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Regional Financial Independence under Fiscal Decentralization: The Role of Local Own-Source Revenue and Transfer Funds in Gorontalo City

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Abstract:

Research aims:
This study aims to examine the effect of Local Own-Source Revenue (PAD) and Transfer Funds on regional financial independence in Gorontalo City within the framework of fiscal decentralization.
Design/Methodology/Approach:This study employs a quantitative approach using secondary data obtained from the Budget Realization Reports of the Gorontalo City Government during the period 2020–2024. Data were analyzed using multiple linear regression analysis supported by classical assumption tests, partial tests (t-test), simultaneous tests (F-test), and coefficient of determination (R^2).

Research findings:
The results indicate that Local Own-Source Revenue has a positive and significant effect on regional financial independence. Meanwhile, Transfer Funds have a negative but insignificant effect on regional financial independence. Simultaneously, Local Own-Source Revenue and Transfer Funds significantly influence regional financial independence. These findings suggest that the improvement of fiscal autonomy in Gorontalo City is primarily driven by the optimization of local revenue sources rather than dependence on intergovernmental transfers.

Theoretical contribution/Originality:
This study contributes to the fiscal decentralization literature by providing empirical evidence on the relationship between local revenue generation, transfer dependency, and regional financial independence at the municipal level. The study extends prior research by focusing on Gorontalo City and utilizing post-pandemic fiscal data from 2020–2024.

Practitioner/Policy implication:
The findings suggest that strengthening local own-source revenue is essential for enhancing regional financial independence. Given the insignificant contribution of transfer funds, local governments should reduce excessive dependence on intergovernmental transfers and explore innovative financing strategies to strengthen fiscal resilience and support sustainable regional development, particularly in the context of increasing fiscal constraints and budget efficiency policies.

Research limitation/Implication:
This study is limited to a single local government and a five-year observation period. Future studies are recommended to include a larger sample of local governments and additional fiscal variables to provide broader insights into regional financial independence, and should investigate alternative financing mechanisms, including creative financing approaches, to support regional fiscal sustainability and reduce dependence on transfer funds.

Keywords:
Local Own-Source Revenue; Transfer Funds; Regional Financial Independence; Fiscal Decentralization; Gorontalo City.

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Introduction

Fiscal decentralization has become a fundamental policy instrument for enhancing regional autonomy and improving the efficiency of public service delivery. In Indonesia, fiscal decentralization is implemented through the delegation of fiscal authority from the central government to local governments, allowing them to manage regional finances and utilize local resources to support development activities. The ultimate objective of this policy is to strengthen regional financial independence by encouraging local governments to generate sufficient revenue from their own economic potential while reducing excessive dependence on central government transfers.

Regional financial independence reflects the ability of local governments to finance governmental operations, public services, and development programs using locally generated revenues. A financially independent region is generally characterized by a strong capacity to mobilize Local Own-Source Revenue (PAD) and a relatively low dependence on intergovernmental transfer funds. Therefore, regional financial independence is often regarded as one of the key indicators of successful fiscal decentralization and regional autonomy.

Local Own-Source Revenue plays a crucial role in strengthening fiscal autonomy because it originates from regional economic activities, including local taxes, retributions, profits from regionally owned enterprises, and other legitimate local revenues. A higher contribution of Local Own-Source Revenue to total regional revenue indicates greater fiscal capacity and stronger financial independence. Conversely, transfer funds such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH) are designed to reduce fiscal disparities among regions and support the implementation of decentralization policies. Although transfer funds are important for financing regional development, excessive dependence on these funds may weaken fiscal autonomy and create long-term fiscal dependency.

The issue of regional financial independence remains an important concern in many developing countries, including Indonesia. Despite the implementation of fiscal decentralization for more than two decades, numerous local governments continue to rely heavily on transfer funds from the central government. This condition suggests that the expected outcome of fiscal decentralization—namely, stronger fiscal autonomy—has not been fully achieved. Similar challenges have also been observed in other countries where local governments face difficulties in expanding their own revenue base and strengthening fiscal capacity. Comparable findings have been documented internationally, where Tran and Nguyen (2024) found that revenue generation capacity significantly determines local fiscal independence across different country contexts.

The City of Gorontalo represents one of the regions where fiscal dependency remains relatively significant. Although Local Own-Source Revenue has shown a positive trend in recent years, its contribution to total regional revenue remains considerably lower than transfer funds. Data from the Regional Financial Agency of Gorontalo City indicate that transfer funds continue to dominate the regional revenue structure, while the realization of Local Own-Source Revenue often falls below the established targets. This condition raises concerns regarding the sustainability of regional financial independence and highlights the importance of optimizing local revenue sources.

Previous studies generally found that Local Own-Source Revenue positively contributes to regional financial independence. Studies conducted by Musviyanti et al. (2022) and Bahasoan (2024) reported that higher levels of local revenue strengthen fiscal capacity. However, empirical findings regarding the role of transfer funds remain inconclusive. Some studies suggest that transfer funds support regional development and

fiscal performance, while others argue that excessive dependence on transfer funds may weaken fiscal autonomy and discourage local revenue mobilization.

