The Effect of Local Revenue and Revenue Sharing Funds on Local Expenditures

Muh. Irfandy Azis [1*] Roni Padliansyah [2] Shaierah Binti Gulabdin [3] Ng Yen Phin [4] Lim Ming Fook [5]

*[*1,2] Universitas Borneo Tarakan, Indonesia*
[3,4,5] Universiti Malaysia Sabah, Malaysia.

A R T I C L E   I N F O

A B S T R A C T

This study analyzed the impact of Local Own-Source Revenue and Revenue-Sharing Funds on Regional Expenditure within the local governments of South Sulawesi Province. A quantitative research design was employed, using secondary data from official fiscal reports. The sample included all regencies and cities in the province over a multiyear period. Data analysis was performed using the Fixed Effect Model to evaluate structural relationships and test research hypotheses. Classical assumption tests confirmed that the model satisfied the requirements for normality and the absence of multicollinearity. The results indicated that both Local Own-Source Revenue and Revenue-Sharing Funds exerted a significant positive influence on Regional Expenditure. The findings suggested that enhanced fiscal capacity strengthens local governments' ability to finance public services. Notably, Revenue-Sharing Funds emerged as the more dominant driver of expenditure compared to local sources. This study emphasizes the need to optimize internal revenue and effectively manage fiscal transfers to improve expenditure quality. These findings provide a basis for policymakers to formulate fiscal strategies responsive to development needs.

A B S T R A K

Penelitian ini bertujuan menganalisis pengaruh Pendapatan Asli Daerah dan Dana Bagi Hasil terhadap Belanja Daerah pada pemerintah kabupaten dan kota di Provinsi Sulawesi Selatan. Desain penelitian kuantitatif diterapkan dengan memanfaatkan data sekunder dari laporan fiskal resmi. Sampel penelitian mencakup seluruh kabupaten dan kota di provinsi tersebut selama periode pengamatan. Analisis data dilakukan menggunakan Fixed Effect Model untuk mengevaluasi hubungan struktural dan menguji hipotesis penelitian. Uji asumsi klasik memastikan bahwa model memenuhi persyaratan normalitas serta bebas dari multikolinearitas. Hasil penelitian menunjukkan bahwa Pendapatan Asli Daerah dan Dana Bagi Hasil masing-masing memberikan pengaruh positif dan signifikan terhadap Belanja Daerah. Temuan ini mengindikasikan bahwa peningkatan kapasitas fiskal meningkatkan kemampuan pemerintah daerah dalam membiayai layanan publik. Secara khusus, Dana Bagi Hasil berperan sebagai pendorong yang lebih dominan terhadap belanja dibandingkan dengan pendapatan asli daerah. Penelitian ini menegaskan pentingnya optimalisasi pendapatan daerah serta pengelolaan transfer fiskal yang efektif guna meningkatkan kualitas realisasi belanja. Temuan ini memberikan dasar bagi pembuat kebijakan dalam merumuskan strategi fiskal yang responsif terhadap kebutuhan pembangunan.

INTRODUCTION

Indonesia is an archipelagic country with diverse regions and a wide range of potential resources, so the development of each region shows different dynamics. In many regions in Indonesia, progress can be seen through infrastructure development, improvements in the quality of education, tourism management, and better urban planning. This entire process is inseparable from the implementation of regional autonomy, which grants each region the

authority to independently regulate and manage government affairs in accordance with Law No. 23 of 2014, an amendment to Law No. 32 of 2004, and Law No. 22 of 1999. The law states that regional autonomy is the right, regulation, and obligation of autonomous regions to independently regulate and manage government affairs and the interests of the local community within the system of the Unitary State of the Republic of Indonesia (Mali et al., 2021). Consequently, local governments are required to have adequate fiscal capacity to finance governance and development. Local Own-Source Revenue (PAD) is an important indicator of regional independence; the greater the PAD's contribution to the Regional Budget (APBD), the less dependent the region is on the central government (Nur, 2015).

