FISCAL CAPACITY, TAX POTENTIAL, AND REGIONAL REVENUE INDEPENDENCE IN PALANGKA RAYA

Oleh

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Untuk memperoleh gelar Magister
Program Magister Ilmu Ekonomi
Bidang Konsentrasi Perencanaan Pembangunan dan Keuangan Daerah

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LEMBAR PERSETUJUAN

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Palangka Raya, Juli 2026

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FISCAL CAPACITY, TAX POTENTIAL, AND REGIONAL REVENUE INDEPENDENCE IN PALANGKA RAYA

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Ditetapkan di : Palangka Raya
Tanggal : Juli 2026

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UCAPAN TERIMA KASIH

Puji Syukur kepada Tuhan Yang Maha Esa atas Rahmat dan Hikmatnya sehingga dapat diselesaikannya Jurnal Ilmiah yang berjudul ***"Fiscal Capacity, Tax Potential, And Regional Revenue Independence In Palangka Raya".*** Jurnal Ilmiah ini diajukan sebagai dari tugas akhir dalam rangka menyelesaikan studi dan meraih gelar Magister pada Program Magister Ilmu Ekonomi Universitas Palangka Raya.

Pada kesempatan ini penulis mengucapkan terima kasih kepada:

1. Rektor Universitas Palangka Raya Prof. Dr. Salampak Dohong, MS atas kesempatan yang diberikan kepada penulis untuk mengikuti dan menyelesaikan Pendidikan Program Magister di Universitas Palangka Raya.
2. Dekan Fakultas Ekonomi dan Bisnis Universitas Palangka Raya Bapak Dr.Sunaryo Neneng, SE., MP.
3. Drs. Benius, MM., Ph.D selaku Ketua Program Studi Magister Ilmu Ekonomi Fakultas Ekonomi dan Bisnis Universitas Palangka Raya;
4. Dr. Wiwin Zakiah, SE., MP., selaku dosen pembimbing I Penulis yang telah membantu penulis dalam memberikan pendalaman materi, pemahaman sistematika dan metode penelitian;
5. Dr. Alexandra Hukom, SE., M.Si. selaku Dosen Pembimbing II Penulis yang telah membantu penuis dalam memberikan pendalaman materi, pemahaman sistematika dan metode penelitian;
6. Dr. Harin Tiawon, SE., MP selaku Dosen Penilai yang telah memberikan saran dan masukan di penulisan Artikel Tugas Akhir penulis.
7. Bapak dan Ibu Dosen pada Magister Ilmu Ekonomi Fakultas Ekonomi dan Bisnis Universitas Palangka Raya;
8. Suami dan Anak-anak saya serta keluarga besar saya., Orang-orang yang pantang menyerah dalam memberikan doa dan dukungan di setiap Langkah perjalanan penulis dalam proses penyusunan Artikel Ilmiah ini;
9. Efi Susanti, S.Pd., M.Pd. Staf di Program Magister Ilmu Ekonomi yang telah banyak membantu penulis di Magister Ilmu Ekonomi Universitas Palangka Raya.

10. Semua pihak yang tidak dapat disebutkan satu persatu yang ikut serta dan membantu dalam penyelesaian penulisan Artikel Ilmiah Ini, terima kasih atas segalanya;

Akhirnya penulis meyadari masih banyak kekurangan dan kelemahan. Untuk itu saran dan kritik yang konstruktif akan sangat membantu agar Jurnal Ilmiah ini dapat menjadi lebih baik.

Palangka Raya, Juli 2026

LESLIANA VINITA

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DAFTAR GAMBAR

FISCAL CAPACITY, TAX POTENTIAL, AND REGIONAL REVENUE INDEPENDENCE IN PALANGKA RAYA

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DOI: https://doi.org/10.37641/jiakes.v13i6.4523

Abstract

Local own-source revenue independence is essential for achieving fiscal autonomy and sustainable local development. This study aims to examine the influence of fiscal capacity, regional tax potential, and financial governance on local own-source revenue independence. A quantitative approach was employed using 40 quarterly data points, and multiple linear regression was applied to measure the direct and simultaneous effects of the three variables. The findings reveal that all independent variables positively and significantly affect local own-source revenue independence, with local tax potential exerting the strongest influence. This highlights the importance of optimizing tax potential through effective administration, digitalization, and taxpayer compliance. In addition, sound financial governance, characterized by transparency, accountability, and efficiency, enhances the utilization of fiscal resources, thereby strengthening fiscal independence. Collectively, these variables explain 81% of the variance in local own-source revenue independence, indicating a robust model. The study concludes that increasing local tax potential, combined with effective governance mechanisms, is critical for reducing reliance on external transfers and promoting fiscal autonomy. Policymakers are encouraged to focus on tax system reform, enhancing fiscal management capacity, and improving governance to support sustainable local economic development.

Keywords: Fiscal Capacity, Fiscal Independence, Financial Governance, Local Own-Source Revenue, Regional Tax Potential.

I. INTRODUCTION

Local own-source revenue is a crucial aspect in the implementation of local autonomy, which grants local governments the authority to manage financial resources independently and sustainably (Tejaarief & Husni, 2025; Widiastuty, 2025). Indicators of local financial independence are reflected in the local own-source revenue ratio, which is the region's ability to finance government and development without relying heavily on transfer funds from the central government (Hartika & Putri, 2024). Palangka Raya City, as the capital of Central Kalimantan province, boasts significant natural resources and economic potential. However, reality shows that local financial independence remains relatively low and dependence on central transfer funds remains very high. This poses a significant challenge to strengthening independent and sustainable local development.

One of the main factors influencing the independence of Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) is local fiscal capacity, namely the region's fiscal ability to collect and manage its financial resources (Digdowiseiso & Saputra, 2022). Studies by Martinez and McNab (2003), Zakaria and Dede (2022), and Alfajrin et al. (2025) demonstrate that stronger fiscal capacity increases the potential for higher local ownsource revenue and greater fiscal independence. Strong fiscal capacity supports increased local revenue and strengthens the region's financial position in facing development challenges. Furthermore, the substantial potential of local taxes is a primary source of local own-source revenue, where optimizing local tax collection and management is key to increasing local revenue. Optimization of local taxes has been empirically proven as an effective strategy to strengthen local own-source revenue and local financial independence (Bryant et al., 2008; Bahl & Bird, 2008; Smoke, 2015; Winarto & Hanifah, 2025). Palangka Raya City, with diverse local economic potential such as tourism, trade, and natural resources, actually has a significant opportunity to develop its tax potential more optimally. Another equally important factor is local financial governance, which encompasses the principles of transparency, accountability, and effective financial management. Good governance not only increases public and economic trust in local government but also serves as a vital tool for improving the efficiency and effectiveness of local revenue utilization. Poor governance will hinder resource optimization and negatively impact the local own-source revenue independence ratio.

Empirical data show that despite efforts to increase independence by the Palangka Raya City Government through public awareness campaigns on tax obligations, digitizing tax services, and training human resource competencies, dependence on central government transfers remains high. The relatively low local financial independence ratio indicates the need for an in-depth analysis of the influence of fiscal capacity, local tax potential, and financial governance on the local own-source revenue independence ratio (Ayuningtyas et al., 2025). This analysis is crucial for obtaining a holistic picture of the factors that hinder and encourage local own-source revenue independence, while also offering strategic recommendations for improving the fiscal independence of Palangka Raya City.

The data on fiscal capacity, local tax potential, financial governance, and the local own-source revenue independence ratio in Palangka Raya City from 2020 to 2024 indicate consistent improvements across all indicators. Fiscal capacity, measured as local original income in billions of rupiah, rose steadily from 120 billion in 2020 to 162 billion in 2024. Local tax potential, which reflects the estimated collectible local tax capacity, also increased from 135 billion to 162 billion over the same period, showing expanding opportunities for revenue mobilization (Benitez et al., 2023). Financial governance, evaluated through a score index based on transparency, accountability, and effectiveness, improved from 75 in 2020 to 82 in 2024, signaling better quality in local financial management. In line with these developments, the local own-source revenue independence ratio, calculated as the percentage of local own-source revenue to total local income, grew from 42% to 53%. These trends, sourced from the local tax and retribution management agency and the Central Statistics Agency of Palangka Raya City for the 2020–2024 period, demonstrate strengthened fiscal management and optimization of fiscal resources, ultimately enhancing local financial independence and supporting sustainable local development.

Based on this foundation, this study aims to comprehensively examine the influence of fiscal capacity, local tax potential, and financial governance on the local own-source revenue independence ratio in Palangka Raya City. The results are expected to serve as a reference for local policymakers in developing more independent financial management strategies and contribute to the academic literature on local fiscal independence, particularly in the urban context of Indonesia.

II. LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Fiscal Capacity on Local Own-Source Revenue

Local own-source revenue independence reflects the ability of a local government to finance its governmental functions, development programs, and public services using internally generated revenue, without excessive reliance on central government transfers or external borrowing. This concept is closely linked to fiscal capacity, which represents a local government's ability to generate financial resources, commonly measured through the realization of local own-source revenue. A higher fiscal capacity indicates stronger revenue-generating potential, enabling local governments to reduce fiscal dependence and improve financial autonomy. According to Putri et al. (2013), the primary purpose of assessing local own-source revenue independence is to evaluate the extent to which local governments can perform their functions based on internal revenue rather than external financial support. In this context, fiscal capacity serves as a fundamental determinant of regional financial independence, as it directly influences the availability and sustainability of local revenue sources.

Fiscal capacity refers to a region's ability to generate revenue from sources within its jurisdiction, particularly local taxes and levies, which constitute the main components of local own-source revenue (Litvack et al., 1999; Shah & Boadway, 2006; Halim, 2013). A higher level of fiscal capacity enables regions to strengthen Local Own-Source Revenue and reduce dependence on central government transfer funds. Empirical evidence from Urip and Indahyani (2017) indicates that improved fiscal capacity allows local governments to allocate financial resources more efficiently for investment and the provision of public services. Moreover, effective fiscal management contributes to the optimal utilization of local revenue and enhances public trust in local government performance. Supporting this argument, Qadri et al. (2022) demonstrate that fiscal capacity has a significant positive effect on local own-source revenue independence. Their findings suggest that regions with stronger fiscal capacity are more capable of mobilizing internal resources, thereby reinforcing fiscal autonomy and promoting sustainable local development.

H1: Fiscal capacity has a significant effect on local own-source revenue.

The Effect of Regional Tax Potential on Local Own-Source Revenue

Local own-source revenue represents a critical indicator of regional fiscal autonomy, as it reflects the ability of local governments to finance public services and development activities using internally generated funds. One of the main determinants of this revenue is regional tax potential, which refers to the estimated maximum tax revenue that can be collected when local tax management is implemented optimally (Langford & Ohlenburg, 2015; Ering et al., 2016; Mawejje & Sebudde, 2019; Yossinomita et al., 2025). Regional tax potential serves as the foundation for enhancing local own-source revenue, given that local taxes constitute one of the primary pillars of local government income. The effective utilization of this potential depends on the capacity of local governments to identify taxable objects, expand the tax base, and design tax policies that align with regional economic characteristics.

The realization of regional tax potential is strongly influenced by taxpayer compliance, the effectiveness of tax administration, and the accessibility, transparency, and simplicity of tax services. Recent studies highlight the role of digitalization in tax collection systems as a key mechanism for reducing revenue leakage and improving transparency and monitoring (Kochanova et al., 2020; Bellon et al., 2022; Okunogbe & Pouliquen, 2022; He & Yi, 2023). Well-coordinated and closely monitored tax payment systems enable local governments to optimize tax collection outcomes, thereby increasing local revenue. Empirical evidence supports this relationship, as Nisa and Bahari (2022) find that local taxes have a significant effect on local own-source revenue. These findings suggest that optimizing regional tax potential plays a vital role in strengthening local own-source revenue and enhancing regional fiscal sustainability.

H2: Regional tax potential has a significant effect on local own-source revenue.

The Effect of Financial Governance on Local-Own-Source Revenue

Financial governance plays a central role in determining the effectiveness of local revenue management and the sustainability of local own-source revenue. Local financial governance refers to the mechanisms and processes through which local governments manage public finances in accordance with the principles of transparency, accountability, efficiency, and effectiveness (Said, 2021). Sound financial governance provides a structured framework for planning, implementing, and monitoring fiscal activities, thereby ensuring that locally generated revenues are managed responsibly. By promoting clear rules and oversight, good governance enhances the credibility of local governments and strengthens their ability to mobilize and utilize local own-source revenue in support of public services and development programs.

Empirical and theoretical studies emphasize that high-quality financial governance contributes directly to improved revenue outcomes. Good financial management increases public trust, which in turn encourages taxpayer compliance and supports the optimization of local own-source revenue. Fahriansyah (2022) highlights that effective financial governance can minimize the risk of budget leakage and misuse of funds, thereby maximizing the developmental impact of local revenue. In addition, financial transparency plays a vital role in building trust and confidence among stakeholders by ensuring that financial performance and fiscal positions are clearly communicated (Almaskar et al., 2025). Good governance practices, including timely financial reporting, comprehensive audits, and robust internal control systems, form a critical foundation for the optimal management of local own-source revenue and other fiscal resources. Consequently, strong financial governance reinforces local fiscal capacity and supports sustainable regional development.

H3: Financial governance has a significant effect on local own-source revenue.

Simultaneous Effect on Local Own-Source Revenue Independence

The local own-source revenue independence ratio indicates the percentage of local own-source revenue's contribution to total local revenue and is a key indicator of the region's ability to generate and manage its own fiscal resources (Saputra & Fernando, 2017; Prasetyo & Rahayu, 2019; Said, 2021). Regions with a high ratio demonstrate a greater capacity to finance development and public services without relying on central government transfers. The local own-source revenue independence ratio also reflects the effectiveness of tax management and other original local revenue sources. Regions thatremain highly dependent on central transfer funds tend to face greater fiscal risks and limitations in providing quality public services.

Various empirical studies have shown a positive and significant relationship between fiscal capacity and the local own-source revenue independence ratio. Apriyani (2021) emphasized that a region's ability to maximize its fiscal potential will increase local ownsource revenue, which contributes to strengthening the local own-source revenue independence ratio. Optimally managed regional tax potential can boost local revenue, thereby increasing the local own-source revenue independence ratio (Ministry of Finance, 2025).

In addition, good financial governance is highly important to ensure that all potential and resources owned by the region can be managed in a transparent and accountable manner (Ardiyanti & Supriadi, 2018; Mbipi et al., 2020; Fahriansyah, 2022). This not only increases revenue but also enhances public trust in local government, ultimately supporting the improvement of the local own-source revenue independence ratio. Thus, these three variables synergistically serve as the main pillars for strengthening local ownsource revenue.

H4: Fiscal capacity, regional tax potential, and financial governance simultaneously has a significant effect on the local own-source revenue.

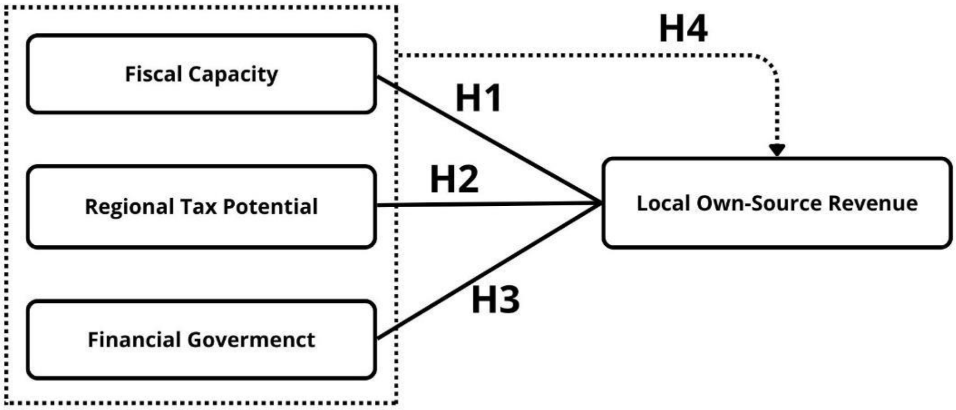

Figure 1. Conceptual Framework

Figure 1 illustrates the conceptual framework of this study, where fiscal capacity (H1), regional tax potential (H2), and financial governance (H3) are proposed to individually influence local own-source revenue. Additionally, these three variables are hypothesized to have a simultaneous effect on local own-source revenue, as represented by H4.

III. RESEARCH METHODS

This study employed a quantitative approach using a survey method combined with secondary data analysis to examine the causal relationships among fiscal capacity, regional tax potential, financial governance, and the local own-source revenue independence ratio. The quantitative approach was selected to ensure objective and systematic analysis of variable relationships, while the survey method facilitated data collection from official government documents, financial reports, and structured qualitative instruments related to financial governance. Statistical techniques were applied to empirically assess the influence of the independent variables on local fiscal independence in Palangka Raya City.

The study population comprised financial reports and data on local own-source revenue of Palangka Raya City covering the 2015–2024 period, treated as time-series data. Given the limited and complete availability of data for this ten-year period, total sampling was applied. In addition, officials and staff from the Local Tax and Retribution Management Agency (Badan Pengelola Pajak dan Retribusi Daerah/BPPKAD) and theLocal Financial and Asset Management Agency (Badan Pengelola Keuangan dan Aset Daerah/BPKAD) were involved as key informants to provide qualitative insights into financial governance practices through interviews and documentation.