The inconsistency of previous findings indicates a research gap regarding the relationship between Local Own-Source Revenue, transfer funds, and regional financial independence. In addition, while several studies have examined the relationship between local revenue, transfer funds, and fiscal independence using large-scale panel data, such as the study by Kristanto et al. (2026), which examined 548 district/municipal governments in Indonesia during 2010–2021.

This study aims to examine the effect of Local Own-Source Revenue and Transfer Funds on regional financial independence in Gorontalo City. By providing empirical evidence from a municipal government context, this study contributes to the fiscal decentralization literature and offers practical insights for policymakers seeking to strengthen regional financial autonomy and improve local fiscal sustainability.

Literature Review and Hypotheses Development

Fiscal Decentralization Theory

Fiscal Decentralization Theory explains the transfer of fiscal authority from the central government to local governments in managing public resources and providing public services. According to Oates (1972), fiscal decentralization improves efficiency in public service delivery because local governments possess better information regarding local preferences and needs. Recent empirical studies also support the importance of fiscal decentralization in improving economic and governmental performance. Sima, Liang, and Qingjie (2023) found that fiscal decentralization contributes positively to economic growth in both developed and developing countries. Their comparative analysis of African and OECD countries suggests that greater fiscal authority enables local governments to allocate resources more efficiently and respond more effectively to local development needs. These findings reinforce the argument that fiscal decentralization can strengthen local fiscal capacity and support regional financial independence.

Through fiscal decentralization, local governments are expected to strengthen their financial capacity by increasing locally generated revenues while reducing excessive dependence on central government transfers.

In Indonesia, fiscal decentralization is implemented through a combination of Local Own-Source Revenue (PAD) and intergovernmental transfer funds. The effectiveness of fiscal decentralization can be assessed through the degree of regional financial independence achieved by local governments. Regions with stronger financial independence are generally more capable of financing development activities using their own revenue sources and are less dependent on fiscal support from higher levels of government.

Regional Financial Independence

Regional financial independence refers to the ability of local governments to finance governmental activities, public services, and development expenditures using revenues generated from their own economic resources. Financial independence reflects the success of regional autonomy and fiscal decentralization policies because it demonstrates the extent to which local governments can manage their finances without excessive reliance on external funding sources.

According to Halim (2021), regional financial independence is commonly measured through the proportion of Local Own-Source Revenue relative to total regional revenue or transfer funds. A higher level of financial independence indicates stronger fiscal capacity and greater autonomy in decision-making and development planning.

Local Own-Source Revenue (PAD)

Local Own-Source Revenue (PAD) represents revenues generated from local economic activities and regional authority, including local taxes, user charges (retributions), profits from regionally owned enterprises, and other legitimate local revenues. PAD serves as the primary source of locally generated funds and reflects the fiscal capacity of a region.

Theoretically, higher PAD enhances regional financial independence because local governments possess greater financial flexibility and reduced dependence on external funding sources. The ability to generate

revenue internally also reflects the effectiveness of local governance and the successful utilization of regional economic potential.

Several studies have reported a positive relationship between PAD and regional financial independence. Musviyanti et al. (2022) found that local revenue significantly strengthens regional fiscal autonomy in Indonesian local governments. Similarly, Bahasoan (2024) reported that PAD is a major determinant of regional financial performance and independence

H1: Local Own-Source Revenue positively affects regional financial independence in Gorontalo City.

Transfer Funds

Transfer funds are financial resources allocated by the central government to local governments as part of the fiscal equalization mechanism. These funds mainly consist of the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH). Transfer funds are intended to reduce fiscal disparities among regions and ensure adequate financing for public services and development programs.

Although transfer funds support local government finances, excessive dependence on these funds may weaken fiscal autonomy and discourage local governments from optimizing their own revenue sources. According to Boadway and Shah (2019), within the framework of fiscal federalism, long-term reliance on intergovernmental transfers may create fiscal dependency and reduce incentives for local revenue mobilization, ultimately undermining subnational fiscal autonomy.

Previous empirical studies provide mixed evidence regarding the role of transfer funds. On one hand, Musviyanti et al. (2022) found that general allocation funds positively affect the regional fiscal autonomy index, suggesting that transfer funds can enhance fiscal capacity and support regional development. On the other hand, Kristanto et al. (2026) reported that many local governments in Indonesia remain heavily dependent on central government transfers, indicating that excessive reliance on transfer funds is associated with lower levels of financial independence.

H2: Transfer Funds negatively affect regional financial independence in Gorontalo City

Previous Studies and Research Gap

Previous studies generally agree that Local Own-Source Revenue contributes positively to regional financial independence. However, empirical findings regarding transfer funds remain inconclusive. While some studies report positive effects due to increased fiscal capacity, others argue that transfer dependency weakens regional autonomy and reduces incentives for revenue generation.

