

ANALYSIS OF THE INFLUENCE OF LOCAL ORIGINAL INCOME (PAD) AND REGIONAL COMPETITIVENESS ON REGIONAL FINANCIAL INDEPENDENCE IN BANTEN PROVINCE, INDONESIA

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ABSTRACT

This research aims to evaluate how Local Original Income (PAD) and regional competitiveness influence regional financial independence in Banten Province, Indonesia. Regional financial independence is an important indicator in assessing the ability of regional governments to fund development programs and projects without relying on external resources. The research results also specifically show that the level of PAD contribution has a significant positive influence on regional financial independence, indicating that increasing Regional Original Income can increase regional financial independence. Apart from that, Regional Competitiveness also has a positive and significant impact on regional financial independence, indicating that increasing efficiency in managing regional Competitiveness can increase regional financial independence. Overall, this research shows that both PAD contribution and Regional Competitiveness have a significant influence on regional financial independence. Therefore, this research makes an important contribution to understanding the factors that influence regional financial independence in districts/cities in Banten Province. The results of this research can be a basis for improving policies and making better decisions to increase regional financial independence, which in turn will support sustainable development in this region.

Keywords: Local Original Income (PAD), Regional Competitiveness , Regional Financial Independence

1. Introduction

Regional finance is one of the main pillars in supporting sustainable regional development. Regional financial independence is a key factor in assessing the extent to which regional governments can fund development programs, community services and infrastructure without relying too heavily on transfer funds from the central government. In Indonesia, regional

financial independence has become an important concern, especially with fiscal decentralization which aims to provide greater autonomy to regional governments. Banten Province, located in the western region of Java Island, has experienced significant economic growth in recent years. However, to maintain sustainable growth, local governments need to have sufficient financial resources to fund the various necessary development programs and projects. Therefore, analysis of the factors that influence regional financial independence in Banten Province is very relevant. The two main factors that are the focus of this research are Regional Original Income (PAD) and regional competitiveness. Although Banten Province has experienced significant economic growth, more in-depth research is needed to understand the extent to which PAD and regional competitiveness contribute to regional financial independence in this province. With a better understanding of these factors, local governments can design more effective policies to increase regional financial independence and, in turn, support sustainable development in Banten Province, Indonesia. Government is a system, structure and organization that aims to manage state affairs. Financial and budget management has an important role in ensuring the smooth running of public services and national development (Malau & Simarmata, 2020). Even though there has been reform in government through the Regional Government Law (UU No. 32 of 2004) and the Financial Balance Law (UU No. 33 of 2004), challenges in the area of regional finance still exist. Regional governments are still very dependent on fund transfers from the central government, such as the General Allocation Fund (DAU) and Special Allocation Funds (DAK), while Regional Original Income (PAD) has not been maximized properly. Even though PAD is a very important source for reducing dependency, its contribution is still low.

According to Minister of Finance Sri Mulyani Indrawati, regional dependence on financial transfers and Village Funds (TKDD) remains high. On average, the Regional Revenue and Expenditure Budget (APBD) is highly dependent on TKDD, reaching 80.1 % , while PAD only contributes 12.87% of total income (Nugraha, 2019). Therefore, research regarding the influence of the level of PAD contribution and Regional Competitiveness on regional financial independence is relevant. The aim of this research is to provide a deeper understanding of the factors that influence regional financial independence in Regencies/Cities in Banten Province during the 2012-2022 period, which has an important role in supporting sustainable development. Banten Province, which was only formed in 2000 as a result of expansion from West Java Province, consists of 8 districts/cities with a variety of resources and economic activities. Original Regional Income (PAD) varies in each region. Even though PAD is an important indicator for measuring the effectiveness of regional autonomy, the level of PAD contribution in Banten Province is still relatively low, with an average of below 30% during the 2012-2022 period. Differences in PAD contributions between regions reflect challenges that must be overcome to increase regional financial independence and support development and better public services. Regional competitiveness refers to the expenditure made by local governments to purchase fixed assets. The aim is to support the provision of public facilities that provide benefits to the community. Regional governments allocate regional competitiveness budgets for infrastructure development projects in sectors such as transportation, health, education and other strategic sectors (Patarai, 2017).

