be due to differences in fiscal capacity and development priorities in Banten Province, where DAK has not yet effectively stimulated financial independence.

Furthermore, the negative relationship between DAK and regional financial independence suggests that the effectiveness of earmarked transfers in fostering fiscal autonomy is highly contingent on regional absorptive capacity and administrative capability. In regions with limited fiscal and institutional capacity, DAK may function more as a substitute for local funding rather than as a catalyst for strengthening endogenous revenue sources. This condition indicates that while DAK is designed to address interregional disparities and support priority sectors, its current implementation may inadvertently reinforce vertical fiscal imbalances. Local governments may become more focused on securing DAK allocations than on developing sustainable local revenue strategies, thereby weakening long-term fiscal resilience. From a policy standpoint, these findings highlight the importance of reorienting DAK toward a more complementary role with PAD. Strengthening the linkages between DAK-funded programs and

local revenue generation—such as requiring co-financing or performance-based incentives—could enhance their contribution to regional financial independence. Consequently, the adverse effect of DAK observed in Banten Province underscores the need for differentiated transfer designs that account for regional fiscal capacity, ensuring that earmarked grants support development without undermining local fiscal autonomy.

Effect of the DBH on Regional Financial Independence

Based on the statistical test results, the fourth hypothesis (H4) is accepted. The empirical evidence confirms that the Revenue Sharing Fund (DBH) has a negative and significant effect on regional financial independence. In Banten Province, this variable exhibits characteristics similar to those of other central government transfer components: increases in the share of DBH receipts are associated with a decline in regional fiscal independence. Although DBH originates from regional potential—such as taxes and natural resources—the centrally administered transfer mechanism continues to foster a dependency mindset. DBH fluctuations, which are highly dependent on central government policies and national revenue collection, make it difficult for regions to plan for stable, long-term financial independence. This finding reinforces the results of Chabibillah & Wahyono (2019).

These findings offer a different perspective from the conclusions of several previous studies, such as Sugiyanto & Musfirati (2021) and Zalza & Haryanto (2025), which reported that DBH did not significantly affect financial independence. The compositional characteristics of DBH in Banten Province can likely explain the disparity in results. Unlike regions with a high dependence on natural resource-based revenue sharing, Banten's revenue structure is dominated by tax-based DBH components, such as personal income tax (Article 21) and property tax (PBB). The relatively stable and predictable nature of tax-based DBH, compared to the volatility of natural resource DBH, is suspected to create a more persistent and consistent pattern of fiscal dependency, thereby leading to a significant adverse effect in this study.

Furthermore, the negative impact of DBH suggests that, although intended to enhance fiscal equity, revenue-sharing mechanisms may inadvertently weaken local governments' incentives to intensify their own-source revenue efforts. When a substantial portion of regional income is derived from DBH, local governments may perceive limited urgency to expand local tax bases or improve revenue administration efficiency, as a portion of fiscal needs is automatically fulfilled through shared revenues. This condition indicates that DBH, particularly tax-based DBH, functions more as a passive revenue source than as a stimulative instrument for building local fiscal capacity. Consequently, local governments tend to rely on predictable transfer inflows rather than pursue innovative strategies to diversify and strengthen PAD. From a long-term perspective, the persistence of DBH dependence may reduce regional fiscal resilience, as regions remain vulnerable to changes in national tax policy and macroeconomic conditions beyond their control. Therefore, policy reforms that better align DBH allocations with local revenue performance—such as incentive-compatible or performance-linked revenue-sharing schemes—could help mitigate dependency effects and promote stronger regional financial independence. Overall, the findings underscore that without appropriate incentive structures, DBH may reinforce structural fiscal dependence rather than function as an effective instrument for enhancing local fiscal autonomy.

CONCLUSION

This study examines the impact of regional revenue structures on regional financial independence in Banten Province during 2019–2024. The empirical findings demonstrate that Locally Generated Revenue (PAD) has a positive and significant effect on regional financial independence, indicating that regions with stronger own-source revenue capacity are better able to finance development needs autonomously. This relationship is primarily driven by Local Tax Revenue, which accounts for the largest share of PAD and shows substantial interregional

disparities. Urban municipalities with broader tax bases display markedly higher financial independence than regencies with limited economic capacity, underscoring the structural inequality underlying regional fiscal performance.

In contrast, all components of intergovernmental transfers—General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH)—are found to have significant negative effects on regional financial independence. These results confirm the persistence of fiscal dependency and the flypaper effect, in which substantial transfer inflows weaken local governments' incentives to optimize endogenous revenue sources. In particular, the earmarked nature of DAK further constrains regional fiscal discretion, compelling local governments to prioritize centrally mandated programs over locally initiated development agendas.

The policy implications of these findings suggest that strengthening regional financial independence in Banten Province requires a strategic shift away from excessive reliance on transfer revenues. Local governments, especially at the regency level, must pursue structural reforms on the revenue side by intensifying and digitalizing local tax administration, expanding the tax base, and improving compliance.

Despite its contributions, this study is subject to several limitations. First, the analysis of PAD determinants focuses primarily on Local Tax Revenue, leaving other PAD components—such as Regional Retribution and returns from separated regional assets—relatively underexplored. Second, the research model emphasizes revenue-side factors and does not incorporate expenditure-side variables, such as spending efficiency or capital expenditure composition, which may also play a critical role in shaping financial independence. Third, reliance on quantitative secondary data from Budget Realization Reports limits the ability to capture qualitative institutional constraints, including administrative capacity, regulatory rigidity, and governance challenges in local revenue mobilization.

Based on these limitations, future research is encouraged to adopt broader analytical frameworks by incorporating non-tax PAD components, integrating expenditure-side indicators, and employing mixed-methods approaches to capture institutional and managerial dimensions not reflected in fiscal data. For policymakers, the findings reaffirm the urgency of reducing structural dependence on transfer funds by strengthening local revenue and using intergovernmental transfers more strategically to support long-term fiscal autonomy. The following research can use real value data from PAD, DAU, DAK, and DBH, as well as per capita power data, which do not directly include these components in terms of regional financial independence. The following research can also include capital expenditure variables as control variables.

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