

The Role of Local Governments in Optimizing Regional Original Revenue: A Role Theory Perspective on Fiscal Autonomy

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Abstract: Regional autonomy grants significant authority to local governments to manage regional potential and improve society's welfare. One of the indicators of the success of regional autonomy is fiscal independence in managing regional finances. Although decentralization policies have been implemented for a long time, local governments still rely on central funding for routine and regional development expenditures. The abundance of authority granted by the central government to local governments forms the basis for local government's decisions and actions in planning regional development and welfare through the optimization of regional original revenue (PAD). This study examines the strategic role of local governments in optimizing regional original revenue as a step toward fiscal independence. The study uses qualitative methods and descriptive techniques, applying Biddle and Thomas's role theory, which focuses on behavior, conflict, and ambiguity in roles. The results show that the role theory framework highlights the complexity of local government functions, where role conflicts and ambiguities hinder effective revenue management. Strengthening governance, improving administrative capacity, leveraging digital solutions, and enhancing public awareness are key to optimizing PAD collection. Clear role allocation and coordination among agencies are crucial to reducing dependency on central funding and ensuring sustainable regional development.

Keywords: Fiscal Independence, Local Governments, Optimization, Regional original Revenue, Role Theory

A. Introduction

Regional original revenue (PAD) is a critical component in the framework of regional autonomy in Indonesia, serving as a vital source of funding for local governments to enhance public services and promote economic growth. The enactment of Law Number 23 of 2014 has prioritized the enhancement of PAD to reduce reliance on central government transfers and bolster local financial independence (Ginting et al., 2019). This legislative shift reflects a broader trend towards decentralization, which aims to empower local governments to manage their resources and make decisions that align with their unique regional needs and priorities (Suwandi & Warokka, 2013). However, despite these efforts, the collection of PAD remains suboptimal across many

regions, indicating a significant gap in the realization of fiscal autonomy (Kwon, 2011). The challenges in optimizing PAD highlight the complexities local governments face in balancing the expectations of their constituents while adhering to central mandates, which often leads to a struggle to achieve fiscal independence (Sasana, 2019).

The importance of PAD cannot be overstated, as it directly influences the capacity of local governments to deliver essential services such as education, healthcare, and infrastructure development. A robust PAD allows local governments to reduce their dependency on central government transfers, thereby fostering a sense of autonomy and enabling them to respond more effectively to local needs (Suwandi, 2015). However, the current state of PAD collection reveals systemic issues that hinder its optimization. The existing tax structures may not be conducive to maximizing revenue generation, leading to inefficiencies and lost opportunities for local governments to enhance their financial independence.

The results of the regional fiscal independence review by the Financial Auditory Agency of Indonesia (BPK-RI) revealed that 458 out of 497 regencies/cities were still not independent in the 2019 Fiscal Year, which is approximately 92.15 percent. At least 102 regions had a Fiscal Independence Index (IKF) value below 0.05, indicating that regional original revenue (PAD) only covered 5 percent of regional expenditures, making these regions heavily reliant on transfer funds (BPK-RI, 2020). The contribution of regional original revenue to the total regional income nationally is still relatively low, ranging between 20 and 30 percent. Besides that, many local governments lack the necessary administrative capacity and technical expertise to effectively manage and collect local taxes and revenues (Thanh & Canh, 2020).

What remains unclear is the specific mechanisms and strategies that local governments can employ to effectively enhance their PAD amidst these challenges. While existing literature has explored the relationship between fiscal decentralization and economic growth, there is a lack of comprehensive studies focusing on the operational aspects of PAD optimization at the local level (Haryanto et al., 2023). Furthermore, the state of the art in this field indicates that while fiscal decentralization has been linked to improvements in public service delivery, it has also been associated with increased corruption risks, which can undermine the intended benefits of regional autonomy (Nguyena & Anwarb, 2011). The interplay between decentralization, governance, and fiscal performance is complex, and understanding these dynamics is crucial for developing effective strategies to enhance PAD.

The novelty of this study lies in its application of role theory to analyze how local governments perceive and enact their roles in optimizing PAD. Role theory posits that individuals and organizations operate within a framework of expected behaviors and responsibilities, which can significantly influence their actions and decision-making processes (Ganaie et al., 2018). By examining how local governments interpret their roles in the context of PAD optimization, this research aims to provide a fresh

perspective on the challenges and opportunities that local governments face in enhancing their fiscal autonomy. This approach not only contributes to the academic discourse on fiscal decentralization but also offers practical insights for policymakers seeking to improve local governance and financial management.