In districts/cities in Banten Province, the realization of regional competitiveness tends to be high, even in the 2012-2022 budget period, there were years where the realization of regional competitiveness exceeded the budget ceiling, as happened in South Tangerang City in 2014, where Realization of regional competitiveness reached 450.78%. An evaluation of regional financial management in Banten Province is needed to assess the extent to which the regional

government has succeeded in implementing fiscal autonomy. One indicator of success in implementing fiscal autonomy is the level of regional financial independence. The higher the level of regional financial independence, the lower the level of regional government dependence on financial assistance from the central government or other external sources. Thus, achieving the goals of regional autonomy and fiscal decentralization can be considered achieved (Mahmudi, 2019).

In the 2012-2022 period, the level of regional financial independence in the Regency/City of Banten Province shows significant differences between the Greater Tangerang region (Tangerang City, South Tangerang City and Tangerang Regency) and other regions. The financial independence ratio in the Greater Tangerang region is at the participative to delegative level (medium to high financial capability), while other regions are still at the consultative to instructive level (low to very low financial capability). The higher financial independence ratio in the Greater Tangerang region can be explained by the fact that this region is a center of economic and business activity, with active manufacturing, trade and real estate sectors. In contrast, other areas are still dominated by the agricultural and plantation sectors, so that the local revenue (PAD) that can be generated is relatively smaller compared to economic and business center areas. For example, regional financial independence in Serang City, which is the capital of Banten Province, has not yet reached the level of independence generally seen in provincial capitals in other regions (Riyanti et al., 2021).

The following is a table that reflects fluctuations in regional financial independence in Banten Province:

Table 1 Fluctuations in Regional Financial Independence in Banten Province

| Year | Regency/City | Financial Independence Ratio (%) |
|------|----------------------|----------------------------------|
| 2012 | Pandeglang Regency | 4.18 |
| 2017 | South Tangerang City | 118.36 |

Source: Processed Data

This table illustrates the level of regional financial independence in 2012 and 2017, with the lowest level of independence recorded in Pandeglang Regency and the highest level of independence in South Tangerang City. You can enter other years and districts/cities according to the data you have to complete the table.

2. Literature Review

2.1 Regional Financial Independence

Regional Financial Independence is an important concept in regional government financial administration which reflects the extent to which regional governments have full control over the income they generate and the expenditure they make without being too dependent on the central government (Bird, 2009). Regional financial independence is key in supporting fiscal autonomy, which gives regional governments the authority to regulate and manage their own finances (Oates, 1972). This includes local governments' ability to collect indigenous revenues, such as taxes and levies, as well as their ability to allocate these funds according to local needs and priorities. Local governments that have higher levels of financial independence tend to have more control over local development programs, infrastructure, public services, and economic

policy. This also enables them to respond more effectively to the needs and aspirations of local communities.

2.2 Local Original Income (PAD)

Regional Original Income (PAD) is a very important element in the regional financial structure which reflects the income obtained by regional governments from local sources. This includes various forms of income such as taxes, levies, and income derived from natural resources in the region. The existence of PAD allows local governments to diversify their sources of income and reduce dependence on financial assistance from the central government. Regional Original Income (PAD) refers to financial revenues obtained by a region, which originate from sources within the region and are charged in accordance with the regulations in force at the regional level (Akhmad, 2019).

PAD is income that is specifically obtained by the region, and has an important role as an indicator that reflects the extent to which regional autonomy is implemented (Putra, 2018). Regional Original Income (PAD) includes various types of income sources, including taxes, levies, and income obtained from natural resources found in a region. PAD has great significance in the context of regional autonomy, because the ability of regions to generate and manage their own revenues provides greater financial freedom and control over development programs, infrastructure and public services that can be tailored to local needs. Therefore, PAD is one of the key indicators in measuring the level of regional autonomy.

2.3 Regional Competitiveness

Sector excellence in Competitiveness is a key component in regional economic development plans. The aim is to encourage economic growth in the region by utilizing available natural resources, infrastructure and workforce. The advantage of this sector is not only about meeting local needs, but also having the capacity to reach markets outside the region. This leading sector concept has two important dimensions, namely comparative advantage and competitive advantage, as explained by Erawati (2011).

This provides a strong basis for competing in the wider market.