Furthermore, most previous studies have focused on broader provincial or large-scale panel data contexts. For instance, Kristanto et al. (2026) examined 548 district/municipal governments in Indonesia during 2010-2021 using panel data. Comparable international evidence also supports the role of fiscal decentralization in improving local government performance; for example, Tran and Nguyen (2024) found that expenditure-based fiscal decentralization contributes positively to local government expenditure performance in Vietnam. However, limited evidence has examined whether transfer dependency contributes to or constrains regional financial independence in the post-pandemic fiscal environment, particularly at the municipal level.

Simultaneous Effect of Local Own-Source Revenue and Transfer Funds

Regional financial independence is influenced by both internally generated revenues and external fiscal support. Local Own-Source Revenue reflects fiscal capacity, whereas transfer funds provide additional financial resources for regional development. The interaction between these two revenue sources determines the overall fiscal structure and financial autonomy of local governments. Therefore, both variables are expected to jointly influence regional financial independence.

H3: Local Own-Source Revenue and Transfer Funds simultaneously affect regional financial independence in Gorontalo City.

Research Method

Research Design

This study employs a quantitative approach with an explanatory research design to examine the effect of Local Own-Source Revenue (PAD) and Transfer Funds on regional financial independence in Gorontalo City. The quantitative approach is appropriate because this study aims to test the causal relationship among variables using statistical analysis. The research is grounded in the Fiscal Decentralization Theory, which emphasizes the role of local fiscal capacity in achieving regional financial autonomy.

Research Period and Data

The data used in this study consist of quarterly financial data of the Government of Gorontalo City related to Regional Original Revenue (PAD), intergovernmental transfer funds (DAU, DAK, and DBH), and regional financial independence, as recorded in the Regional Budget Realization Reports (LRA) for the period 2020-2024.

This study employs a time-series secondary data analysis covering 20 quarterly observations (5 years × 4 quarters), consisting of:

1) Regional Original Revenue (PAD)
2) Intergovernmental transfer funds (DAU, DAK, DBH)
3) Regional financial independence ratio

Operational Definition and Measurement of Variables

This study involves three main variables:

1. Regional Original Revenue (PAD) (X1)

PAD is defined as all regional revenues originating from local sources, including local taxes, retributions, separated regional assets, and other legitimate local revenues. PAD reflects the fiscal capacity of a region in financing its development independently. Measurement: PAD is measured using realized PAD (in rupiah) for each quarterly observation.

2. Intergovernmental Transfer Funds (X2)

Intergovernmental transfer funds are funds sourced from the central government budget (APBN) transferred to regional governments to support fiscal decentralization. These consist of DAU, DAK, and DBH.Measurement: Transfer funds are measured using realized transfer funds (DAU + DAK + DBH) for each quarterly observation.

3. Regional Financial Independence (Y)

Regional financial independence refers to the ability of local governments to finance their expenditures using their own revenue sources without excessive reliance on central government transfers.

Measurement:

Regional financial independence is measured using the ratio of Local Own-Source Revenue (PAD) to Total Regional Revenue.

$$\text{Regional Financial Independence Ratio} = \frac{\text{PAD}}{\text{Total Regional Revenue}} \times 100\%$$

A higher ratio indicates greater regional financial independence.

Data Collection Technique

The data collection technique used in this study is documentation and literature study.

Documentation is conducted by collecting secondary data from official financial reports of the Gorontalo City Government, including:

- Regional Budget Realization Reports (LRA)
- Regional Budget (APBD)
- PAD realization reports
- Transfer fund reports (DAU, DAK, DBH)

Literature study is conducted by reviewing relevant sources such as academic journals, books, previous research, and regulations related to fiscal decentralization, PAD, and regional financial management.

Data Analysis Technique

This study uses quantitative statistical analysis with the assistance of SPSS software to examine the effect of independent variables on the dependent variable. The data analysis techniques include:

1. **Descriptive Statistics**
   Descriptive analysis is used to describe the characteristics of PAD, transfer funds, and regional financial independence based on minimum, maximum, mean, and standard deviation values.
2. **Multiple Linear Regression Analysis**
   Multiple linear regression is used to analyze the effect of PAD (X1) and intergovernmental transfer funds (X2) on regional financial independence (Y).
   The regression model is formulated as:

$$Y = a + b_1X_1 + b_2X_2 + e$$

   Where:
   - Y = Regional Financial Independence
   - a = Constant
   - b1 = Regression coefficient of PAD
   - b2 = Regression coefficient of transfer funds
   - X1 = PAD
   - X2 = Transfer funds
   - e = error term
3. **Classical Assumption Tests**
   To ensure the validity of the regression model, several classical assumption tests are conducted:
   - Normality Test: to test whether residuals are normally distributed
   - Multicollinearity Test: to test correlation among independent variables (Tolerance > 0.10; VIF < 10)
   - Heteroscedasticity Test: to test variance consistency of residuals
   - Autocorrelation Test: to test correlation between residuals over time (important for time series data)
4. **Hypothesis Testing**

   a. Partial Test (t-test)

   The t-test is used to examine the partial effect of each independent variable on the dependent variable.
   Decision rule:
   - Sig. < 0.05 → significant effect
   - Sig. ≥ 0.05 → not significant

   b. Simultaneous Test (F-test)

   The F-test is used to examine whether all independent variables jointly affect the dependent variable.
   Decision rule:
   - Sig. < 0.05 → significant
   - Sig. ≥ 0.05 → not significant

   c. Coefficient of Determination (R^2)

   The coefficient of determination is used to measure how well independent variables explain variations in the dependent variable.

$$0 \leq R^2 \leq 1$$

   A higher R^2 indicates a stronger explanatory power of the model.