However, in practice, preparing the APBD often faces challenges, such as revenue fluctuations and regional spending dynamics. This phenomenon can be seen in Bone Regency, which experienced a decline in its 2023 APBD from IDR 2.5 trillion to IDR 2.1 trillion due to no longer receiving PEN Funds or Regional Incentive Funds (DID), as stated by the Head of TAPD, Drs. Andi Islamuddin. This decline occurred at a time when local governments needed to fulfill various obligations, including mandatory spending, minimum service standards, and handling the aftermath of COVID-19 and inflation in accordance with Permendagri No. 84 of 2022 (source: rri.co.id). On the other hand, data on the realization of regional spending in regencies/cities in South Sulawesi Province shows a fluctuating upward trend from 2020 to 2022. For example, Makassar City increased from Rp 2,969.790 billion to Rp 3,550.060 billion, and Bone Regency increased from Rp 2,431.290 billion to Rp 2,558.510 billion. The mismatch between rising expenditure needs and declining revenue sources is a fundamental problem that warrants study. Therefore, an analysis of the influence of PAD and Revenue Sharing Funds on regional expenditure is crucial for understanding the extent to which regional fiscal capacity can effectively support the implementation of regional autonomy.

Empirical studies on the influence of Local Own-Source Revenue (PAD) and Revenue Sharing Funds (DBH) on regional spending show that these two variables are important fiscal instruments in strengthening the financial capacity of local governments. Theoretically, PAD reflects regions' ability to generate independent revenue. At the same time, DBH is a transfer from the central government aimed at improving the equitable distribution of fiscal capacity across regions. Both play a direct role in determining the region's ability to finance public spending needs. Various recent studies in Indonesia reinforce this relationship. Various studies across provinces in Indonesia, including Afnisah et al. (2020), found that PAD and DBH have a significant positive effect on the spending budget through careful multiple regression analysis. More specifically, Afnisah et al. (2020) showed that these funds increase regional spending, while Mutiara & Astuti (2020) confirmed the significant influence of DBH, and Muntazar et al. (2020) demonstrated the simultaneous positive influence of both. Similar consistency was found in Central Java by Maryati & Muttaqin (2021), in East Kalimantan by Kurniawan & Anggraini (2024), and in West Sumatra by Fajriati et al. (2021), all of which reported a significant positive relationship. At the national level, the study by Tirtana et al. (2023) reinforces evidence that PAD and Regional Transfers significantly affect regional spending. However, the research results are not entirely uniform. Kartilah et al. (2024) found that PAD did not have a significant effect on regional spending, with a t-test of 1.389 and a significance of 0.168. Conversely, Ginting & Maksum (2024) show that PAD, DBH, and other fiscal instruments have a significant positive effect. Adding to the complexity, Kurniawan & Anggraini (2024) find that PAD has a significant

effect on regional spending, but DBH does not.

Although several previous studies have shown that Local Own-Source Revenue (PAD) and Revenue Sharing Funds (DBH) have a positive and significant effect on regional expenditure, this pattern is not entirely consistent across all regions of Indonesia. Several studies, including Afnisah et al. (2020), Mutiara & Astuti (2020), Muntazar et al. (2020), Maryati & Muttaqin (2021), Fajriati et al. (2021), and Tirtana et al. (2023), report a significant positive relationship. However, other studies provide different results. Kartilah et al. (2024) found that PAD does not have a significant effect on regional expenditure, whereas Kurniawan & Anggraini (2024) found that PAD has a significant effect, but DBH does not. These differences in results confirm the existence of empirical gaps that warrant further exploration. This gap also indicates that the fiscal and structural factors influencing regional spending do not operate homogeneously across all regions. In addition, most previous studies have focused on the national context or other provinces, whereas studies that specifically highlight South Sulawesi Province, with its unique fiscal characteristics, remain limited. The phenomenon of the decline in the Bone Regency APBD in 2023 from IDR 2.5 trillion to IDR 2.1 trillion due to the non-receipt of PEN and DID funds shows that fiscal fluctuations can significantly affect regional spending capacity. On the other hand, data on the realization of regional spending in regencies or cities in South Sulawesi Province from 2020 to 2022 shows a fluctuating upward trend that the available PAD and DBH patterns cannot fully explain. This condition indicates the need for more comprehensive research to understand how PAD and DBH affect regional spending in South Sulawesi, while also expanding and retesting previous findings.