The contribution of this study is twofold. First, it aims to provide empirical evidence on the effectiveness of various strategies employed by local governments to enhance PAD, thereby contributing to the broader discourse on fiscal decentralization in Indonesia (Rosyadi et al., 2023). Understanding which strategies are most effective in different contexts can inform best practices and guide local governments in their efforts to optimize revenue generation. Second, it seeks to offer practical recommendations for policymakers to navigate the complexities of local governance and fiscal management, ultimately fostering greater fiscal independence (de Mello, 2011). By identifying successful approaches to PAD optimization, this study can help inform policy decisions that support local governments in achieving their financial goals.

In light of these considerations, the research question guiding this study is: "What strategies can local governments in Indonesia implement to optimize Regional original revenue (PAD) and achieve fiscal independence in the context of regional autonomy?" This question is critical for understanding how local governments can effectively navigate the challenges of fiscal decentralization and enhance their capacity to generate revenue.

B. Methods

In this study, we employed a systematic literature review approach to analyze the research problem concerning the optimization of Regional original revenue (PAD) in the context of regional autonomy in Indonesia. This method is particularly effective for gaining a comprehensive understanding of the concepts surrounding regional autonomy and local governments, including relevant theories, concepts, and prior research findings related to these topics. The literature review research method allows us to identify existing problems and solutions previously explored by researchers, as well as to pinpoint the weaknesses and limitations of these studies. This process aids in developing robust arguments and presenting precise and trustworthy information in our analysis.

We conducted a comprehensive search for relevant literature using academic databases such as Google Scholar, Science Direct, and Institutional Publications. The validated data were then organized thematically to facilitate comparison with relevant theories. The discussion of the study utilized role theory as proposed by Biddle and Thomas, which encompasses three dimensions: role behavior, role conflict, and role ambiguity. This theoretical framework was instrumental in analyzing how local governments perceive and enact their roles in optimizing PAD. The findings from the

literature review were analyzed through the lens of role theory, focusing on three main areas. Firstly, the urgency of optimizing PAD. Secondly, the various efforts undertaken by local governments to enhance PAD. And last, the three role aspects that influence the decisions and actions of local governments as authority holders in regional governance.

C. Results and Discussion

The Urgency of Optimizing Regional Original Revenue (PAD) to Achieve Regional Fiscal Independence

Based on data from the Directorate General of Fiscal Balance, it has been revealed that provincial governments, on a national aggregate, experienced an increase in deficit. The growth in the realization of revenue and expenditure in the regional budget from 2021 to 2022 showed a revenue increase of 1.95% while expenditures rose by 3.74%. Therefore, all regional governments in Indonesia are required to optimize their regional original revenue (PAD). A study by (Padang & Padang, 2023) underscores that regional original revenue (PAD) is the backbone of regional financing. Local governments rely on regional original revenue (PAD) to fund infrastructure projects, improve public services in the health and education sectors, and stimulate regional economic growth.