Result and Discussion

Research Results

Descriptive Analysis

In the descriptive analysis, the average value, standard deviation value, minimum value and maximum value will be presented. Descriptive analysis aims to determine the development conditions of each variable being studied. According to Scott (2019), descriptive analysis is used to describe and summarize data characteristics through tables, graphs, averages, and other descriptive measures.

Regional Original Revenue

Table 1 presents the quarterly realization of Local Own-Source Revenue (PAD) in Gorontalo City during 2020–2024.

Table 1. Original Revenue of Gorontalo City

Year	Quarter	Target PAD	Realization	Percentage (%)
2020	Q1	60,231,741,290	58,915,724,290	97.82%
	Q2	62,510,182,480	61,194,167,480	97.89%
	Q3	61,675,996,320	59,359,977,320	96.24%
	Q4	62,542,845,760	58,226,830,760	93.10%
2021	Q1	30,033,481,000	25,467,400,032	84.80%
	Q2	30,949,923,550	26,220,512,150	84.72%
	Q3	28,430,845,950	24,038,032,400	84.55%
	Q4	29,495,899,500	25,195,276,200	85.42%
2022	Q1	71,630,514,453	56,722,250,732	79.19%
	Q2	74,146,956,800	55,275,362,860	74.55%
	Q3	70,327,879,352	54,392,883,110	77.34%
	Q4	70,392,932,752	58,350,126,910	82.89%
2023	Q1	89,266,225,070	85,089,163,684	95.32%
	Q2	91,782,667,450	85,842,275,810	93.53%
	Q3	87,963,590,256	83,359,796,060	94.77%
	Q4	88,028,643,350	86,317,039,870	98.06%
2024	Q1	95,599,154,570	83,067,121,250	86.89%
	Q2	98,115,596,950	81,620,233,425	83.19%
	Q3	94,296,519,752	80,737,753,600	85.62%
	Q4	94,361,572,800	84,694,997,410	89.76%
Average		**69,589,158,470**	**61,704,346,268**	**88.28%**
Std. Deviation		**23,959,361,840**	**22,276,318,892**	**7.21**
Minimum		**28,430,845,950**	**24,038,032,400**	**74.55%**
Maximum		**98,115,596,950**	**86,317,039,870**	**98.06%**

Table 1 presents PAD data in the city of Gorontalo for the period of 2020 - 2024. It can be seen that in 2021 PAD had experienced a drastic decline due to large-scale social restrictions (PSBB) to suppress the spread of Covid-19. This caused a considerable decrease in PAD in the city of Gorontalo in 2021. However, the lowest PAD achievement is precisely in 2022, which only ranges from 74% to 83%. During the period of 2020 – 2024, the realization of PAD was always lower than the revenue target, indicating that the Gorontalo city government has never managed to achieve/exceed the PAD target that has been budgeted during that period. This means that the Gorontalo city government must be more active in seeking regional revenue that is still potential in the Gorontalo city area.

Transfer Funds

Transfer funds to the regions are funds sourced from the State Budget which are allocated and distributed to local governments to finance the implementation of government affairs that are under the

authority of the regions. Table 2 presents the realization of Transfer Funds received by the Gorontalo City Government during 2020–2024. Transfer Funds constitute an important component of regional revenue and serve as a mechanism for supporting fiscal equalization and public service delivery across local governments.

Table 2. Gorontalo City Government Transfer Fund

Year	Quarter	Target Transfer Funds	Realization	Percentage (%)
2020	Q1	183,245,574,100	177,643,055,440	96.94%
	Q2	185,540,260,039	179,921,498,685	96.97%
	Q3	185,198,575,740	178,087,308,478	96.16%
	Q4	185,582,164,750	176,954,161,940	95.35%
2021	Q1	182,022,709,000	177,308,409,760	97.41%
	Q2	184,317,393,000	179,586,853,005	97.43%
	Q3	183,975,710,000	177,752,662,797	96.62%
	Q4	184,359,297,000	176,619,516,260	95.80%
2022	Q1	171,539,105,000	169,952,877,640	99.08%
	Q2	173,833,790,000	172,231,320,915	99.08%
	Q3	173,492,107,000	170,397,130,657	98.22%
	Q4	173,875,692,000	169,263,984,170	97.35%
2023	Q1	185,095,700,000	179,768,812,480	97.12%
	Q2	187,390,385,000	182,047,255,780	97.15%
	Q3	187,048,702,000	180,213,065,467	96.35%
	Q4	187,432,291,000	179,079,918,950	95.54%
2024	Q1	193,891,424,000	188,921,786,180	97.44%
	Q2	196,186,109,107	191,200,230,680	97.46%
	Q3	195,844,425,000	189,366,039,314	96.69%
	Q4	196,228,014,000	188,232,892,450	95.93%
Average		**184,804,971,387**	**179,227,439,052**	**97.00%**
Std. Deviation		**7,396,769,559**	**6,344,956,048**	**1.02**
Minimum		**171,539,105,000**	**169,263,984,170**	**95.35%**
Maximum		**196,228,014,000**	**191,200,230,680**	**99.08%**