Table 2 Relationship Patterns and Regional Financial Capabilities

| Financial Capabilities | Independence (%) | Relationship Patterns |
|------------------------|------------------|-----------------------|
| Very low | 0-25 | Instructive |
| Low | 26-50 | Consultative |
| Currently | 51-75 | Participative |
| Tall | 76-100 | Delegative |
| | | |

The table above shows the situational relationship in the implementation of regional autonomy based on the level of regional financial capacity and the level of financial independence. There are four relationship patterns depicted in this table, namely Instructive, Consultative,

Participative, and Delegative. This relationship pattern reflects the extent to which the central government is involved in regional financial management. The level of regional financial capability is divided into four categories, ranging from very low to high, while the level of financial independence is measured in percentages, ranging from 0-25% to 76-100%. This pattern of regional financial relationships and capabilities reflects the dynamics of the implementation of regional autonomy in Indonesia and its influence on regional financial independence. (Halim, 2002; Patarai, 2017)

2.4 Framework Outlines

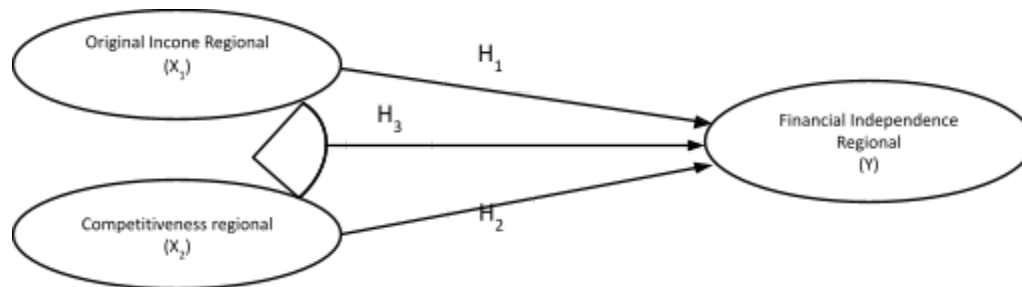


Figure 1 Framework Outlines

Hypothesis

From Figure 1, we can formulate a research hypothesis as follows:

- H₁ : The level of contribution of Original Regional Income (PAD) partially influences regional financial independence. This means that PAD has an influence on the regional financial ability to be independent.
- H₂ : Regional competitiveness partially has an influence on regional financial independence. This means that the level of regional competitiveness influences the regional financial ability to become independent.
- H₃ : The level of PAD contribution and regional competitiveness simultaneously influence regional financial independence. In other words , PAD and Regional Competitiveness have a joint influence on regional financial independence.

This research aims to test these three hypotheses in order to gain a deeper understanding of the factors that influence regional financial independence in Banten Province, Indonesia, during a certain period. Through data analysis, this research will answer whether these hypotheses can be accepted or not.

3. Research Methodology

This research uses a quantitative research approach with the aim of investigating relevant cause-and-effect relationships. Secondary data used in this research was obtained from regional government financial reports, which were collected from official sources, namely the Directorate

General of Financial Balance (DJPk) of the Ministry of Finance of the Republic of Indonesia. This data is available via the official DJPK website. The population that is the subject of this research includes all regional government financial reports in Regencies/Cities in Banten Province during the 2012-2022 period. The population that is the focus of the research is 80 entities (8 Regional Governments x 10 years). In terms of sampling, this research uses the census method (saturated sample), which means the entire population (80 entities) is used as a sample. At the data analysis stage, this research applies panel data analysis techniques. The data analysis process is supported by software, namely Microsoft Excel 2019 and EViews 9, to identify and test the relationships between the variables studied. Panel data allows researchers to understand the impact of independent variables on the dependent variable over time.

4. Research Result and Discussion

Research result

Descriptive Statistics Test Results

The following is a table that lists the results of descriptive statistical tests for the degree of PAD contribution variable (X_1), the Regional Competitiveness variable (X_2), and the regional financial independence variable (Y):

Table 3 Descriptive Statistics Results

| Variable | Average |
|--------------------------------------|-----------|
| Degree of PAD Contribution (X_1) | 27.948000 |
| Regional Competitiveness (X_2) | 99.65775 |
| Regional financial independence (Y) | 49.37050 |

Source: Processed Data Results

The table above depicts descriptive statistics showing the average of each research variable. These variables are an important part of the statistical analysis that will be carried out in this research.