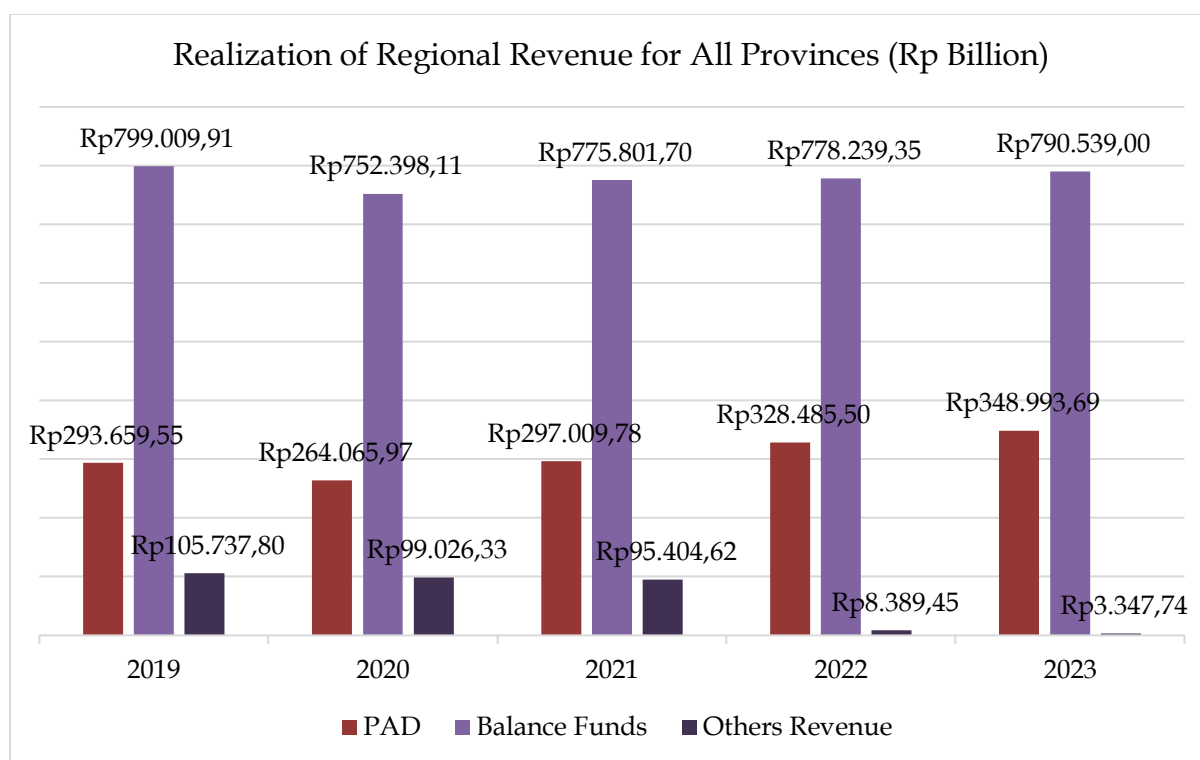
Research by (Asfar et al., 2021) confirmed that PAD significantly impacts economic growth through effective capital expenditure management. Empirical studies by (Ibrahim, 2023) and (Harmain & Tarmidi, 2024) show a strong positive correlation between PAD and key socioeconomic indicators, including economic growth, unemployment reduction, poverty alleviation, and improvements in the Human Development Index (HDI). To maximize its contribution, PAD revenue sources must be managed with professionalism and transparency, ensuring sustainable fiscal capacity for regional development.

In contrast, research by (Ichsan & Zurrahmi, 2022) found that PAD did not have a significant effect on economic growth across provinces whereas balanced funds from the central government have a positive effect. Similarly (Aziz et al., 2020) identified that PAD growth did not significantly influence overall economic growth, particularly in West Java Province, where local revenue remains volatile. The limited impact of PAD is attributed to suboptimal revenue management and ineffective governance, which hinder its role in regional fiscal sustainability.

The ability of local governments to increase regional original revenue (PAD) indicates the level of regional fiscal independence. Regional fiscal independence is determined by the contribution of regional original revenue (PAD) to total regional revenue (Alisman et al., 2019). A higher contribution of PAD to total revenue correlates with reduced dependence on central transfers, thereby enhancing regional stability against

economic uncertainties. This is supported by findings from (Hapsari et al., 2022) who argue that regions with greater fiscal independence are better positioned to manage economic shocks.

Figure 1 shows the development of regional income realization for all provinces from 2019 to 2023. It is known that the ratio of regional original revenue (PAD) to total income has a positive trend over the observation period, increasing from 24.50 percent in 2019 to 28.62 percent in 2023. The consistency of the growth in PAD reflects the efforts of local governments to increase the potential of their regional resources. However, the graph shows that a large portion of the funding for local governments still comes from balance funds from the central government. Despite having a negative trend, decreasing from 66.67 percent in 2019 to 64.84 percent in 2023, it still indicates a significant dependence of regions on central government assistance.



Sources: DJPK, Ministry of Finance Republic of Indonesia

Figure 1. Realization of Regional Revenue for All Provinces from 2019 to 2023

The dependence of regions on transfer funds from the central government will lead to instability in regional budget planning and implementation. Changes in fund allocation or delays in disbursement can disrupt the implementation of planned programs and projects. Additionally, suboptimal fund absorption can affect regional financial accountability (Mahi, 2005). Moreover, the dependence on central government transfers remains a significant challenge for local governments. As noted by (Hapsari et al., 2022) reliance on external funding can lead to instability in regional

budget planning and implementation, which can adversely affect the execution of development projects. This concern is echoed by (Sukmaadi & Marhaeni, 2021) who argue that unequal resource distribution exacerbates economic disparities among regions, hindering overall national development.