Table 2 presents data on transfer funds received by the Gorontalo City Government during the period 2020–2024. The results indicate that transfer funds remained relatively stable throughout the observation period, although a slight decrease occurred in 2022. Despite this fluctuation, the realization of transfer funds consistently exceeded 95% of the targeted amount, indicating a high level of effectiveness in the disbursement of intergovernmental transfers to Gorontalo City.

Regional Independence

Regional financial independence refers to the ability of local governments to finance governmental activities, public services, and development programs using PAD. Table 3 presents the level of regional financial independence in Gorontalo City during the period 2020–2024. The ratio is calculated by comparing Local Own-Source Revenue (PAD) with total regional revenue, thereby reflecting the extent to which the local government can finance its activities independently.

Table 3. Regional Independence of Gorontalo City

Year	Quarter	Realization of PAD	Total Revenue	Independence (%)
2020	Q1	58,915,724,290	236,558,779,730	24.91%
	Q2	61,194,167,480	241,115,666,165	25.38%
	Q3	59,359,977,320	237,447,285,798	25.00%
	Q4	58,226,830,760	235,180,992,700	24.76%
2021	Q1	25,467,400,032	202,775,809,792	12.56%
	Q2	26,220,512,150	205,807,365,155	12.74%
	Q3	24,038,032,400	201,790,695,197	11.91%
	Q4	25,195,276,200	201,814,792,460	12.48%
2022	Q1	56,722,250,732	226,675,128,372	25.02%
	Q2	55,275,362,860	227,506,683,775	24.30%
	Q3	54,392,883,110	224,790,013,767	24.20%
	Q4	58,350,126,910	227,614,111,080	25.64%
2023	Q1	85,089,163,684	264,857,976,164	32.13%
	Q2	85,842,275,810	267,889,531,590	32.04%
	Q3	83,359,796,060	263,572,861,527	31.63%
	Q4	86,317,039,870	265,396,958,820	32.52%
2024	Q1	83,067,121,250	271,988,907,430	30.54%
	Q2	81,620,233,425	272,820,464,105	29.92%
	Q3	80,737,753,600	270,103,792,914	29.89%
	Q4	84,694,997,410	272,927,889,860	31.03%
Average		**61,704,346,268**	**240,931,785,320**	**24.93%**
Std. Deviation		**22,276,318,892**	**26,060,734,493**	**7.07**
Minimum		**24,038,032,400**	**201,790,695,197**	**11.91%**
Maximum		**86,317,039,870**	**272,927,889,860**	**32.52%**

Table 3 presents data on the independence of the Gorontalo city region for the period of 2020 - 2024. It can be seen that on average, the independence of the Gorontalo city area during the period of 2020 – 2024 only reached 24.93%. The highest independence achieved by the city of Gorontalo occurred in 2023, which was always above 30%. On the other hand, the lowest independence experienced by the city of Gorontalo occurred in 2021 which was always brought by 13%.

Classic Assumption Test

Before testing the hypothesis using multiple linear regression analysis, there are several regression assumptions that must be tested. Among them are the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

Normality Test

The assumption of normality is a very important requirement for testing the significance of the regression coefficient. If the regression model is not normally distributed, then the conclusion of the t-test is still doubtful, because the statistics of the t-test in the regression analysis are derived from the normal distribution. In this study, a single Kolmogorov-Smirnov sample test was used to test the normality of the regression model.The regression model is said to be normally distributed when the significance value of the *Kolmogorov-Smirnov* test is greater than 0.05 (Andy Field, 2009).

Table 2. Regression Model Normality Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		20
Normal Parameters, b	Mean	.0000000
	Std. Deviation	.52718603
Most Extreme Differences	Absolute	.127
	Positive	.127
	Negative	-.100
Test Statistic		.127
Asymp. Sig. (2-tailed)		.200c,d

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

In table 4, we can see the probability value (Asymp.sig.2-tailed) obtained from the Kolmogorov-Smirnov test of 0.200. Since the probability value in the Kolmogorov-Smirnov test is greater than the 5% error rate (0.05), it is concluded that the regression model is normally distributed.