The data used in this study consisted of both quantitative and qualitative components. Quantitative data included the realization of Local own-source revenue, regional tax potential, fiscal capacity, and the local own-source revenue independence ratio. These data were obtained from official local financial reports, particularly the Regional Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Daerah/APBD) and government financial accountability documents. Qualitative data were derived from information on local financial governance, collected through interviews with relevant officials, policy documents, and audit reports of local financial statements. Primary data sources were government institutions in Palangka Raya City, while secondary data were obtained from officially published documents and government databases.

Data collection employed documentation (secondary data from financial reports, budgets, and publications), semi-structured interviews with officials responsible for local financial governance (to gain practical insights into management and revenue administration), and indirect observation of financial and tax collection processes as supporting evidence. Variables were operationally defined as follows: Fiscal capacity as the Palangka Raya City government's revenue generation ability, measured by realized local own-source revenue (in billions of IDR); regional tax potential as the estimated maximum optimizable tax revenue, based on reports and actual realizations; financial governance as an index of transparency, accountability, efficiency, and effectiveness derived from interviews and audits; and local own-source revenue independence ratio as the proportion of local revenue to total regional income, reflecting fiscal independence (Susanti et al., 2016).

Data analysis was carried out in two stages. Descriptive analysis was used to illustrate the characteristics of all variables, followed by multiple linear regression analysis using IBM SPSS Statistics to test both partial and simultaneous effects. Model reliability was ensured through validity and reliability tests and classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation. To strengthen the quantitative findings, qualitative triangulation from interviews was applied, resulting in a comprehensive and reliable assessment of local fiscal independence in Palangka Raya City.

IV. RESULT AND DISCUSSION

IV.I RESULTS

Table 1 presents the results of the descriptive analysis for each variable observed in this study. Fiscal capacity and regional tax potential show minimum values of 28.5 and 30.0, respectively, with both reaching a maximum of 56.0. Their average values (42.3 and 42.7) indicate steady growth in local revenue-generating capacity. The financial governance index ranges from 65 to 83, with an average of 73.5, reflecting consistently improving governance quality. Meanwhile, the local own-source revenue ranges from 27.0 to 44.1, with a mean of 35.8. These descriptive results demonstrate that increases in fiscal capacity, regional tax potential, and financial governance quality collectively contribute to the improvement of local own-source revenue.

Table 1. Descriptive Analysis Test

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Fiscal Capacity (X1)	40	28.5	56.0	42.3	7.2
Regional Tax Potential (X2)	40	30.0	56.0	42.7	7.0
Financial Governance (X3)	40	65	83	73.5	5.3
Local Own-Source Revenue (Y)	40	27.0	44.1	35.8	5.1

The classical assumption tests demonstrate that the data used in this study meets the requirements for multiple linear regression analysis. The normality test using the Kolmogorov–Smirnov method shows that the residuals are normally distributed ($p > 0.05$). The multicollinearity test indicates that all independent variables have VIF values below 5, confirming the absence of multicollinearity. The heteroscedasticity test based on the scatter plot shows no visible pattern of changing variance, meaning heteroscedasticity is not present. Furthermore, the Durbin–Watson value of 1.94, which is close to 2, indicates that there is no autocorrelation in the model. These results confirm that the regression model is valid and reliable for explaining the relationship between fiscal capacity, Regional Tax Potential, financial governance, and the Local Own-Source Revenue independence ratio.

Table 2. Results of Regression Coefficient Test

Variable	Coefficient B	Std. Error	T-Statistic	T-table (5%)	Sig.
Contant	2.15	0.85	2.53	2.02	0.015
Fiscal Capacity	0.35	0.08	4.38	2.02	0.000
Regional Tax Potential	0.40	0.10	4.00	2.02	0.000
Financial Governance	0.20	0.07	2.86	2.02	0.007

Based on Table 2, the regression equation used in this study can be expressed as $Y = 2.15 + 0.35X_1 + 0.40X_2 + 0.20X_3$. In this model, Y represents the local own-source revenue independence ratio, while X_1 denotes fiscal capacity, X_2 refers to regional tax potential, and X_3 represents financial governance. This equation indicates that fiscal capacity, regional tax potential, and financial governance are all positively associated with the level of local own-source revenue independence.

Positive regression coefficients on the three independent variables indicate that increased fiscal capacity, regional tax potential, and financial governance will enhance the local own-source revenue independence ratio. The partial test results (t-test) show that all independent variables significantly influence the PAD Independence Ratio, with tcount values of X1 = 4.38, X2 = 4.00, and X3 = 2.86 ($p = 0.000 < 0.05$). These findings indicate that fiscal capacity, regional tax potential, and financial governance each have a significant partial effect on local own-source revenue independence.

Table 3. R Square and F-Statistic Test

Test	Value
F-Statistic	56.78
P-value	0.000
R Square	0.81

Table 3 shows that the simultaneous test (F-test) further confirms this relationship, where the F-count value of 56.78 exceeds the F-table value of 2.87 with a significance level of $0.000 < 0.05$, demonstrating that the independent variables collectively have a significant effect on the local own-source revenue independence ratio. Additionally, the coefficient of determination (R Square = 0.81) indicates that 81% of the variation in local own-source revenue independence can be explained by fiscal capacity, regional tax potential, and financial governance, while the remaining 19% is influenced by other factors outside the model.

The analysis highlights that fiscal capacity plays a crucial role in strengthening local financial resources and reflects a region's ability to collect its own revenue. Optimizing regional tax potential significantly boosts the local own-source revenue independence ratio through effective tax policy and improved compliance, and strong financial governance enhances transparency, accountability, and efficiency, ultimately increasing the effectiveness of local own-source revenue management.

Data triangulation from interviews with officials from the local tax and retribution management agency and the local financial and asset management agency indicates that the increase in fiscal capacity stems primarily from improvements in the tax administration system and enhanced taxpayer compliance. Officials emphasized that the modernization of tax services, digitalization of payment systems, and stricter monitoring mechanisms have collectively strengthened the region's ability to optimize revenue collection. Financial governance has also improved significantly with the implementation of e-budgeting, performance-based budgeting, and more transparent financial reporting procedures, which help ensure accountability and reduce the potential for budget misuse.

These qualitative insights reinforce the findings of the quantitative analysis, which showed a significant positive relationship between fiscal capacity, regional tax potential, financial governance, and the level of local revenue independence. Together, these results suggest that administrative reforms, technological integration, and stronger governance frameworks play an essential role in increasing the local own-source revenue independence ratio.

IV.II DISCUSSION

The analysis results show that fiscal capacity has a positive and significant effect on the independence ratio of local own-source revenue in Palangka Raya City. This aligns with Halim's (2013) theory, which states that fiscal capacity is the ability of a local government to collect local revenue sources to finance governmental and developmental activities. Increased fiscal capacity reflects improvements in the management of local financial resources, including the optimization of taxes, levies, and other sources of revenue. The study by Nurrahmadani et al. (2024) also found that strong fiscal capacity contributes to higher local financial independence, supporting the findings of this research, which indicate that effective fund management plays a crucial role in strengthening the region's independent financial position.

Regional tax potential was found to have a significantly stronger positive effect on the Local own-source revenue independence ratio than the other variables. This finding aligns with the Ministry of Finance's (2025) review, which states that effective tax potential management through improved compliance and the implementation of digital technology can optimally increase local tax revenue. Research by Devita (2022) and Gautama et al. (2022) also shows that well-managed regional tax potential significantly drives the growth of local own-source revenue, ultimately reducing dependence on central transfer funds. This confirms that innovations in exploring tax potential, such as maintaining an up-todate taxpayer database, applying an effective monitoring system, and strengthening public tax education, are key to achieving local fiscal independence.

Financial governance that encompasses transparency, accountability, and efficiency has also been proven to significantly increase the local own-source revenue independence ratio. Fahriansyah (2022) emphasized that good financial governance helps minimize leakage, misuse, and inefficiency in the management of local financial resources. In the context of Palangka Raya City, the strengthening of governance through the implementation of e-budgeting, timely financial reporting, and routine internal audits has increased public and stakeholder trust in local financial management. The study by Oki et al. (2020), which demonstrated a positive correlation between the quality of financial management and local fiscal independence, further supports the findings of this research. The results indicate that financial governance is not merely a managerial element but a strategic foundation for achieving long-term local fiscal sustainability.