Panel data regression analysis

Panel data regression analysis is a statistical method used to calculate regression models involving data from various times (time-series) and data from various individuals or entities (cross-section). Within the framework of this research, there are three panel data regression models that can be used: general effects model, fixed effects model, and random effects model. Researchers need to choose the model that best suits the characteristics of the data and research objectives.

Test Chow

The Chow test is an important stage in panel data regression analysis which is useful for determining the most appropriate model between the general effects model and the fixed effects model. Selecting an appropriate model will ensure that the research results are more accurate and

relevant according to the research objectives. In the Chow test, researchers carry out tests to determine whether there is a significant difference between the general effects model and the fixed effects model based on existing data.

Table 4 Chow Test Results

| Model | Probability (Cross-Section Chi-Square) | Conclusion |
|--------|---|---|
| Common | 0.0000 | H_0 is rejected, H_1 is accepted (Significant difference) |

Source: Data processed

The Chow test results indicate that there is a significant difference between the common effect model and the fixed effect model. Thus, the best model chosen for this research is the fixed effect model. The Chow test results contained in table 4 show that the probability value (chi-square cross-section) is 0.0000 . This probability value is lower than the significance level α of 5% ($0.000 < 0.05$) , which illustrates that there is a significant difference between the common effect model and the fixed effect model. As a result, the null hypothesis (H_0) is rejected, and the alternative hypothesis (H_1) is accepted. Therefore, the findings from the Chow test conclude that the best model suitable for use in this research is the fixed effect model. This means that in the context of panel data regression analysis, individual effects or fixed effects have a significant role in explaining the relationship between the independent variable and the dependent variable. Selecting the right model is an important stage in panel data analysis because it can influence the validity and interpretation of research results. By selecting a suitable model, researchers can better understand the relationships between the variables being studied within a panel data framework.

Test Hausman

The following is a table that reflects the Hausman test results:

Table 5 Hausman Test Results

| Model | Probability (Cross-Section Random) | Conclusion |
|-------|---------------------------------------|--|
| Fixed | 0.2110 | H_0 is accepted, H_1 is rejected (No significant difference) |

Source: Processed Data

The Hausman test results show that there is no significant difference between the fixed effect model and the random effect model. Therefore, the null hypothesis (H_0) is accepted, and the alternative hypothesis (H_1) is rejected. Thus, the best model chosen to be used in research is the random effect model.

Panel Data Regression Equation

The results of selecting the panel data regression model show that the most appropriate model to be used in this research is the random effects model. The results of the analysis using the random effects model can be found in Table 6 below:

Table 6 Panel Data Regression Analysis Test Results (Random Effect Model)

| Variable | Regression Coefficients | Std. Error | t-Value | Sig. |
|------------------------------------|-------------------------|------------|---------|-------|
| Constant (Intercept) | -29.31222 | 5.1837 | -5,645 | 0,000 |
| Degree of PAD Contribution (PADit) | 2.393707 | 0.4827 | 4,958 | 0,000 |
| Regional Competitiveness (BMit) | 0.118233 | 0.0175 | 6,739 | 0,000 |

Source: Data processed

Note: The t-Value measures the significance of the regression coefficient. The value "Sig." is a probability that indicates statistical significance. The probability of less than the significance level ($\alpha = 0.05$) indicates that the regression coefficient is significant.

The results of panel data regression analysis with a random effect model produce the following regression equation:

$$RKKD = -29.31222 + 2.393707 \cdot PADit + 0.118233 \cdot BMit + Wit$$

The table above describes the results of panel data regression analysis using a random effects model. The results of this analysis show the impact of the contribution level of Regional Original Income (PAD) and Regional Competitiveness (DS) on regional financial independence. If both PADit and BMit variables have a value of zero, then regional financial independence (RKKD) will have a value of -29.31222. However, if the value of the PAD contribution level (PADit) increases by one unit, assuming other variables remain constant, then the RKKD will increase by 2.393707. Likewise, if the Regional Competitiveness (BMit) value increases by one unit, with other variables remaining constant, then the RKKD will increase by 0.118233.

These results provide an understanding of the significance of the variables that influence regional financial independence in Banten Province, as well as the extent to which changes in these variables can impact financial independence. All regression coefficients are significant with a low probability of significance, indicating that this model is suitable for explaining the relationship between these variables in the context of regional financial independence.