Multicollinearity Test

Multicollinearity means that there is a strong relationship between some or all of the free variables in the regression model. If there is multicollinearity, the regression coefficient becomes indeterminate, the error rate becomes very large. In this study, *the value of variance inflation factors* (VIF) is used as an indicator of the presence or absence of multicollinearity among independent variables.

Table 3. Multicollinearity Test

Coefficient

Models		Collinearity Statistics	
		Tolerance	VIF
1	PAD	.845	1.184
	Transfer Funds	.845	1.184

a. Dependent Variable: Independence

Through the VIF value obtained as presented in table 5, it shows that there is no strong enough correlation between independent variables. This is shown by the VIF value of the two independent variables is still less than 5 and the tolerance value is greater than 0.2 so that it can be concluded that there is no multicollinearity between the two independent variables.

Heteroscedasticity Test

The purpose of the heteroscedasticity test is to test whether in the regression model there is an unevenness of the variance of residual values from one observation to another. A good regression model is that heterokedasticity does not occur. Heteroscedasticity testing was carried out using a formal method, namely through *the Glejser* test (Gujarati & Porter, 2009) by regressing independent variables to the residual absolute value.

Table 4. Heteroscedasticity Test

Coefficient

Models		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	10.950	51.093		.214	.833
	PAD	.241	.158	.377	1.525	.146
	Transfer Funds	-.637	2.027	-.078	-.314	.757

a. Dependent Variable: Absolut_residual

In the table 6 above, it can be seen that the significance value of the regression coefficient of the two independent variables to the residual absolute is still greater than 0.05. Thus, it can be concluded that heteroscedasticity does not occur in the regression model.

Autocorrelation Test

In the autocorrelation test, the Durbin-Watson test is used to determine whether there is an autocorrelation in the regression model, and the following are the Durbin-Watson values obtained through the results of the regression model estimation.

Table 5. Autocorrelation Test

Model Summaryb

Models	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.997a	.994	.994	.55733	.706

a. Predictors: (Constant), Transfer Funds, PAD

b. Dependent Variable: Independence

In table 7, the statistical value of the Durbin-Watson (D-W) regression result can be seen as 0.706, then from table d for the number of independent variables = 2 and the number of observations n = 20, the lower limit of the table value (dL) = 1.100 and the upper limit (dU) = 1.537 is obtained. Because the Durbin-Watson value (0.706) is smaller than the lower critical value (dL = 1.100), the result indicates a potential positive autocorrelation. Therefore, the regression results should be interpreted with caution.

Multiple Linear Regression Analysis

Multiple linear regression analysis was used to determine the form of functional relationship between PAD, and transfer funds with regional financial independence. Based on the results of processing using *IBM SPSS Statistics 26* software, the regression results of the influence of PAD, and transfer funds on regional independence were obtained as follows.

Table 6. Results of Linear Regression Analysis

Coefficient

Models		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-250.242	99.530		-2.514	.022
	PAD	15.765	.308	1.006	51.138	.000
	Transfer Funds	-4.447	3.948	-.022	-1.126	.276

a. Dependent Variable: Independence

Based on the *value of the unstandardized coefficients* (B) contained in table 8, the multiple linear regression equation can be formed as follows:

Regional Financial Independence = -250.242 + 15.765 PAD - 4.447 Transfer Funds

The coefficients contained in the equation can be interpreted as follows:

1. The constant value of -250.242 indicates the estimated level of regional financial independence when PAD and Transfer Funds are assumed to be zero. However, because such a condition is unlikely to occur in practice, the constant has limited substantive interpretation.
2. PAD has a positive coefficient of 15.765, indicating that an increase in Local Own-Source Revenue (PAD) is associated with an increase in regional financial independence. This finding suggests that higher PAD contributes to strengthening the fiscal autonomy of Gorontalo City.
3. Transfer Funds have a negative coefficient of 4.447, indicating an inverse relationship between transfer funds and regional financial independence. However, the relationship is statistically insignificant (p = 0.276), suggesting that transfer funds do not significantly affect regional financial independence in Gorontalo City.

Hypothesis Test

Furthermore, to answer the research hypothesis as proposed in chapter 2, testing was carried out through a partial test (t-test) and a simultaneous test (F-test). The statistical values of the t-test and F-test were obtained from the results of data processing using *IBM SPSS Statistics 26* software.

Partial Test (t-test)

The partial test (t-test) is used to test the influence of each independent variable (PAD and transfer funds) on regional independence. The statistical value of the t-test was obtained from the results of data processing using *IBM SPSS Statistics* 26 software as presented in the following table.

Table 7. t-test statistics on partial testing

Coefficient

Models		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-250.242	99.530		-2.514	.022
	PAD	15.765	.308	1.006	51.138	.000
	Transfer Funds	-4.447	3.948	-.022	-1.126	.276

a. Dependent Variable: Independence

The t-value of the table at the error rate of 5% (0.05) and the degree of freedom of 17 (n-sum variable) is 2.110.