The allocation of resources from the central government in the form of balancing funds does indeed function to finance regional development activities. However, the distribution criteria often do not meet the specific needs of resource-deficient regions. Consequently, economic disparities are widening. Regions with more abundant resources continue to experience growth, while areas with limited resources struggle to build a solid economic foundation (Sulaeman & Silvia, 2019).

Role Perception of Local Governments in PAD Optimization

Based on Law No. 22 of 1999 on Regional Government states that the administration of autonomous regional governments by local governments and the Regional House of Representatives (DPRD) is according to the principle of decentralization. Local governments consist of regional heads (such as governors, regents, or mayors) and other regional apparatus. The term 'local government' is used to differentiate it from the central government, which has authority at the national level (Kuswandi et al., 2023). Local governments have the authority to regulate and manage government affairs in their respective regions, including managing regional original revenue (PAD) as a source of funding derived from local tax components and regional levies.

Through the role theory concept approach, a person's behavior is shaped by the expectations given by the community towards behavior that aligns with that role (Biddle, 1986). Local governments have the responsibility to meet the expectations of the central government and the community so that the region can be financially independent. In the context of local government, this theory helps provide an understanding of how interactions occur among various parties involved, such as local officials, the central government, and the community. This theory argues that the performance of individuals or organizations is greatly influenced by role clarity, expectations associated with that role, and how well these roles support each other (Prayudi et al., 2019).

According to (L. Agustina, 2009) the understanding, management, and execution of roles within an organization are influenced by three main aspects: role behavior, role conflict, and role ambiguity. In the context of regional original revenue, the effectiveness of local governments in optimizing revenue collection heavily depends on the clarity and consistency of the roles undertaken. The role theory approach in PAD optimization involves managing expectations through role behavior, mitigating role conflicts that can hinder local fiscal policies, and clarifying ambiguous roles to enhance the efficiency of local revenue governance.

Role behavior in local government reflects the responses of officials to the expectations attached to their functions, which directly affect the optimization of Local Own Revenue (PAD). Local governments act as regulators, facilitators, and economic drivers in managing their regions (Wardhono et al., 2012). As regulators, they formulate fiscal policies to increase local revenue. As facilitators, they provide infrastructure and create a conducive economic environment. As economic drivers, they develop regional potentials, such as tourism, agriculture, and creative industries, to enhance PAD contributions. A study by (K. A. K. Saputra et al., 2019) indicates that mapping regional economic potentials through research and development conducted by local governments can result in more effective revenue enhancement strategies. Therefore, support in the form of regulations, guidance, and training plays a crucial role in ensuring the effectiveness of fiscal administration and promoting regional development.

Torang (2014) defines role conflict as the experience of incongruent or contradictory expectations. This phenomenon arises when employees experience difficulty reconciling their responsibilities as organizational members with the demands of adhering to the organizational bureaucracy. In the context of local governments, this conflict is exemplified by the inherent tension between the need to enhance revenue streams for fiscal autonomy and the simultaneous imperative to provide high-quality, affordable public services. This conflict can negatively impact the performance of local government officials. Indeed, research indicates that role conflict exerts a substantial detrimental effect on the performance of government administrations (Regen et al., 2022).

Role conflict often precipitates role ambiguity within institutions, subsequently impacting productivity. This phenomenon is evident in Indonesia's management of Regional Original Revenue (PAD), which frequently exhibits legal ambiguities concerning the roles and functions of local government apparatus. The study of Malang City's parking management by (S. B. Agustina et al., 2024) provides a clear example. Their research revealed jurisdictional ambiguity, with parking levies falling under the Department of Transportation and parking taxes under the Regional Revenue Agency, creating potential for conflict and inefficiency.

A case study by (Kuswandi et al., 2023) conducted in Bekasi Regency identified overlapping duties and functions among various local government organizational units (OPD), resulting in an uneven workload distribution and potentially impaired organizational performance. These findings underscore the need for rigorous evaluation to inform policy design for bureaucratic reform. Clarifying roles within PAD management is crucial for optimizing its function and ensuring adherence to established standards.