Multicollinearity Test

Table 7 Multicollinearity Test Results (X_1 and X_2)

| Variable | Correlation coefficient |
|--------------------------------------|-------------------------|
| Degree of PAD Contribution (X_1) | -0.225993 |
| Regional Competitiveness (X_2) | 1,000000 |

Source: Data processed

The results of the correlation analysis in the table above show that the correlation coefficient between the contribution level of Regional Original Income (PAD) (X_1) and Regional Competitiveness (DS) (X_2) is -0.225993. This correlation coefficient value is less than 0.9, which indicates that there is no significant correlation between the two independent variables, X_1 and X_2 . In other words, the results of this analysis show that the two independent variables in the regression model do not have a significant influence on each other.

Thus, these results confirm that there is no significant multicollinearity problem in the regression model used in this study. This confirms that the two independent variables, PAD contribution level (X_1) and Regional Competitiveness (X_2), can be used together in the model without any multicollinearity issues to worry about.

Heteroscedasticity Test

Table 8 White Test Results

| Heteroskedasticity Test: White | | | |
|--------------------------------|----------|---------------------|--------|
| F-statistic | 0.905046 | Prob. F(5,74) | 0.4825 |
| Obs*R-squared | 4.610219 | Prob. Chi-Square(5) | 0.4653 |
| Scaled explained SS | 3.156358 | Prob. Chi-Square(5) | 0.6759 |

Source: Eview Output

The White test results contained in Table 8 show that the Obs*R-Squared value is 4.610219, and Prob. Chi-Square is 0.4653. In this case, Prob. Chi-Square has a value higher than the α significance level of 5% ($0.4653 > 0.05$). This shows that there is no indication of significant heteroscedasticity in the regression model used in this study.

In other words, the White test results confirm that the heteroscedasticity assumption is not violated in the regression model. Therefore, panel data regression analysis can be considered consistent and reliable in evaluating the influence of the contribution level of Regional Original Income (PAD) and Regional Competitiveness (DS) on regional financial independence in Banten Province.

Test the Coefficient. Determination

The coefficient of determination test results show that the R-Squared value is 0.890509. This value indicates the extent to which the contribution of the degree of PAD and Regional Competitiveness influences variations in regional financial independence. In this context, the R-Squared of 0.890509, which is equivalent to 89.05%, illustrates that around 89.05% of the variation in regional financial independence can be explained by the degree of contribution of PAD and Regional Competitiveness which has been tested in this study. The remainder, namely around 10.95 % (0.109491) of the variation in regional financial independence is influenced by other factors not included in the regression model. Therefore, although the contribution of the degree of PAD and Regional Competitiveness has a significant influence on regional financial independence, there are other factors that also influence regional financial independence that need to be considered in the context of analysis and policy decision making.

Partial test (t test)

Table 9 Partial Test Results on the Variables Degree of PAD Contribution and Regional Competitiveness

| Variable | Probability (p) | t-Count | Decision |
|--------------------------------------|-----------------|----------|-------------|
| Degree of PAD Contribution (X_1) | 0.0000 | 24.92866 | H1 Accepted |
| Regional Competitiveness (X_2) | 0.0000 | 6.533730 | H2 Accepted |

Source: Processed Data

Based on the partial test results listed in Table 10, it was found that the probability (p) for the two variables, namely the degree of PAD contribution (X_1) and Regional Competitiveness (X_2), were both lower than the significance level $\alpha = 0.05$ ($0.0000 < 0.05$). Apart from that, the calculated t-value for these two variables also exceeds the t-table value ($24.92866 > 1.99125$ and $6.533730 > 1.99125$).

Thus, based on these findings, the two hypotheses proposed in this research are accepted. The first hypothesis (H1) which states that the degree of PAD contribution has a significant partial influence on regional financial independence is accepted. Likewise, the second hypothesis (H2) which states that Regional Competitiveness has a significant partial influence on regional financial independence is also accepted. These results confirm that these two variables make a significant contribution to regional financial independence.

Simultaneous Test (F Test)

Table 10 Simultaneous Test Results

| <i>Statistics</i> | <i>Mark</i> | <i>Decision</i> |
|-------------------|-------------|-------------------------|
| F-Statistics | 313.1270 | H ₃ Accepted |
| Prob(F-Statistic) | 0.000000 | |

Source: Processed Data

The simultaneous test results contained in Table 10 indicate that the F-Statistic has a value of 313.1270, with a Prob(F-Statistic) of 0.000000. In addition, t-count $>$ t-table ($313.1270 > 3.12$) and probability value ($0.000000 < 0.05$ (significance level α)). Therefore, the third hypothesis (H3) which states that the degree of PAD contribution and Regional Competitiveness together have a significant effect on regional financial independence is accepted. This indicates that these two variables together make a significant contribution to regional financial independence.