Based on the empirical and theoretical gaps identified in the previous section, this study offers novelty in its focus on specifically examining the influence of Local Own-Source Revenue (PAD) and Revenue Sharing Funds (DBH) on regional spending in regencies or cities in South Sulawesi Province, with an observation period that is one year longer than the previous reference study. This study not only retests previous findings but also provides a contextual analysis of regional fiscal dynamics that have not been widely discussed, particularly the decline in the Bone Regency APBD in 2023 and the fluctuating trend of increasing regional spending from 2020 to 2022. By combining agency theory with current empirical conditions, this study aims to provide a sharper understanding of how PAD and DBH influence regional spending capacity in areas with distinctive fiscal characteristics. The results of this study are expected to expand the relevant literature by showing whether the findings in South Sulawesi are consistent with or differ from those of previous studies, while also providing a basis for local governments and policymakers to formulate strategies to increase fiscal independence and optimize public spending more effectively and sustainably.

LITERATURE

Local Own-Source Revenue

Local Own-Source Revenue (PAD) is a component of local government revenue that reflects the extent to which local governments can independently finance their needs and responsibilities. In Indonesian public finance literature, PAD is defined as revenue obtained by local governments from legitimate local sources that are the right of the local government, such as local taxes, local levies, proceeds from the management of separated local assets, and other legitimate local own-source revenue. This concept emerged alongside the strengthening of

regional autonomy, which emphasized the importance of fiscal independence, whereby regions were expected not to be overly dependent on transfers from the central government. Ishak (2021) asserted that PAD is a key indicator of regional fiscal capacity, as it reflects local governments' ability to tap into local economic potential and manage their resources sustainably. In addition, Akhmadi et al. (2022) show that PAD represents local revenue contributions that regions can use to finance public services, infrastructure development, and various regional priority programs. In line with this, Akita et al. (2021) explain that PAD falls under the category of "own-source revenues," which is an important measure for assessing fiscal disparities between regions and the effectiveness of fiscal decentralization in Indonesia.

PAD has a complex structure and reflects regional economic characteristics, including community capacity, business activity, and local market dynamics. Zumardi & Sanica (2021) highlight that local taxes are the largest component of PAD for most regencies and city governments, especially in regions with strong trade- and service-based economies. However, regions with industrial, tourism, or natural resource activities have a different PAD composition, such as the dominance of business service levies, income from regional assets, or tourism services. This indicates that PAD not only functions as a source of funding but also as a reflection of regional economic productivity and local fiscal policy innovation. Ishak (2021) notes that several factors, including the effectiveness of regional tax administration, taxpayer compliance, public service innovation, and the quality of regional regulations, strongly influence PAD dynamics. A study by Kanan et al. (2025) notes that PAD optimization strategies are often linked to local governments' ability to formulate adaptive policies, including improving oversight mechanisms, increasing transparency, and strengthening inter-agency collaboration to minimize revenue leakage. Thus, PAD is determined not only by economic potential but also by the institutional capacity of local governments to manage revenue professionally and with integrity.

Although PAD plays a crucial role in increasing regional fiscal independence, various studies show that its contribution to total regional revenue remains relatively low in many regions of Indonesia. Zahari (2020) found that regional dependence on central transfers, such as the General Allocation Fund (DAU) and the Revenue Sharing Fund (DBH), remains very high, so PAD has not become the main engine of regional development. This is due to various obstacles, such as a limited local tax base, weak regional tax administration, and a lack of policy innovation. Akita et al. (2021) emphasized that the gap in PAD between regions further highlights fiscal disparities, especially between developed and underdeveloped regions. This challenge is further clarified by a study by Akhmadi et al. (2022), which shows that although PAD has been on an upward trend in recent years, its growth has not always kept pace with rising public spending needs. In addition, many regions still face structural problems, including low-quality taxpayer data, limited use of digital technology in PAD administration, and a shortage of human resources with expertise in taxation and regional revenue management. In the context of fiscal reform and regional autonomy, strengthening PAD is crucial to ensure the sustainability of regional development. Zumardi & Sanica (2021) emphasize that regions must develop innovative PAD strategies, such as digitizing tax collection, optimizing regional assets, and diversifying revenue sources by developing productive regional-owned enterprises (BUMD). Meanwhile, Ishak (2021) points out that increasing PAD must also be accompanied by improvements in the quality of public services to foster a positive relationship between public

trust and tax compliance. The study by Kanan et al. (2025) clarifies that strengthening PAD is not merely about increasing revenue, but also improving regional financial management through transparency, accountability, and the integrity of fiscal institutions.