Role conflict and ambiguity within the management of Regional Original Revenue (PAD) constitute complex governance challenges necessitating systemic

interventions. Achieving equilibrium between fiscal autonomy and the provision of high-quality public services requires a multifaceted approach encompassing the harmonization of fiscal policies, capacity building within administrative structures, enhanced public engagement, and rigorous bureaucratic evaluation. These strategies are essential to mitigate potential social instability arising from poorly coordinated tax policies and to ensure the sustainable and effective generation of PAD.

Key Challenges in PAD Collection and Fiscal Autonomy

Optimizing Regional Original Revenue (PAD) remains a critical issue in achieving fiscal autonomy. While local governments hold the authority to manage PAD, various systemic and operational challenges continue to hinder its effectiveness. Local governments face challenges such as limited administrative capacity, legal and regulatory constraints, and dependence on central transfers. A SWOT analysis of governance in Lampung Utara Regency by (Desyadi et al., 2023) reveals that external factors continue to dominate internal challenges in managing Regional Original Revenue (PAD). Revenue performance is hindered by inadequate transportation and communication infrastructure, low public awareness, weak oversight, and restricted accessibility linked to global economic dynamics.

Research conducted by (Muja'hidah & Syamsuddin, 2023) highlights the importance of feasibility studies in mapping the potential for local tax revenue as one of the main sources of PAD. These findings underscore critical challenges in the tax management system, particularly in optimizing untapped tax potential. These challenges include the complexity of tax officials' roles, lack of coordination among relevant institutions, and limited administrative capacity. A case study by (Rumagit & Rawung, 2015) in Minahasa Regency reinforces these findings, showing that the contribution of PAD to total regional revenue is still below the national and provincial averages. This condition indicates a high fiscal dependency on the central government, which can negatively impact regional independence in determining budget allocations and development priorities.

Another challenge faced by local governments is effective governance. Governance quality is a crucial factor in the success of regional original revenue collection. Research indicates that fiscal decentralization can create opportunities for corruption and rent-seeking that reduces the efficiency of local revenue management (N. A. A. Saputra & Setiawan, 2021). The empirical finding by (Syarif, 2023) further support this, the implementation of fiscal decentralization on expenditure increases corruption risks due to ineffective budget management, individual corrupt tendencies, and weak supervision system. Meanwhile, the equitable distribution of local income can bolster public trust and prosperity while mitigating corruption. The high local income of the regions should contribute to prosperity, so the local government must manage and supervise funds effectively to reduce the risk of corruption.

Dynamic environmental changes, globalization, advancements in information and communication technology, and the Industrial Revolution demand the acceleration of government and development performance, including the management of local revenue. Unfortunately, the utilization of technology in local revenue management has not yet shown significant increases in PAD. A study by (Saifuddin, 2020) found that the ratio between PAD realization and APBD realization in Lampung Province is still not optimal. E-government data shows an increase in technology adoption, but it has not had a significant impact on PAD. Therefore, a more comprehensive integration of technology is necessary to support innovation in the management of local revenue sources.

According to (Gupta et al., 2017) e-government initiatives, such as digital tax filing and blockchain-based transparency mechanisms, significantly improve tax compliance and reduce leakages in revenue collection. Furthermore, (Karsam & Budiandru, 2023) analyzes the correlation between taxpayer comprehension and awareness of fundamental taxation elements specifically, tax regulations, penalties, the role and function of tax authorities, and electronic filing systems and their subsequent impact on taxpayer compliance. This research demonstrates the positive influence of electronic filing systems on taxpayer compliance. Consequently, it underscores the need for enhanced taxpayer education regarding tax regulations and the development of robust and accessible electronic systems by the government.

Effective Strategies for PAD Optimization

According to (Firdausy, 2017), the optimization of regional original revenue can be achieved through four key strategies: (1) intensification and extension of PAD revenue sources, (2) improvement of administrative structure, (3) enhancement of human resource capacity, and (4) implementation of public outreach and socialization programs.

A study by (Sartika & Krisnanda, 2020) showed that steps to intensify and extend taxes can increase regional tax revenue. Tax intensification is carried out through the calculation of tax potential, outreach to the community, and the improvement of tax collection supervision and services. The study also explains that there are two efforts to extend regional taxes: first, by creating new local tax sources and taxpayers, and second, by creating investment policies and collaborations with the private sector, such as converting idle land, which will create new tax objects and taxpayers.