Discussion

The Influence of the Degree of PAD Contribution on Regional Financial Independence

The results of the partial hypothesis test in this study show that the degree of contribution of Original Regional Income (PAD) has a positive and significant effect on regional financial independence in Regency/City governments in Banten Province during the 2012-2022 period. The coefficient value of the degree of PAD contribution is 2.393707. In other words, if the degree of PAD contribution increases by one unit, assuming other variables remain constant, then regional financial independence will also increase by 2.393707. These results indicate a positive relationship between the degree of PAD contribution and regional financial independence. Thus, increasing the degree of PAD contribution can increase regional financial independence, and vice versa.

This research makes an important contribution to understanding the factors that influence regional financial independence, especially in Banten Province. For local governments, these

findings can be used as a basis for designing policies aimed at increasing the level of PAD contribution, which will ultimately support efforts to achieve a better level of financial independence. However, it is important to note that other factors can also influence regional financial independence, and further research is needed to comprehensively understand these factors.

The Influence of Regional Competitiveness on Regional Financial Independence

The results of partial hypothesis testing in this study provide evidence that Regional Competitiveness has a positive and significant influence on regional financial independence in Regency/City governments in Banten Province during the 2012-2022 period. This is shown by the Regional Competitiveness coefficient value of 0.118233. In other words, if Regional Competitiveness increases by one unit, assuming other variables remain constant, then regional financial independence will also increase by 0.118233. These results confirm that there is a positive relationship between Regional Competitiveness and regional financial independence. In other words, increasing regional competitiveness can result in increasing regional financial independence, and vice versa.

This research provides a deeper understanding of the role of Regional Competitiveness in supporting regional financial independence. However, it is important to remember that this research has several limitations, such as the coverage of the Banten Province area and the specific time period. Therefore, the results of this study may not be directly applicable to other regions or different time periods. Therefore, further research could consider additional relevant variables and broaden the geographic scope to test the extent to which these findings can be applied to a broader context.

The Influence of the Degree of PAD Contribution and Regional Competitiveness on Regional Financial Independence

The results of simultaneous hypothesis testing in this study provide evidence that the degree of PAD contribution and Regional Competitiveness together have a significant influence on regional financial independence in Regency/City governments in Banten Province during the 2012-2022 period. The R-Squared value of 0.890509 shows that the impact of the variable degree of contribution of PAD and Regional Competitiveness on regional financial independence reaches 89.05%, while the remainder, namely 10.95%, is influenced by other variables not used in the research. These results confirm the existence of a strong relationship between the degree of PAD contribution and Regional Competitiveness and regional financial independence. In other words, increasing the degree of PAD contribution and increasing Regional Competitiveness can significantly support regional financial independence. However, there are several limitations to this study that need to be noted. First, the scope of the research area is limited to Banten Province, so the results may not be directly applicable to other regions in Indonesia. Furthermore, the use of a specific time period may also limit the generalizability of research results. Therefore, further research could consider geographic diversity and different time periods to gain deeper insights.

5. Conclusion

The results of this research provide strong evidence that the degree of contribution of Regional Original Income (PAD) and Regional Competitiveness have a significant influence on regional financial independence in Regency/City governments in Banten Province during the 2012-2022 period. Together, these two variables explain 89.05% of the variation in regional financial independence, while the remaining 10.95% is influenced by other factors not included in this study. Partially, the test results show that the degree of PAD contribution has a positive and significant effect on regional financial independence. This means that increasing the degree of PAD contribution will result in an increase in regional financial independence, which can lead to more sustainable development..

Simultaneous test results confirm that both the degree of PAD contribution and Regional Competitiveness together have a significant influence on regional financial independence. This shows the importance of considering these two factors in designing more effective and independent regional financial policies. However, this study has limitations in terms of regional coverage and certain time periods. Therefore, the results may not be directly applicable to other regions in Indonesia. To gain greater insight, further research could consider geographic variations and different time periods.

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