Multiple linear regression results show that fiscal capacity, regional tax potential, and financial governance jointly explain 81% of the variation in the local own-source revenue independence ratio, indicating that these factors mutually strengthen Palangka Raya City's fiscal autonomy. Fiscal capacity and tax potential contribute directly to revenue generation, while financial governance ensures that revenue is managed transparently, efficiently, and effectively

(Chugunov et al., 2020). Consistent with Litvack et al. (1999), optimizing fiscal potential supported by strong governance is crucial to reducing dependence on central transfers within the framework of local autonomy.

These findings suggest that the Palangka Raya City Government must enhance fiscal capacity through improved financial and tax management skills, digital tax systems, and policies that promote taxpayer compliance. Maximizing tax potential requires increased public awareness and firm law enforcement, while strengthening financial governanceespecially transparency, accountability, and oversight is essential for sustaining public trust and ensuring long-term local financial independence (Kumar, 2024).

The results emphasize that achieving local fiscal independence is a multidimensional process that relies on increasing fiscal resources while ensuring high-quality governance. Through the synergy of these three factors, Palangka Raya City can build a more independent and sustainable financial foundation to support optimal development and public service delivery. The policy implications can be summarized as follows. First, fiscal capacity must be strengthened through improved tax administration, digitalization, and training for financial and tax staff. Second, regional tax potential should be optimized by accelerating taxpayer registration, enhancing tax awareness and compliance, enforcing tax regulations, and expanding digital and transparent tax services. Third, financial governance must be improved through stronger internal controls, consistent transparency and accountability, and effective internal audits. Fourth, policies must be evidence-based, supported by continuous monitoring and evaluation of tax and financial performance.

Fifth, multistakeholder collaboration between government, businesses, and the public is essential to support revenue optimization and sustainable financial management. The core implication is that increasing fiscal capacity, optimizing tax potential, and strengthening financial governance are crucial to improving the local own-source revenue independence ratio and achieving sustainable local fiscal autonomy.

V. CONCLUSION

This study concludes that fiscal capacity, regional tax potential, and financial governance both simultaneously and partially exert a positive and significant influence on the local own-source revenue independence ratio of Palangka Raya City. The strongest influence comes from regional tax potential, demonstrating that tax innovation, optimization, and compliance improvement are more decisive than fiscal capacity and governance alone. The findings also show that modern financial governance supported by digitalization and transparency enhances the effectiveness of local revenue management. Collectively, the three variables explain 81% of the variation in the local own-source revenue independence ratio, indicating that fiscal independence is best achieved through an integrated approach involving resource strengthening, tax optimization, and accountable governance. The results imply that local governments should prioritize strengthening tax potential through digital tax systems, updated taxpayer databases, and stricter compliance enforcement. Improvements in human resource capacity for fiscal management and the expansion of transparent, technology-based financial governance are equally vital to increasing local fiscal independence.

His study is limited by its reliance on quantitative secondary data covering only ten years and a single local scope. The qualitative component, although supportive, is limited in depth because interviews involved only selected officials. External factors such as national fiscal policy, economic shocks, and administrative reforms were not included in the regression model, potentially influencing the unexplained 19% of variation. Future studies could incorporate broader local comparisons, additional variables such as economic growth or investment climate, and longitudinal qualitative assessments to deepen understanding of governance practices. Expanding digital governance indicators and integrating machine-learning forecasting models may also provide more accurate predictions of Local Own-Source Revenue performance.

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Fiscal Capacity, Tax Potential, and Regional Revenue Independence in Palangka Raya

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Submitted:
NOVEMBER 2025

Accepted:
DECEMBER 2025

ABSTRACT

Local own-source revenue independence is essential for achieving fiscal autonomy and sustainable local development. This study aims to examine the influence of fiscal capacity, regional tax potential, and financial governance on local own-source revenue independence. A quantitative approach was employed using 40 quarterly data points, and multiple linear regression was applied to measure the direct and simultaneous effects of the three variables. The findings reveal that all independent variables positively and significantly affect local own-source revenue independence, with local tax potential exerting the strongest influence. This highlights the importance of optimizing tax potential through effective administration, digitalization, and taxpayer compliance. In addition, sound financial governance, characterized by transparency, accountability, and efficiency, enhances the utilization of fiscal resources, thereby strengthening fiscal independence. Collectively, these variables explain 81% of the variance in local own-source revenue independence, indicating a robust model. The study concludes that increasing local tax potential, combined with effective governance mechanisms, is critical for reducing reliance on external transfers and promoting fiscal autonomy. Policymakers are encouraged to focus on tax system reform, enhancing fiscal management capacity, and improving governance to support sustainable local economic development.

***Keywords**: Fiscal Capacity, Fiscal Independence, Financial Governance, Local Own-Source Revenue, Regional Tax Potential.*

ABSTRAK

Kemandirian pendapatan asli daerah sangat penting untuk mencapai otonomi fiskal dan pembangunan lokal yang berkelanjutan. Penelitian ini bertujuan untuk menganalisis pengaruh kapasitas fiskal, potensi pajak daerah, dan tata kelola keuangan terhadap kemandirian pendapatan asli daerah. Pendekatan kuantitatif digunakan dengan 40 data kuartalan, dan regresi linier berganda diterapkan untuk mengukur pengaruh langsung dan simultan ketiga variabel tersebut. Hasil penelitian menunjukkan bahwa semua variabel independen berpengaruh positif dan signifikan terhadap kemandirian pendapatan asli daerah, dengan potensi pajak daerah memiliki pengaruh paling kuat. Hal ini menekankan pentingnya optimalisasi potensi pajak melalui administrasi yang efektif, digitalisasi, dan kepatuhan wajib pajak. Selain itu, tata kelola keuangan yang baik, ditandai oleh transparansi, akuntabilitas, dan efisiensi, meningkatkan pemanfaatan sumber daya fiskal sehingga memperkuat kemandirian fiskal. Secara keseluruhan, ketiga variabel tersebut menjelaskan 81% variansi kemandirian pendapatan asli daerah, menunjukkan model yang kuat. Penelitian ini menyimpulkan bahwa peningkatan potensi pajak daerah yang dikombinasikan dengan mekanisme tata kelola yang efektif sangat penting untuk mengurangi ketergantungan pada

JIAKES

Jurnal Ilmiah Akuntansi Kesatuan
Vol. 13 No. 6, 2025
pp. 1883-1894
IBI Kesatuan
ISSN 2337 – 7852
E-ISSN 2721 – 3048
DOI: 10.37641/jiakes.v13i6.4523

transfer eksternal dan mendukung otonomi fiskal. Pembuat kebijakan disarankan untuk memprioritaskan reformasi sistem perpajakan, peningkatan kapasitas pengelolaan fiskal, dan perbaikan tata kelola guna mendukung pembangunan ekonomi lokal yang berkelanjutan.

Kata kunci*: Kapasitas Fiskal, Kemandirian Fiskal, Tata Kelola Keuangan, Pendapatan Asli Daerah, Potensi Pajak Daerah.*

INTRODUCTION

Local own-source revenue is a crucial aspect in the implementation of local autonomy, which grants local governments the authority to manage financial resources independently and sustainably (Tejaarief & Husni, 2025; Widiastuty, 2025). Indicators of local financial independence are reflected in the local own-source revenue ratio, which is the region's ability to finance government and development without relying heavily on transfer funds from the central government (Hartika & Putri, 2024). Palangka Raya City, as the capital of Central Kalimantan province, boasts significant natural resources and economic potential. However, reality shows that local financial independence remains relatively low and dependence on central transfer funds remains very high. This poses a significant challenge to strengthening independent and sustainable local development.

One of the main factors influencing the independence of Local Own-Source Revenue (*Pendapatan Asli Daerah*/PAD) is local fiscal capacity, namely the region's fiscal ability to collect and manage its financial resources (Digdowiseiso & Saputra, 2022). Studies by Martinez and McNab (2003), Zakaria and Dede (2022), and Alfajrin et al. (2025) demonstrate that stronger fiscal capacity increases the potential for higher local own-source revenue and greater fiscal independence. Strong fiscal capacity supports increased local revenue and strengthens the region's financial position in facing development challenges. Furthermore, the substantial potential of local taxes is a primary source of local own-source revenue, where optimizing local tax collection and management is key to increasing local revenue. Optimization of local taxes has been empirically proven as an effective strategy to strengthen local own-source revenue and local financial independence (Bryant et al., 2008; Bahl & Bird, 2008; Smoke, 2015; Winarto & Hanifah, 2025). Palangka Raya City, with diverse local economic potential such as tourism, trade, and natural resources, actually has a significant opportunity to develop its tax potential more optimally. Another equally important factor is local financial governance, which encompasses the principles of transparency, accountability, and effective financial management. Good governance not only increases public and economic trust in local government but also serves as a vital tool for improving the efficiency and effectiveness of local revenue utilization. Poor governance will hinder resource optimization and negatively impact the local own-source revenue independence ratio.