A. The Influence of Regional Original Income on Regional Independence

The first partial hypothesis to be tested is the effect of PAD on regional independence with the following statistical hypotheses:

H0 : $\beta_1 = 0$: PAD has no effect on the independence of urban areas Gorontalo.

HA : $\beta_1 \neq 0$: PAD affects the independence of the Gorontalo city area.

In table 4.9, it can be seen that the value of the calculation of the influence of PAD on regional independence is 51.138 with a significance value of 0.000. The results obtained from the comparison of the tcount with the ttable were that the tcount was larger than the ttable (51.138 > 2.110) and the significance value was smaller than 0.05, so that at the 5% error rate it was decided to reject Ho and accept HA. Thus, it can be concluded that PAD has a significant effect on the independence of the Gorontalo city area. The results of this study provide empirical evidence that the larger the PAD will increase the financial independence of the Gorontalo city area.

B. The Effect of Transfer Funds on Regional Independence

The second partial hypothesis to be tested is the effect of transfer funds on regional independence with the following statistical hypotheses:

H0 : $\beta_2 = 0$: Transfer funds have no effect on the independence of the Gorontalo city area.

HA : $\beta_2 \neq 0$: Transfer funds affect the independence of the Gorontalo city area.

In table 9, it can be seen that the value of the calculation of the effect of transfer funds on regional independence is -1.126 with a significance value of 0.276. The results obtained from the comparison of $t_{calculation}$ with ttable were that the tcount was smaller than the ttable (-1.126 < 2.110) and the significance value was greater than 0.05, so that at the 5% error rate it was decided to accept Ho and reject HA. Thus, it can be concluded that transfer funds are not significant in affecting the financial independence of the Gorontalo city area.