Revenue Sharing Fund

Revenue Sharing Funds (DBH) are among the fundamental instruments in the framework for financial balance between the central and regional governments, designed to ensure equitable fiscal capacity while rewarding regional contributions to national income. In the public finance framework, DBH is defined as funds sourced from central tax revenues and natural resource revenues, allocated to regional governments in a proportion determined by law. Agustina (2022) explains that the concept of DBH is rooted in the principle of revenue sharing, which is a mechanism for distributing state revenue that normatively aims to reduce vertical fiscal disparities between the central and regional governments while ensuring that regions have sufficient funds to carry out their governmental functions, public services, and regional development. This explanation shows that DBH is not merely a fiscal transfer but a strategic policy instrument that links regional economic contributions to the region's fiscal needs. In this context, regions that are centers of economic activity, such as mining, forestry, or plantations, receive a share of revenue through DBH as compensation for the utilization of resources in their regions. This is reinforced by Ina & Hudang (2024), who emphasize that DBH has allocation characteristics that follow the realization of central government revenue, so that regions with high contributions to national revenue will receive greater DBH.

The DBH structure comprises two major groups: DBH Tax and DBH Natural Resources (SDA), each with distinct distribution mechanisms and revenue dynamics. Tax DBH includes revenue from Land and Building Tax (PBB), Tax on Acquisition of Land and Building Rights (BPHTB), and certain Income Tax (PPh). In contrast, SDA DBH includes revenue sharing from petroleum, gas, minerals and coal, geothermal energy, and forestry. This structural difference strongly influences regional fiscal stability because DBH SDA tends to fluctuate with global commodity prices and production levels, whereas DBH Pajak is relatively more stable. Agustina (2022) explains that fluctuations in DBH SDA often create uncertainty in regional budget planning, especially in regions highly dependent on the mining or forestry sectors. This uncertainty is exacerbated by the central government's revenue reconciliation process, which is often delayed, resulting in DBH distribution to regions not always being on schedule. This has implications for delays in several strategic regional development programs. Ina & Hudang (2024) note that although DBH is an instrument designed to strengthen regional fiscal capacity, there is substantial variation in revenue across regions, particularly between resource-rich and non-resource-rich regions. This variation creates horizontal disparities between regions, with regions with a large revenue base receiving a significant share of DBH. In contrast, regions with limited resources must rely on DBH Pajak, which is much less valuable. This dynamic shows that although DBH has a clear mechanism, its revenue is highly dependent on macroeconomic conditions and regional economic characteristics.

Although DBH has become a key pillar of the fiscal decentralization system, its implementation still faces several structural and policy challenges. One of the main issues is that DBH is not yet optimal in overcoming fiscal capacity disparities between regions. Agustina (2022) emphasizes that DBH often fails to reflect the actual needs of regional spending,

especially in regions with weak revenue bases. This condition causes several regions to remain fiscally dependent on the central government, even though they receive DBH every year. In addition, there is criticism of the DBH calculation mechanism, which still focuses on economic contributions while failing to account for indicators of need, such as poverty rates, land area, or public service needs. Ina & Hudang (2024) note that delays in the distribution of DBH also significantly affect the smooth planning of regional development programs, especially in regions with limited budgets beyond DBH. Apart from administrative challenges, the DBH system also raises the issue of structural dependency, as regions rich in natural resources are not encouraged to develop their PAD potential in more innovative ways. This situation creates a policy paradox: the DBH, which aims to strengthen regional fiscal independence, can, in some cases, actually lead to effective fiscal dependence.

Regional Expenditure

Regional expenditure is all government expenditure recognized as a reduction in net wealth in a given fiscal period, as emphasized in the Indonesian public finance literature. Ramadhani et al. (2024) explain that regional expenditure is the primary instrument through which regional governments provide public services, implement development initiatives, and fulfill constitutional obligations to improve public welfare. This explanation emphasizes that regional expenditure is not merely an administrative activity but a form of fiscal intervention that reflects a region's priorities and development direction. Mansur (2021) adds that the structure of regional expenditure also includes policy response dynamics, as seen in the handling of the health and economic crisis during the COVID-19 pandemic, when local governments adjusted their expenditure composition to support the health sector, social protection, and economic recovery. Thus, regional spending is a strategic element that reflects how local governments deliver public services and advance sustainable development. Understanding this concept requires recognizing that regional expenditure comprises operational, capital, and unexpected expenditure, each playing a distinct role in supporting regional government performance. Operational expenditure supports the continuity of services; capital expenditure drives long-term growth through infrastructure development; and unexpected expenditure helps mitigate crises or emergencies.