The intensification and extension of taxes serve as a stimulus for regional governments to explore cultural advantages and local economic potential. For instance, the DKI Jakarta government has leveraged the entertainment sector as a strategic revenue source to enhance regional original revenue, recognizing its significance in the daily lives of Jakarta residents. To strengthen tax compliance and efficiency, the Jakarta government collaborates with sub-district and village authorities to conduct

comprehensive data collection on entertainment tax objects. Additionally, it has expanded tax payment accessibility by partnering with Indonesian digital platforms such as Gopay, Tokopedia, and Bukalapak (A. Saputra & Rulandari, 2020). This indicates that tax intensification, supported by the strengthening of digital tax systems and public-private partnerships, serves as an effective strategy for optimizing PAD.

The second strategy is the change of administrative structure within local governments. Improving the administrative structure can be achieved by streamlining the bureaucracy, which involves reducing the number of structural officials and increasing the role of functional officials. This transformation will manage regional original revenue to become a more conducive, innovative, and fair tax environment. Research by (Syamsuardi, 2023) showed that the process of transforming regional apparatus from structural to functional positions results in good and continuously improving bureaucratic performance. This improvement in the administrative structure is expected to make a significant contribution to increasing regional original revenue.

Increasing human resource capacity becomes the third strategy in optimizing regional original revenue. Research recommendations by (Wardhono et al., 2012) emphasize that education and training need to be immediately followed up as efforts to innovate the tax collection system and improve the quality of regional original revenue managers. A case study (Pratama, 2019) on the BPPRD of Batam City reveals that they have designed programs focused on improving human resources, socialization, strict sanctions, and the installation of tax recording devices as efforts to optimize tax revenue for regional original revenue. Other research highlights that fulfilling the welfare aspects of regional revenue institutions in the form of salaries, collection fees, careers, and pension systems is a step in enhancing the capacity of regional revenue managers (Horota et al., 2017).

The final strategy focuses on understanding the community as both taxpayers and recipients of public services. When the community understands the importance of taxes and how they are used for development, they will be more conscious of fulfilling their tax obligations. Consequently, regional tax revenue will increase and can be used to build infrastructure, and public facilities, and improve community welfare. A study by (Amang & Selong, 2024) states that tax literacy through outreach and socialization activities to the community significantly affects taxpayer compliance. Thus, tax literacy has the potential to increase regional original revenue (PAD).

Journal results from community service activities (Litualy et al., 2023) show that through community service programs explaining taxes in general, tax literacy, and awareness of paying taxes have provided new knowledge for the community to be proactive in paying taxes. Thus, tax literacy can increase community participation in enhancing regional revenue, which subsequently contributes to improving community welfare.

However, some previous findings do not fully support the effectiveness of these strategies. For instance, a study by (Purnamawati et al., 2023) suggests that despite efforts to increase taxpayer awareness, compliance levels among micro, small, and medium enterprises (MSMEs) remain low during challenging economic times, such as the pandemic. This indicates that external factors may also play a significant role in taxpayer behavior, suggesting that strategies must be adaptable to changing circumstances.

Furthermore, while the literature emphasizes the importance of tax literacy, some studies indicate that awareness alone may not be sufficient to drive compliance. For example, research by (Wahyuni & Setiyawati, 2023) found that while taxpayer awareness positively influences compliance, it is often moderated by other factors such as perceived fairness and the effectiveness of tax administration. This underscores the need for a comprehensive approach that addresses not only awareness but also the broader context of taxpayer experiences and perceptions.

D. Conclusions

Optimizing Regional Original Revenue (PAD) is crucial for achieving fiscal independence, as many local governments remain heavily reliant on central transfers. This requires strategic policies and strong collaboration between local governments and communities. The effectiveness of PAD optimization is shaped by the complex roles of local governments as regulators, facilitators, and economic drivers. Role conflicts, arising from competing stakeholder demands, and role ambiguity due to unclear authority distribution, often hinder revenue management and efficiency. Key challenges in PAD collection and fiscal autonomy include weak governance, regulatory constraints, administrative inefficiencies, corruption, low taxpayer compliance, and limited technological adoption. Addressing these issues demands stronger governance, streamlined administration, digital integration, and enhanced public engagement. To enhance PAD, local governments must implement four core strategies: expanding and intensifying revenue sources, improving administrative structures, strengthening human resource capacity, and increasing public awareness. By ensuring clear role behaviors, resolving conflicts, and eliminating ambiguities, local governments can drive fiscal autonomy, reduce central dependency, and enhance regional economic resilience.

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