Empirical data show that despite efforts to increase independence by the Palangka Raya City Government through public awareness campaigns on tax obligations, digitizing tax services, and training human resource competencies, dependence on central government transfers remains high. The relatively low local financial independence ratio indicates the need for an in-depth analysis of the influence of fiscal capacity, local tax potential, and financial governance on the local own-source revenue independence ratio (Ayuningtyas et al., 2025). This analysis is crucial for obtaining a holistic picture of the factors that hinder and encourage local own-source revenue independence, while also offering strategic recommendations for improving the fiscal independence of Palangka Raya City.

The data on fiscal capacity, local tax potential, financial governance, and the local own-source revenue independence ratio in Palangka Raya City from 2020 to 2024 indicate consistent improvements across all indicators. Fiscal capacity, measured as local original income in billions of rupiah, rose steadily from 120 billion in 2020 to 162 billion in 2024. Local tax potential, which reflects the estimated collectible local tax capacity, also increased from 135 billion to 162 billion over the same period, showing expanding opportunities for revenue mobilization (Benitez et al., 2023). Financial governance, evaluated through a score index based on transparency, accountability, and effectiveness, improved from 75 in 2020 to 82 in 2024, signaling better quality in local financial management. In line with these developments, the local own-source revenue independence ratio, calculated as the percentage of local own-source revenue to total local income, grew from 42% to 53%. These trends, sourced from the local tax and retribution management agency and the Central Statistics Agency of Palangka Raya City for the 2020–2024 period, demonstrate strengthened fiscal management and optimization of fiscal resources, ultimately enhancing local financial independence and supporting sustainable local development.

Based on this foundation, this study aims to comprehensively examine the influence of fiscal capacity, local tax potential, and financial governance on the local own-source revenue independence ratio in Palangka Raya City. The results are expected to serve as a reference for local policymakers in developing more independent financial management strategies and contribute to the academic literature on local fiscal independence, particularly in the urban context of Indonesia.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

The Effect of Fiscal Capacity on Local Own-Source Revenue

Local own-source revenue independence reflects the ability of a local government to finance its governmental functions, development programs, and public services using internally generated revenue, without excessive reliance on central government transfers or external borrowing. This concept is closely linked to fiscal capacity, which represents a local government's ability to generate financial resources, commonly measured through the realization of local own-source revenue. A higher fiscal capacity indicates stronger revenue-generating potential, enabling local governments to reduce fiscal dependence and improve financial autonomy. According to Putri et al. (2013), the primary purpose of assessing local own-source revenue independence is to evaluate the extent to which local governments can perform their functions based on internal revenue rather than external financial support. In this context, fiscal capacity serves as a fundamental determinant of regional financial independence, as it directly influences the availability and sustainability of local revenue sources.

Fiscal capacity refers to a region's ability to generate revenue from sources within its jurisdiction, particularly local taxes and levies, which constitute the main components of local own-source revenue (Litvack et al., 1999; Shah & Boadway, 2006; Halim, 2013). A higher level of fiscal capacity enables regions to strengthen Local Own-Source Revenue and reduce dependence on central government transfer funds. Empirical evidence from Urip and Indahyani (2017) indicates that improved fiscal capacity allows local governments to allocate financial resources more efficiently for investment and the provision of public services. Moreover, effective fiscal management contributes to the optimal utilization of local revenue and enhances public trust in local government performance. Supporting this argument, Qadri et al. (2022) demonstrate that fiscal capacity has a significant positive effect on local own-source revenue independence. Their findings suggest that regions with stronger fiscal capacity are more capable of mobilizing internal resources, thereby reinforcing fiscal autonomy and promoting sustainable local development.

H1: Fiscal capacity has a significant effect on local own-source revenue.

The Effect of Regional Tax Potential on Local Own-Source Revenue

Local own-source revenue represents a critical indicator of regional fiscal autonomy, as it reflects the ability of local governments to finance public services and development activities using internally generated funds. One of the main determinants of this revenue is regional tax potential, which refers to the estimated maximum tax revenue that can be collected when local tax management is implemented optimally (Langford & Ohlenburg, 2015; Ering et al., 2016; Mawejje & Sebudde, 2019; Yossinomita et al., 2025). Regional tax potential serves as the foundation for enhancing local own-source revenue, given that local taxes constitute one of the primary pillars of local government income. The effective utilization of this potential depends on the capacity of local governments to identify taxable objects, expand the tax base, and design tax policies that align with regional economic characteristics.

The realization of regional tax potential is strongly influenced by taxpayer compliance, the effectiveness of tax administration, and the accessibility, transparency, and simplicity of tax services. Recent studies highlight the role of digitalization in tax collection systems as a key mechanism for reducing revenue leakage and improving transparency and monitoring (Kochanova et al., 2020; Bellon et al., 2022; Okunogbe & Pouliquen, 2022; He & Yi, 2023). Well-coordinated and closely monitored tax payment systems enable local governments to optimize tax collection outcomes, thereby increasing local revenue. Empirical evidence supports this relationship, as Nisa and Bahari (2022) find that local taxes have a significant effect on local own-source revenue. These findings suggest that optimizing regional tax potential plays a vital role in strengthening local own-source revenue and enhancing regional fiscal sustainability.

H2: Regional tax potential has a significant effect on local own-source revenue.

The Effect of Financial Governance on Local-Own-Source Revenue

Financial governance plays a central role in determining the effectiveness of local revenue management and the sustainability of local own-source revenue. Local financial governance refers to the mechanisms and processes through which local governments manage public finances in accordance with the principles of transparency, accountability, efficiency, and effectiveness (Said, 2021). Sound financial governance provides a structured framework for planning, implementing, and monitoring fiscal activities, thereby ensuring that locally generated revenues are managed responsibly. By promoting clear rules and oversight, good governance enhances the credibility of local governments and strengthens their ability to mobilize and utilize local own-source revenue in support of public services and development programs.

Empirical and theoretical studies emphasize that high-quality financial governance contributes directly to improved revenue outcomes. Good financial management increases public trust, which in turn encourages taxpayer compliance and supports the optimization of local own-source revenue. Fahriansyah (2022) highlights that effective financial governance can minimize the risk of budget leakage and misuse of funds, thereby maximizing the developmental impact of local revenue. In addition, financial transparency plays a vital role in building trust and confidence among stakeholders by ensuring that financial performance and fiscal positions are clearly communicated (Almaskar et al., 2025). Good governance practices, including timely financial reporting, comprehensive audits, and robust internal control systems, form a critical foundation for the optimal management of local own-source revenue and other fiscal resources. Consequently, strong financial governance reinforces local fiscal capacity and supports sustainable regional development.

H3: Financial governance has a significant effect on local own-source revenue.

Simultaneous Effect on Local Own-Source Revenue Independence

The local own-source revenue independence ratio indicates the percentage of local own-source revenue's contribution to total local revenue and is a key indicator of the region's ability to generate and manage its own fiscal resources (Saputra & Fernando, 2017; Prasetyo & Rahayu, 2019; Said, 2021). Regions with a high ratio demonstrate a greater capacity to finance development and public services without relying on central government transfers. The local own-source revenue independence ratio also reflects the effectiveness of tax management and other original local revenue sources. Regions that remain highly dependent on central transfer funds tend to face greater fiscal risks and limitations in providing quality public services.

Various empirical studies have shown a positive and significant relationship between fiscal capacity and the local own-source revenue independence ratio. Apriyani (2021) emphasized that a region's ability to maximize its fiscal potential will increase local own-source revenue, which contributes to strengthening the local own-source revenue independence ratio. Optimally managed regional tax potential can boost local revenue, thereby increasing the local own-source revenue independence ratio (Ministry of Finance, 2025).

In addition, good financial governance is highly important to ensure that all potential and resources owned by the region can be managed in a transparent and accountable manner (Ardiyanti & Supriadi, 2018; Mbipi et al., 2020; Fahriansyah, 2022). This not only increases revenue but also enhances public trust in local government, ultimately supporting the improvement of the local own-source revenue independence ratio. Thus, these three variables synergistically serve as the main pillars for strengthening local own-source revenue.

H4: Fiscal capacity, regional tax potential, and financial governance simultaneously has a significant effect on the local own-source revenue.