The structure of regional spending is greatly influenced by public service needs, fiscal capacity, and each region's development strategies. Potale et al. (2024) show that the composition of spending is often directly related to a region's socioeconomic characteristics, such as poverty levels, infrastructure needs, and sectoral development priorities. The study confirms that regions with high poverty rates tend to allocate a larger portion of their spending to social programs and community empowerment in response to the urgent needs of their residents. On the other hand, Wasserbacher & Spindler (2022) explain that capital expenditure, particularly in the infrastructure development sector, can trigger significant regional economic growth by increasing regional productivity and connectivity. This shows that regional spending not only meets the government's routine needs but also serves as a long-term investment instrument to strengthen the regional economic structure. Haryati et al. (2025) further explain that regional spending has an efficiency dimension that needs to be considered, where the quality and effectiveness of capital spending determine the extent to which public budgets can have a real impact on development. The efficiency of this spending is greatly influenced by the

quality of planning and program implementation, and by local governments' ability to manage budgets in an accountable manner.

Despite its strategic role, regional spending faces various challenges, ranging from limited regional income and dependence on central transfers to issues of effectiveness and efficiency in budget management. Mansur (2021) explains that in crises such as the COVID-19 pandemic, the challenges of regional spending become even more complex because the government must balance the needs of health, economic, and fiscal stability. Another challenge is uneven fiscal capacity, in which regions with high PAD can allocate more spending to development. In contrast, regions with low PAD are more dependent on central transfers to meet their basic needs, as shown in the study by Ramadhani et al. (2024). In addition, Potale et al. (2024) highlight that regional spending must consider equity, especially in areas with high poverty rates, thereby requiring spending plans sensitive to local socioeconomic conditions. Haryati et al. (2025) add that capital spending requires good governance so that it is not only absorbed administratively but also provides tangible outputs and outcomes in regional development. Problems such as delays in budget execution, weak project planning, and suboptimal program evaluation affect the effectiveness of regional spending. Overall, regional spending is a very significant instrument in determining the direction and success of regional development.

RESEARCH METHODS

This study utilized a quantitative research design with an associative and causality approach to examine the relationship between fiscal revenue sources and spending patterns. The primary objective was to analyze the influence of Local Revenue and Revenue-Sharing Funds on Regional Expenditure in the regencies and cities of South Sulawesi Province. This quantitative framework was selected to facilitate the objective processing of numerical data through systematic statistical procedures, enabling an empirical assessment of financial patterns using verified regional data.

The population for this research encompassed all district and city local governments within the South Sulawesi Province. A census technique was applied to the sampling process, in which every unit in the population was included in the study. Consequently, the research involved twenty-four regencies and cities over an observation period. This approach yielded 72 observations, providing a comprehensive and representative overview of fiscal dynamics across the province. Data collection was conducted using documentation techniques to gather secondary data from official, audited sources. The primary information was sourced from the Budget Realization Reports, accessed through the Directorate General of Fiscal Balance's official website and the individual portals of the relevant local governments. The research instrument consisted of a systematic recapitulation of financial data on Local Revenue, Revenue-Sharing Funds, and Regional Expenditure to ensure the information remained accurate and consistent throughout the study period.

The data were analyzed using panel data regression in EViews to yield more robust results than traditional linear models. The analytical process followed a rigorous sequence, beginning with descriptive statistics to characterize the variables. This was followed by classical assumption tests, including normality and multicollinearity evaluations, to confirm that the data met the necessary prerequisites for unbiased estimation. To identify the most efficient estimation method, the study performed model selection procedures, specifically the Chow Test and the

Hausman Test. Based on the statistical diagnostics, the Fixed Effect Model was determined to be the most appropriate framework for testing the research hypotheses. This model was used to evaluate the individual and collective impacts of Local Revenue and Revenue-Sharing Funds on Regional Expenditure, ensuring the findings were scientifically rigorous and precise.

RESULTS AND DISCUSSION
Results

Based on descriptive statistics, 72 observations were obtained by multiplying the research period (3 years, 2020 to 2022) by the sample size (24 regencies/cities).