Simultaneous Test (F Test)

```
H0: β1 = β2 = 0
PAD and Transfer Funds simultaneously do not affect regional financial independence.

Ha: At least one βi ≠ 0
PAD and Transfer Funds simultaneously affect regional financial independence.
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The simultaneous test (F test) was used to test the influence of the two independent variables (PAD and transfer funds) equally on regional independence with the following statistical hypothesis.

The statistical value of the F test was obtained from the results of data processing using *IBM SPSS Statistics* 26 software as presented in the following table.

Table 8. F-Test Statistics on Simultaneous Testing

Models		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	945.484	2	472.742	1521.920	.000b
	Residual	5.281	17	.311		
	Total	950.765	19			

a. Dependent Variable: Independence

b. Predictors: (Constant), Transfer Funds, PAD

In table 10, it can be seen that the value of Fcalculating the simultaneous influence of PAD and transfer funds on regional independence is 1521.92 with a significance value of 0.000. Then from table F for the significance level 0.05 and the free degree (df) 2 & 17 the Ftable value of 3.592 is obtained. Since the value of Fcal (1521.92) is greater than Ftabel (3.592), at a 5% error rate it is decided to reject H0 so that HA is accepted. So based on the results of the test, it can be concluded that PAD and transfer funds simultaneously have a significant effect on the independence of the Gorontalo city area.

Coefficient of Determination

The test results have proven that PAD and transfer funds simultaneously have a significant effect on regional independence. Furthermore, it will be calculated how much influence PAD and transfer funds simultaneously have on regional independence through the value of the determination coefficient. The value of the determination coefficient was obtained from the results of data processing using *IBM SPSS Statistics 26* software.

Table 9. Coefficient of Determination

Model Summaryb

Models	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.997a	.994	.994	.55733	.706

a. Predictors: (Constant), Transfer Funds, PAD

b. Dependent Variable: Independence

Through the R Square value of 0.994, it can be seen that PAD and transfer funds simultaneously contribute/influence of 99.4% to the financial independence of the Gorontalo city region. While the remaining 0.6% is influenced by other factors of PAD and transfer funds.

Discussion

Effect of Local Own-Source Revenue on Regional Financial Independence

The empirical findings reveal that Local Own-Source Revenue has a positive and statistically significant effect on regional financial independence. Therefore, Hypothesis 1 is supported.

This finding implies that the ability of local governments to generate revenue from local economic activities plays a crucial role in strengthening fiscal autonomy. Regions with higher PAD possess greater flexibility in financing public services and development programs without excessive dependence on external funding sources.

The result is consistent with Fiscal Decentralization Theory, which argues that local governments can achieve stronger financial independence when they effectively mobilize their own revenue sources. The finding also supports previous studies conducted by Musviyanti et al. (2022), Bahasoan (2024), which reported that local revenue optimization is one of the most important determinants of regional financial independence and fiscal autonomy.

From a practical perspective, the result suggests that the Gorontalo City Government should continue improving tax collection systems, enhancing revenue administration, and optimizing regional economic potential to increase locally generated revenue.

Effect of Transfer Funds on Regional Financial Independence

The results indicate that Transfer Funds do not significantly affect regional financial independence. Therefore, Hypothesis 2 is not supported.

Although Transfer Funds constitute a substantial portion of regional revenue, their contribution does not necessarily increase fiscal autonomy. This finding suggests that transfer funds primarily function as fiscal support mechanisms rather than instruments for strengthening long-term regional financial independence.

From the perspective of Fiscal Decentralization Theory, transfer funds are intended to reduce fiscal disparities among regions and ensure adequate public service provision. However, excessive reliance on transfer funds may create fiscal dependency and reduce incentives for local governments to expand their own revenue base.

The insignificant effect observed in this study may indicate that transfer funds received by the Gorontalo City Government have not yet been translated into sustainable improvements in fiscal capacity. Consequently, regional financial independence remains more dependent on the performance of Local Own-Source Revenue than on intergovernmental fiscal transfers.

Simultaneous Effect of Local Own-Source Revenue and Transfer Funds on Regional Financial Independence

The simultaneous test demonstrates that Local Own-Source Revenue and Transfer Funds jointly influence regional financial independence. Therefore, Hypothesis 3 is supported.

This result confirms that both internally generated revenues and externally sourced fiscal transfers are important components of regional finance. Together, they shape the fiscal structure and determine the ability of local governments to finance public expenditures and development activities.

However, the stronger influence of PAD compared to Transfer Funds indicates that sustainable regional financial independence can only be achieved when local governments strengthen their capacity to generate revenue independently. Transfer Funds may provide short-term fiscal support, but long-term fiscal sustainability depends primarily on the successful mobilization of local revenue sources.

Overall, the findings support the argument that fiscal decentralization can achieve its intended objectives when local governments actively optimize their revenue-generating capacity while reducing excessive dependence on central government transfers.

Conclusion and Implications

Conclusion

This study examines the effect of Local Own-Source Revenue (PAD) and Transfer Funds on regional financial independence in Gorontalo City within the framework of fiscal decentralization. The findings reveal that Local Own-Source Revenue has a positive and significant effect on regional financial independence, indicating that the ability of local governments to generate revenue from their own economic resources plays a crucial role in strengthening fiscal autonomy. In contrast, Transfer Funds have a negative but statistically insignificant effect on regional financial independence, suggesting that fiscal transfers primarily function as financial support mechanisms rather than determinants of long-term fiscal autonomy.

Furthermore, the simultaneous analysis demonstrates that Local Own-Source Revenue and Transfer Funds jointly influence regional financial independence. However, the stronger contribution of Local Own-Source Revenue highlights that sustainable fiscal independence is more likely to be achieved through the optimization of locally generated revenues than through continued reliance on central government transfers. These findings support the principles of Fiscal Decentralization Theory, which emphasize the importance of strengthening local fiscal capacity to achieve greater regional autonomy.

This study suggests that regional financial independence should be viewed as a measure of fiscal resilience rather than merely a fiscal ratio. The experience of Gorontalo City demonstrates that regions with stronger local revenue capacity are better positioned to maintain fiscal stability amid economic pressures and potential reductions in central government transfers. Therefore, enhancing local revenue generation should become a strategic priority for achieving sustainable regional development under the framework of fiscal decentralization.

Theoretical Implications

This study contributes to the fiscal decentralization literature by providing empirical evidence on the relationship between Local Own-Source Revenue, Transfer Funds, and regional financial independence at the municipal government level. The findings reinforce the argument that locally generated revenues remain the primary driver of fiscal autonomy, while transfer funds play a complementary role in supporting local government finances. The study also extends previous research by providing evidence from Gorontalo City using post-pandemic fiscal data.

Practical and Policy Implications

The findings of this study also highlight the need for local governments to diversify their financing strategies in response to fiscal constraints and budget efficiency policies. While strengthening local own-source revenue remains a priority, regional governments should also begin exploring innovative financing approaches to support development programs without increasing dependence on transfer funds. In the context of increasing fiscal pressures, budget efficiency policies, and uncertainty in intergovernmental transfers, local governments should not rely solely on conventional revenue sources. The findings of this study indicate the importance of exploring creative financing mechanisms, such as public-private partnerships, municipal asset optimization, and alternative financing schemes, to strengthen fiscal resilience and ensure sustainable regional development.

Research Limitations and Future Research

This study is limited to a single local government and a relatively short observation period from 2020 to 2024. In addition, the analysis only focuses on Local Own-Source Revenue and Transfer Funds as determinants of regional financial independence. It should also be noted that the very high R^2 value obtained in this study may partly reflect the definitional relationship between PAD and the regional financial independence ratio, as PAD constitutes a direct component of the independence measure. This methodological characteristic should be taken into account when interpreting the

strength of the relationship. Future studies are encouraged to include a larger sample of local governments, employ alternative measures of regional financial independence, or apply instrumental variable approaches to mitigate this issue, and incorporate additional variables such as capital expenditure, economic growth, investment, fiscal capacity, and government effectiveness. Comparative studies across municipalities and provinces may also provide a broader understanding of the factors influencing regional financial independence under fiscal decentralization.

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CONFLICTS OF INTEREST

The authors declare no conflict of interest. The authors are solely responsible for the design of the study, data collection, analysis, interpretation of findings, and manuscript preparation.

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