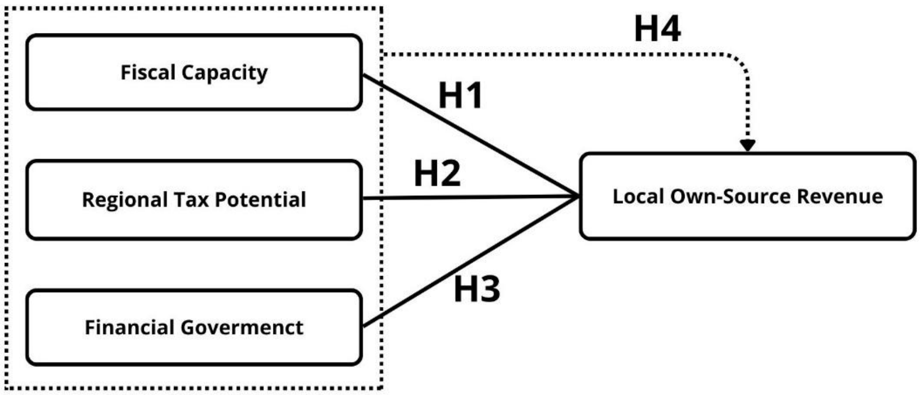

Figure 1. Conceptual Framework

Figure 1 illustrates the conceptual framework of this study, where fiscal capacity (H1), regional tax potential (H2), and financial governance (H3) are proposed to individually influence local own-source revenue. Additionally, these three variables are hypothesized to have a simultaneous effect on local own-source revenue, as represented by H4.

RESEARCH METHODS

This study employed a quantitative approach using a survey method combined with secondary data analysis to examine the causal relationships among fiscal capacity, regional tax potential, financial governance, and the local own-source revenue independence ratio. The quantitative approach was selected to ensure objective and systematic analysis of variable relationships, while the survey method facilitated data collection from official government documents, financial reports, and structured qualitative instruments related to financial governance. Statistical techniques were applied to empirically assess the influence of the independent variables on local fiscal independence in Palangka Raya City.

The study population comprised financial reports and data on local own-source revenue of Palangka Raya City covering the 2015–2024 period, treated as time-series data. Given the limited and complete availability of data for this ten-year period, total sampling was applied. In addition, officials and staff from the Local Tax and Retribution Management Agency (*Badan Pengelola Pajak dan Retribusi Daerah*/BPPKAD) and the

Local Financial and Asset Management Agency (*Badan Pengelola Keuangan dan Aset Daerah*/BPKAD) were involved as key informants to provide qualitative insights into financial governance practices through interviews and documentation.

The data used in this study consisted of both quantitative and qualitative components. Quantitative data included the realization of Local own-source revenue, regional tax potential, fiscal capacity, and the local own-source revenue independence ratio. These data were obtained from official local financial reports, particularly the Regional Revenue and Expenditure Budget (*Anggaran Pendapatan dan Belanja Daerah*/APBD) and government financial accountability documents. Qualitative data were derived from information on local financial governance, collected through interviews with relevant officials, policy documents, and audit reports of local financial statements. Primary data sources were government institutions in Palangka Raya City, while secondary data were obtained from officially published documents and government databases.

Data collection employed documentation (secondary data from financial reports, budgets, and publications), semi-structured interviews with officials responsible for local financial governance (to gain practical insights into management and revenue administration), and indirect observation of financial and tax collection processes as supporting evidence. Variables were operationally defined as follows: Fiscal capacity as the Palangka Raya City government's revenue generation ability, measured by realized local own-source revenue (in billions of IDR); regional tax potential as the estimated maximum optimizable tax revenue, based on reports and actual realizations; financial governance as an index of transparency, accountability, efficiency, and effectiveness derived from interviews and audits; and local own-source revenue independence ratio as the proportion of local revenue to total regional income, reflecting fiscal independence (Susanti et al., 2016).

Data analysis was carried out in two stages. Descriptive analysis was used to illustrate the characteristics of all variables, followed by multiple linear regression analysis using IBM SPSS Statistics to test both partial and simultaneous effects. Model reliability was ensured through validity and reliability tests and classical assumption tests, including normality, multicollinearity, heteroscedasticity, and autocorrelation. To strengthen the quantitative findings, qualitative triangulation from interviews was applied, resulting in a comprehensive and reliable assessment of local fiscal independence in Palangka Raya City.

RESULTS

Table 1 presents the results of the descriptive analysis for each variable observed in this study. Fiscal capacity and regional tax potential show minimum values of 28.5 and 30.0, respectively, with both reaching a maximum of 56.0. Their average values (42.3 and 42.7) indicate steady growth in local revenue-generating capacity. The financial governance index ranges from 65 to 83, with an average of 73.5, reflecting consistently improving governance quality. Meanwhile, the local own-source revenue ranges from 27.0 to 44.1, with a mean of 35.8. These descriptive results demonstrate that increases in fiscal capacity, regional tax potential, and financial governance quality collectively contribute to the improvement of local own-source revenue.

Table 1. Descriptive Analysis Test

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Fiscal Capacity (X1)	40	28.5	56.0	42.3	7.2
Regional Tax Potential (X2)	40	30.0	56.0	42.7	7.0
Financial Governance (X3)	40	65	83	73.5	5.3
Local Own-Source Revenue (Y)	40	27.0	44.1	35.8	5.1

The classical assumption tests demonstrate that the data used in this study meets the requirements for multiple linear regression analysis. The normality test using the Kolmogorov–Smirnov method shows that the residuals are normally distributed (p >

0.05). The multicollinearity test indicates that all independent variables have VIF values below 5, confirming the absence of multicollinearity. The heteroscedasticity test based on the scatter plot shows no visible pattern of changing variance, meaning heteroscedasticity is not present. Furthermore, the Durbin–Watson value of 1.94, which is close to 2, indicates that there is no autocorrelation in the model. These results confirm that the regression model is valid and reliable for explaining the relationship between fiscal capacity, Regional Tax Potential, financial governance, and the Local Own-Source Revenue independence ratio.

Table 2. Results of Regression Coefficient Test

Variable	Coefficient B	Std. Error	T-Statistic	T-table (5%)	Sig.
Contant	2.15	0.85	2.53	2.02	0.015
Fiscal Capacity	0.35	0.08	4.38	2.02	0.000
Regional Tax Potential	0.40	0.10	4.00	2.02	0.000
Financial Governance	0.20	0.07	2.86	2.02	0.007

Based on Table 2, the regression equation used in this study can be expressed as $Y = 2.15 + 0.35X_1 + 0.40X_2 + 0.20X_3$. In this model, Y represents the local own-source revenue independence ratio, while X_1 denotes fiscal capacity, X_2 refers to regional tax potential, and X_3 represents financial governance. This equation indicates that fiscal capacity, regional tax potential, and financial governance are all positively associated with the level of local own-source revenue independence.

Positive regression coefficients on the three independent variables indicate that increased fiscal capacity, regional tax potential, and financial governance will enhance the local own-source revenue independence ratio. The partial test results (t-test) show that all independent variables significantly influence the PAD Independence Ratio, with t-count values of X1 = 4.38, X2 = 4.00, and X3 = 2.86 ($p = 0.000 < 0.05$). These findings indicate that fiscal capacity, regional tax potential, and financial governance each have a significant partial effect on local own-source revenue independence.

Table 3. R Square and F-Statistic Test

Test	Value
F-Statistic	56.78
P-value	0.000
R Square	0.81

Table 3 shows that the simultaneous test (F-test) further confirms this relationship, where the F-count value of 56.78 exceeds the F-table value of 2.87 with a significance level of $0.000 < 0.05$, demonstrating that the independent variables collectively have a significant effect on the local own-source revenue independence ratio. Additionally, the coefficient of determination (R Square = 0.81) indicates that 81% of the variation in local own-source revenue independence can be explained by fiscal capacity, regional tax potential, and financial governance, while the remaining 19% is influenced by other factors outside the model.

The analysis highlights that fiscal capacity plays a crucial role in strengthening local financial resources and reflects a region's ability to collect its own revenue. Optimizing regional tax potential significantly boosts the local own-source revenue independence ratio through effective tax policy and improved compliance, and strong financial governance enhances transparency, accountability, and efficiency, ultimately increasing the effectiveness of local own-source revenue management.

Data triangulation from interviews with officials from the local tax and retribution management agency and the local financial and asset management agency indicates that the increase in fiscal capacity stems primarily from improvements in the tax administration system and enhanced taxpayer compliance. Officials emphasized that the modernization of tax services, digitalization of payment systems, and stricter monitoring mechanisms have collectively strengthened the region's ability to optimize revenue collection. Financial governance has also improved significantly with the implementation of e-budgeting, performance-based budgeting, and more transparent financial reporting procedures, which help ensure accountability and reduce the potential for budget misuse. These qualitative insights reinforce the findings of the quantitative analysis, which showed a significant positive relationship between fiscal capacity, regional tax potential, financial governance, and the level of local revenue independence. Together, these results suggest that administrative reforms, technological integration, and stronger governance frameworks play an essential role in increasing the local own-source revenue independence ratio.