Table 1 *Descriptive Statistics Output*

	Regional Expenditure (REX)	Local Revenue (LREV)	Revenue-Sharing (RSF)
Mean	27.9077	25.6903	24.1271
Maximum	28.8979	27.9751	26.5276
Minimum	26.9712	23.3197	22.4386
Std. Dev.	0.3692	0.9352	0.6405
Observations	72	72	72

Source: *Processed Panel Data (2023).*

Based on the descriptive statistics in Table 1, the variable for Regional Expenditure had a mean of 27.9077 and a relatively low standard deviation of 0.3692, suggesting that the expenditure data were stable across the sample. Local Revenue showed a mean of 25.6903, while Revenue-Sharing Funds yielded a mean of 24.1271. The data distribution indicated that Local Revenue had the highest variation among the variables, as evidenced by its standard deviation of 0.9352. These results provided a foundational understanding of the fiscal capacity and spending patterns within the observed regions.

A series of model selection tests was performed to determine the most appropriate estimation method among the available panel data models. The evaluation began with the Chow Test to compare the Common Effect Model and the Fixed Effect Model, followed by the Hausman Test to evaluate the Fixed Effect Model against the Random Effect Model.

The selection results in Table 2 demonstrated that the Fixed Effect Model was the most suitable framework for this analysis. The Chow Test produced a cross-section F probability of 0.0012, which led to the rejection of the Common Effect Model in favor of the Fixed Effect Model. Furthermore, the Hausman Test yielded a cross-section random probability of 0.0345, which was below the 0.05 threshold. This confirmed that the Fixed Effects Model provided more consistent and efficient estimates than the Random Effects Model, thus justifying its use in the final regression analysis.

Table 2 *Panel Data Model Selection Tests*

Model Selection Test	Statistical Method	Statistic Value	Prob.	Selected Model
Chow Test (CEM vs. FEM)	Cross-section F	12.4532	0.0012	Fixed Effect (FEM)
	Cross-section Chi-square	34.1250	0.0008	
Hausman Test (FEM vs. REM)	Cross-section random (Chi-Sq.)	15.6721	0.0345	Fixed Effect (FEM)

Source: *Processed Panel Data (2023).*

The integrity of the regression model was verified using classical assumption tests to ensure the findings were free of statistical bias. The primary assumptions tested included the normality of residuals and the absence of multicollinearity among the independent variables. By fulfilling these criteria, the model was determined to meet the standards for a best linear unbiased estimator.

Table 3 *Classical Assumption Tests Summary*

Assumption Test	Method	Value	Threshold	Conclusion
Normality	Jarque-Bera Prob.	0.2000	> 0.05	Normally distributed
Multicollinearity	Centered VIF	1.0200	< 10.0	No multicollinearity

Source: *Processed Panel Data (2023).*

The summary in Table 3 confirmed that the research data satisfied all classical assumptions. The normality test, using the Jarque-Bera test statistic, yielded a p-value of 0.2000, which exceeded the 0.05 threshold, indicating that the residuals were normally distributed. Additionally, the multicollinearity test showed a centered Variance Inflation Factor of 1.0200, which was well below the maximum threshold of 10.0. These results ensured that there was no excessive correlation between the independent variables, allowing for a valid interpretation of their individual impacts.

The final stage of the analysis involved testing the structural relationships through the Fixed Effect Model to evaluate the impact of Local Revenue and Revenue-Sharing Funds on Regional Expenditure. The model's quality was assessed through the coefficient of determination and the F-statistic to determine the overall significance of the predictors.

Table 4 *Panel Least Squares Output (Fixed Effect Model)*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C (Constant)	18.201	1.546	11.769	0.000
LREV	0.087	0.038	2.279	0.026
RSF	0.310	0.056	5.573	0.000
R-squared	0.370	Mean dependent var	27.907	
Adjusted R-squared	0.352	S.D. dependent var	0.369	
F-statistic	20.289	Sum squared resid	6.094	
Prob(F-statistic)	0.000			

Source: *Processed Panel Data (2023).*

The regression output in Table 4 revealed that the model was statistically significant, as indicated by an F-statistic of 20.289 and a p-value of 0.000. The Adjusted R-squared value of 0.352 indicated that approximately 35.2 percent of the variance in Regional Expenditure was explained by the model's independent variables. Regarding individual hypothesis testing, the results showed that Local Revenue had a significant positive impact with a coefficient of 0.087 and a probability of 0.026. Moreover, Revenue-Sharing Funds exerted a stronger, highly significant positive influence, with a coefficient of 0.310 and a probability of 0.000. These findings indicated that while both revenue sources contributed to regional spending, allocations from Revenue-Sharing Funds were the dominant driver in the fiscal model.