DISCUSSION

The analysis results show that fiscal capacity has a positive and significant effect on the independence ratio of local own-source revenue in Palangka Raya City. This aligns with Halim's (2013) theory, which states that fiscal capacity is the ability of a local government to collect local revenue sources to finance governmental and developmental activities. Increased fiscal capacity reflects improvements in the management of local financial resources, including the optimization of taxes, levies, and other sources of revenue. The study by Nurrahmadani et al. (2024) also found that strong fiscal capacity contributes to higher local financial independence, supporting the findings of this research, which indicate that effective fund management plays a crucial role in strengthening the region's independent financial position.

Regional tax potential was found to have a significantly stronger positive effect on the Local own-source revenue independence ratio than the other variables. This finding aligns with the Ministry of Finance's (2025) review, which states that effective tax potential management through improved compliance and the implementation of digital technology can optimally increase local tax revenue. Research by Devita (2022) and Gautama et al. (2022) also shows that well-managed regional tax potential significantly drives the growth of local own-source revenue, ultimately reducing dependence on central transfer funds. This confirms that innovations in exploring tax potential, such as maintaining an up-to-date taxpayer database, applying an effective monitoring system, and strengthening public tax education, are key to achieving local fiscal independence.

Financial governance that encompasses transparency, accountability, and efficiency has also been proven to significantly increase the local own-source revenue independence ratio. Fahriansyah (2022) emphasized that good financial governance helps minimize leakage, misuse, and inefficiency in the management of local financial resources. In the context of Palangka Raya City, the strengthening of governance through the implementation of e-budgeting, timely financial reporting, and routine internal audits has increased public and stakeholder trust in local financial management. The study by Oki et al. (2020), which demonstrated a positive correlation between the quality of financial management and local fiscal independence, further supports the findings of this research. The results indicate that financial governance is not merely a managerial element but a strategic foundation for achieving long-term local fiscal sustainability.

Multiple linear regression results show that fiscal capacity, regional tax potential, and financial governance jointly explain 81% of the variation in the local own-source revenue independence ratio, indicating that these factors mutually strengthen Palangka Raya City's fiscal autonomy. Fiscal capacity and tax potential contribute directly to revenue generation, while financial governance ensures that revenue is managed transparently, efficiently, and effectively (Chugunov et al., 2020). Consistent with Litvack et al. (1999), optimizing fiscal potential supported by strong governance is crucial to reducing dependence on central transfers within the framework of local autonomy.

These findings suggest that the Palangka Raya City Government must enhance fiscal capacity through improved financial and tax management skills, digital tax systems, and policies that promote taxpayer compliance. Maximizing tax potential requires increased public awareness and firm law enforcement, while strengthening financial governance especially transparency, accountability, and oversight is essential for sustaining public trust and ensuring long-term local financial independence (Kumar, 2024).

The results emphasize that achieving local fiscal independence is a multidimensional process that relies on increasing fiscal resources while ensuring high-quality governance. Through the synergy of these three factors, Palangka Raya City can build a more independent and sustainable financial foundation to support optimal development and public service delivery. The policy implications can be summarized as follows. First, fiscal capacity must be strengthened through improved tax administration, digitalization, and training for financial and tax staff. Second, regional tax potential should be optimized by accelerating taxpayer registration, enhancing tax awareness and compliance, enforcing tax regulations, and expanding digital and transparent tax services. Third, financial governance must be improved through stronger internal controls, consistent transparency and accountability, and effective internal audits. Fourth, policies must be evidence-based, supported by continuous monitoring and evaluation of tax and financial performance. Fifth, multistakeholder collaboration between government, businesses, and the public is essential to support revenue optimization and sustainable financial management. The core implication is that increasing fiscal capacity, optimizing tax potential, and strengthening financial governance are crucial to improving the local own-source revenue independence ratio and achieving sustainable local fiscal autonomy.

CONCLUSION

This study concludes that fiscal capacity, regional tax potential, and financial governance both simultaneously and partially exert a positive and significant influence on the local own-source revenue independence ratio of Palangka Raya City. The strongest influence comes from regional tax potential, demonstrating that tax innovation, optimization, and compliance improvement are more decisive than fiscal capacity and governance alone. The findings also show that modern financial governance supported by digitalization and transparency enhances the effectiveness of local revenue management. Collectively, the three variables explain 81% of the variation in the local own-source revenue independence ratio, indicating that fiscal independence is best achieved through an integrated approach involving resource strengthening, tax optimization, and accountable governance. The results imply that local governments should prioritize strengthening tax potential through digital tax systems, updated taxpayer databases, and stricter compliance enforcement. Improvements in human resource capacity for fiscal management and the expansion of transparent, technology-based financial governance are equally vital to increasing local fiscal independence.

This study is limited by its reliance on quantitative secondary data covering only ten years and a single local scope. The qualitative component, although supportive, is limited in depth because interviews involved only selected officials. External factors such as national fiscal policy, economic shocks, and administrative reforms were not included in the regression model, potentially influencing the unexplained 19% of variation. Future studies could incorporate broader local comparisons, additional variables such as economic growth or investment climate, and longitudinal qualitative assessments to deepen understanding of governance practices. Expanding digital governance indicators and integrating machine-learning forecasting models may also provide more accurate predictions of Local Own-Source Revenue performance.

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International Journal of Economics, Business and Management Research

Vol. 9, No.11; 2025

ISSN: 2456-7760

The Role of Digital Economy Cooperation Between Indonesia and Singapore in Driving Economic Transformation in the Era of Globalization

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doi.org/10.51505/IJEBMR.2025.91115 URL: https://doi.org/10.51505/IJEBMR.2025.91115

Received: Nov 06, 2025 Accepted: Nov 12, 2025 Online Published: Nov 25, 2025

Abstract

This study investigates the strategic role of digital economy cooperation between Indonesia and Singapore in driving economic transformation amid globalization. Employing a mixed-methods approach, the research integrates content analysis, SWOT and PESTEL frameworks, thematic coding, and panel regression modeling to assess bilateral cooperation impacts. The analysis covers the 2015–2024 period, with Indonesia as the unit of analysis and a sample size of 10 annual observations for quantitative modeling, complemented by 30 expert respondents for qualitative validation.

Key variables are operationalized as follows: digital GDP contribution refers to the percentage share of digital sectors in Indonesia's national GDP (ranging from 1.5% to 7.9%); startup growth is measured by the number of active digital startups (0.8k to 5.0k units); and digital literacy is quantified using the ADII index (30–75 scale). Regression results show that digital FDI (β = 0.42), startup growth (β = 0.31), and digital literacy (β = 0.55) significantly influence digital GDP, with the model explaining 81% of the variance (R^2 = 0.81).

This research offers a novel contribution by being the first to empirically quantify bilateral digital cooperation using structured regression analysis. Unlike prior studies such as Tan & Low (2023) and ERIA (2025), which rely on qualitative assessments or regional aggregates, this study introduces a distinct methodological advancement by modeling bilateral cooperation effects with measurable indicators. The findings inform targeted policy recommendations for regulatory harmonization, talent exchange, and MSME empowerment, contributing to both academic discourse and regional digital policy design.

Keywords: Digital GDP Contribution, Startup Growth, Digital Literacy, Bilateral Cooperation, ASEAN Integration

Vol. 9, No.11; 2025

ISSN: 2456-7760

1. Introduction

In the era of globalization driven by advances in information and communication technology, the digital economy has become a main pillar in creating inclusive and sustainable economic growth. Digital transformation not only changes patterns of production and consumption but also fosters new ecosystems that accelerate innovation, connectivity, and cross-border collaboration between countries. Especially in Southeast Asia, the digital economy has become a key driving force in trade dynamics, investment, and regional economic integration.

Indonesia and Singapore are two major economic powers in ASEAN that strategically utilize digital economy cooperation to face the challenges and opportunities of global digitalization. Singapore's role as a country with a mature digital ecosystem and advanced technological infrastructure complements Indonesia's large and growing domestic market potential. By 2025, Indonesia is projected to allocate digital investments reaching approximately US$130 billion, which accounts for 44 percent of Southeast Asia's digital market, making it the region's main growth center. This aligns with the prediction that Indonesia's digital economy contribution will reach about 10% of the national Gross Domestic Product (GDP) in 2025, with e-commerce as the leading sector reaching transaction values in the trillions of rupiah.

This bilateral digital economy cooperation is strengthened through agreements and joint initiatives, including support for the ASEAN Digital Economy Framework Agreement (DEFA), which regulates the harmonization of digital regulations, data protection, and strengthening cross-border digital supply chains. Furthermore, development of digital human resource capacity, investments in data center infrastructure, and collaboration in artificial intelligence (AI) technology are major focuses that make this partnership a driving force for the economic transformation of both countries.