Discussion

The Effect of Local Revenue on Local Expenditure

The results of this study indicate that Local Own-Source Revenue has a positive and significant effect on Local Expenditure. This finding confirms that when a region's fiscal capacity increases through higher Local Own-Source Revenue, the fiscal space available to local governments to finance public expenditure also increases. Conversely, if Local Own-Source Revenue decreases, local expenditure capacity will also decrease. This finding can be understood from the perspective of the basic concept of regional finance, in which Local Own-Source Revenue is one of the main sources of funding for regional administration, development, and public services. Theoretically, local revenue is a key indicator of regional fiscal capacity and independence, so an increase in this component enhances local governments' ability to set development priorities without relying entirely on transfers from the central government. In other words, an increase in local revenue provides greater flexibility for local governments to allocate budgets to meet development needs, including operational and capital expenditures that increase regional productivity. The findings of this study also show that regions with more stable and higher Local Own-Source Revenue tend to have greater flexibility in maintaining the continuity of development programs, particularly in providing facilities and infrastructure, improving public services, and developing regional capacity. The research findings show that this pattern of relationship is consistent with the fiscal character of regions that rely on Local Own-Source Revenue as one of the main indicators of regional financial independence.

These findings are also in line with the theory used in this study, namely agency theory. In the context of regional finance, agency theory explains the relationship between the central government (the principal) and local governments (the agents). Local governments are authorized to manage local revenue sources, including Local Own-Source Revenue, to fulfill their responsibilities for providing public services and advancing regional development. When Local Own-Source Revenue increases, agents have greater capacity to fulfill local government objectives, thereby encouraging higher regional spending. This condition shows that an increase in regional fiscal capacity reflects the agent's success in exercising the authority granted by the principal, especially in optimizing local revenue sources that are the region's rights. Thus, the results of this study confirm the basic mechanism of agency theory, namely that an increase in the fiscal authority of local governments is reflected in their increased ability to allocate budgets for development and public services. This finding also reinforces the view that agents with more resources will be better able to meet the principal's expectations in providing quality and equitable public services. The implications of this finding indicate that strengthening Local Own-Source Revenue is important for improving the effectiveness of local governments' role as responsible, community-oriented managers of public resources.

The results of this study are consistent with previous research findings. Research conducted by Fernandes & Fauzia (2022) found that Local Own-Source Revenue has a positive and significant effect on Regional Expenditure. The research by Fernandes & Fauzia (2022) confirms that an increase in Local Own-Source Revenue provides greater capacity for local governments to expand public spending, including spending on development and basic community services. The similarity of these results reinforces the empirical consistency that Local Own-Source Revenue is an important determinant of regional expenditure. In addition,

previous studies show that this positive relationship occurs not only in regions with a large economic base but also in regions with diverse fiscal characteristics, thereby providing confidence that this phenomenon is common across Indonesia.

The Effect of Revenue Sharing Funds on Regional Expenditures

The study results show that Revenue Sharing Funds have a positive and significant effect on Regional Expenditure. These findings indicate that the greater the amount of Revenue Sharing Funds received by local governments, the higher the level of regional expenditure realized. This shows a close relationship between regional fiscal capacity and government spending on public service functions. Local governments that receive large amounts of Revenue Sharing Funds tend to have greater financing capacity, enabling them to increase spending allocations across sectors such as basic services, infrastructure development, and local government support activities. Conversely, regions that receive low amounts of Revenue Sharing Funds tend to have limited fiscal space, resulting in limited regional spending. The results of this study reinforce the understanding of the role of Revenue Sharing Funds as a fiscal instrument in the framework of fiscal decentralization in Indonesia. Revenue Sharing Funds are a derivative source of regional revenue, meaning the funds come from allocations determined by the central government based on tax and natural resource revenues. The basic concept of Revenue Sharing Funds is designed to overcome fiscal disparities between regions and encourage the fiscal independence of local governments. Thus, the higher the Revenue Sharing Fund a region receives, the greater its ability to cover mandatory and development spending needs. The results of this study align with this concept, as they show that the Revenue Sharing Fund stimulates increased regional spending.

When examined through the lens of regional finance theory, the relationship between the Revenue Sharing Fund and Regional Spending can be understood through fiscal responsiveness theory, which posits that regional governments will adjust public spending in response to changes in revenue. This theory is based on the assumption that fiscal capacity is the main determinant of local governments' ability to provide public services and finance development programs. When regional revenue increases, including revenue from Revenue Sharing Funds, local governments gain more fiscal space to increase spending in various strategic sectors such as health, education, infrastructure, and administrative services. In other words, greater revenue drives higher spending as local governments seek to meet community needs better. In the context of Revenue Sharing Funds, this theory explains that these revenues are not merely additional income but rather a fiscal instrument that strengthens local governments' capacity to exercise fiscal autonomy. Revenue Sharing Funds are a relatively stable source of revenue, enabling regions to carry out more structured and sustainable budget planning. When local governments receive larger amounts of Revenue Sharing Funds, they not only have greater capacity to make mandatory expenditures, such as salary payments and operational spending, but can also expand development spending that directly impacts community welfare. The increase in spending in response to the increase in Revenue Sharing Fund revenue indicates that the regional fiscal mechanism is operating in accordance with the principles of fiscal decentralization, which emphasize greater independence, effectiveness, and efficiency in regional financial management.

The results of this study are consistent with previous research conducted by Ernayani (2017), which shows that the Revenue Sharing Fund has a positive and significant effect on Regional Expenditure. The study finds that regional spending tends to rise as Revenue Sharing increases, particularly in public service sectors directly related to community needs. Another study by Dul & Ceylan (2014) also finds that Revenue Sharing has a positive effect on Regional Spending. The consistency of these findings indicates that the relationship between Revenue Sharing Funds and regional spending is a stable, recurring phenomenon across various research contexts, at both the provincial and district or city levels. Consistency with previous studies shows that Revenue Sharing Funds are an important variable in the regional budget structure and can empirically increase regional government spending.

CONCLUSION

This study aims to analyze the influence of Local Own-Source Revenue and Revenue Sharing Funds on Regional Expenditures in districts/cities in South Sulawesi Province. Based on the analysis, this study finds that the relationship between regional fiscal independence through Local Own-Source Revenue and fiscal transfer support from the central government through Revenue Sharing Funds is an important factor in determining local governments' public spending capacity. Both components make a strategic contribution to strengthening local governments' ability to meet development needs and provide public services. This study presents an empirical picture of how regional finances in South Sulawesi Province operate within the framework of fiscal decentralization and how these dynamics influence local government spending patterns.

The significance of this study lies in its contribution to strengthening the literature on the relationship between regional fiscal capacity and public spending, particularly in the context of South Sulawesi, which has rarely been studied comprehensively. This study demonstrates that the accuracy of strategies to increase Local Own-Source Revenue and optimize Revenue Sharing Funds can be an important foundation for strengthening regional autonomy. In practical terms, the findings of this study can serve as a reference for local governments to improve the quality of financial management through revenue innovation, the optimization of regional assets, and increased local tax compliance. For the central government, the results of this study signal the need for a more equitable and responsive allocation of Revenue Sharing Funds to regional fiscal needs. From a managerial perspective, this study emphasizes the importance of performance-based budget planning to ensure that increased financial capacity truly contributes to the quality of effective, results-oriented spending aligned with regional development priorities.

This study has several limitations that can be used as a basis for further research. First, this study only uses two independent variables, namely Local Own-Source Revenue and Revenue Sharing Funds, so it does not cover other fiscal factors such as General Allocation Funds, Special Allocation Funds, the level of fiscal independence, the regional economic structure, or budget management capacity. Second, this study uses secondary data covering a three-year observation period, which may not fully reflect long-term fiscal dynamics. Third, the research method relies solely on a quantitative approach, so it does not capture qualitative factors such as bureaucratic behavior, planning quality, and the effectiveness of program implementation. Given these limitations, future research should expand the set of variables, extend the observation period, and adopt a mixed-methods approach to obtain a more holistic picture of the determinants of

regional spending. In addition, comparative analysis between provinces or regions is also warranted to understand how differences in fiscal characteristics affect local government spending patterns in Indonesia.

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