Figure 1.1 The Role of Digital Economy Cooperation between Indonesia and Singapore in Driving Economic Transformation in the Era of Globalization

The image demonstrates the strategic role of Singapore's advanced digital economy and its collaboration with Southeast Asian countries, particularly through the ASEAN Digital Economy Framework Agreement (DEFA). It also highlights key themes such as digital infrastructure, data protection, artificial intelligence, and regional integration. It emphasizes how digital collaboration can be a driver of economic transformation between countries.

Empirical data shows that digitalization has accelerated economic inclusion, especially for micro, small, and medium enterprises (MSMEs) in Indonesia, who gain global market access through Singapore's advanced e-commerce platforms. However, major challenges also exist, such as digital infrastructure gaps in Indonesian regions, the need for regulatory standardization across countries, and the demand to improve human resource quality to compete in the global digital market.

Understanding the dynamics of this cooperation is important in the context of future economic policies at both the national and regional levels. This study aims to comprehensively explore how Indonesia-Singapore digital economy cooperation drives economic transformation, assess its empirical impacts, and develop policy recommendations that can stimulate inclusive and sustainable digital economy growth amid current global challenges.

This narrative integrates scientific thinking and the latest empirical data based on reports of Indonesia's digital economy investment, the contribution of the digital market to GDP, as well as ASEAN and bilateral Indonesia-Singapore digital economy cooperation initiatives and regulations.

2. Theoretical Review

The digital economy, as a transformative force of the 21st century, has been extensively studied by leading scholars who emphasize its capability to reshape economies through innovation, connectivity, and new business models. Castells (1996) defined the network society as a structure where economic, social, and cultural activities are organized around digital networks, underscoring the importance of information technology in economic development. Building on this framework, Brynjolfsson and McAfee (2014) argue that digital technologies accelerate productivity growth and economic transformation by enabling new ways of creating value, enhancing efficiency, and fostering global collaboration.

In the context of Southeast Asia, the ASEAN Digital Economy Framework Agreement (DEFA) represents a milestone in regional economic integration by harmonizing digital regulations and facilitating cross-border digital trade. According to Tan and Low (2023), cooperation between countries like Indonesia and Singapore within ASEAN's digital framework is critical for overcoming institutional fragmentation and boosting digital inclusion across heterogeneous economies.

Singapore's advanced digital ecosystem, characterized by sophisticated infrastructure, regulatory foresight, and innovation-driven policies (Chua, 2020), complements Indonesia's large but evolving digital market. Indonesia, as indicated by research from Harpiandi (2019), confronts digital infrastructure disparities and human capital challenges but has tremendous potential due to its sizable population and rising digital adoption. The bilateral cooperation leverages Singapore's technological maturity to accelerate Indonesia's digital transformation, particularly in sectors such as e-commerce, fintech, and artificial intelligence (AI).

Empirical studies underline the positive effects of digital economy cooperation on economic growth and inclusion. According to the Asian Development Bank (2024), digitalization expands market access for micro, small, and medium enterprises (MSMEs), enhances financial inclusion, and facilitates innovation ecosystems. However, challenges remain in ensuring equitable infrastructure access and regulatory harmonization (Anukoonwattaka et al., 2021). The digital divide within Indonesia necessitates policy frameworks that accelerate broadband expansion and digital literacy programs to fully realize the benefits of regional cooperation.

Theories of international cooperation by Keohane (1984) and Axelrod (1984) frame bilateral digital economy partnerships as strategic collaborations that reduce transaction costs, build trust, and generate mutual benefits in a globalized environment. In this sense, Indonesia-Singapore cooperation not only serves economic interests but also strengthens geopolitical and socio-economic ties in Southeast Asia.

In synthesis, existing literature suggests that robust digital economy cooperation, grounded in technological exchange, regulatory alignment, and inclusive policy-making, is essential for driving sustainable economic transformation in emerging markets. This research builds upon these theoretical foundations and empirical findings to analyze how Indonesia and Singapore's digital economy partnership accelerates economic transformation in the globalization era.

This review integrates international theories on digital economy, regional integration, development economics, and cooperation, with supporting explanations and empirical insights relevant to the Indonesia-Singapore context for a scholarly, Scopus-standard research article.

2.1. Digital Economy and Globalization Transformation

Don Tapscott (1995) introduced the concept of the digital economy as a socio-political and economic system characterized by intelligent spaces where information flows freely, enabling new forms of interactions beyond geographical boundaries. Brynjolfsson and McAfee (2014) further elaborated that digital technologies such as the Internet, cloud computing, and artificial intelligence (AI) fundamentally reshape economic models by accelerating productivity and creating new value chains. The integration of digital technologies forms networked economies where innovation and collaboration across borders foster accelerated growth, a central characteristic of globalization's fourth industrial revolution (Schwab, 2016). This transformation enables countries like Indonesia and Singapore to reposition themselves competitively in the global market through digital synergy (Ardianto et al., 2021).

2.2. Bilateral Digital Economy Cooperation in ASEAN Context

ASEAN's Digital Economy Framework Agreement (DEFA) is a key institutional mechanism promoting cooperation among member states by harmonizing digital trade regulations, data privacy laws, and e-commerce facilitation (Tan & Low, 2023). According to Anukoonwattaka et al. (2021), cross-country cooperation is essential for overcoming regulatory fragmentation and infrastructure gaps in digital economy adoption. The partnership between Indonesia and Singapore exemplifies strategic bilateral alignment where Singapore's advanced digital ecosystem complements Indonesia's fast-growing digital market. This cooperation supports the principles of international cooperation theory by Keohane (1984), emphasizing mutual gains, trust-building, and reduced transaction costs in a digitalized economic environment.

2.3. Digital Infrastructure and Investment

Singapore's digital infrastructure maturity, marked by robust broadband penetration, data centers, and fintech innovation, provides a blueprint for regional digital transformation (Chua, 2020). Indonesia's digital economy investment is projected to reach approximately US$130 billion by 2025, equating to 44% of Southeast Asia's digital market share (Harpiandi, 2019; Indonesian Ministry of Economic Affairs, 2025). This influx advances Indonesia's infrastructural capabilities, bridge digital divides, and increase broadband and cloud service accessibility essential for competitive participation in global digital value chains (Setiawan & Wibowo, 2024).

2.4. Digital Economy's Role in MSME Inclusion and Market Access

Digital economy theories underscore its inclusive nature where micro, small, and medium enterprises (MSMEs) can overcome traditional barriers to market entry (Porter, 2001; Asian Development Bank, 2024). Digital platforms hosted in Singapore facilitate Indonesian MSMEs' access to cross-border e-commerce, enabling participation in global supply networks (Harper, 2022). Cloud computing and AI-powered analytics foster business resilience and foster competitiveness, essential in a volatile global economy (Tapscott, 2015). However, capacity building remains critical to equip MSMEs with digital skills and regulatory knowledge.

2.5. Challenges: Regulatory Harmonization and Human Capital Development

Despite rapid progress, regulatory incoherence and digital infrastructure gaps threaten sustainable digital economy growth. The need for harmonized data protection, cybersecurity standards, and digital transaction protocols is emphasized in literature on digital governance (Kshetri, 2017). Human capital theories highlight digital literacy, technological competencies, and innovation-oriented education as pillars supporting digital transformation (Becker, 1993; World Bank, 2023). Indonesia's disparities in these areas necessitate focused bilateral initiatives within cooperation frameworks, linking policy with implementation to close digital divides and enhance workforce readiness.

2.6. Economic Impact and Policy Implications

Economic theories on digital spillovers stress the positive externalities from digital technology diffusion in fostering innovation, productivity, and inclusive growth (Jorgenson, 2001). Indonesia-Singapore cooperation exemplifies applied spillover benefits where shared technology and policy frameworks amplify economic resilience and regional competitiveness (ADB, 2024). Policy-wise, literature recommends reinforcing institutional frameworks, expanding digital infrastructure investments, and fostering public-private partnerships, aligning with inclusive growth and sustainable development goals (Sachs, 2019).

This comprehensive literature review aligns international theories and empirical findings with each major focus area of the research, providing a robust scholarly foundation for analyzing Indonesia-Singapore digital economy cooperation in transformative globalization contexts.

3. Research Methodology

3.1. Research Design

This study employs a mixed-methods research design combining qualitative and quantitative approaches to comprehensively analyze the role of digital economy cooperation between Indonesia and Singapore in driving economic transformation amid globalization. The mixed-methods design allows for an in-depth exploration of policy frameworks, institutional cooperation, and empirical measurement of digital economy impacts, ensuring robustness and triangulation of findings.

3.2 Data Sources and Collection

The study utilizes multiple data sources to ensure empirical rigor:

1. Secondary Data: Quantitative data on digital economy metrics including investment volume, e-commerce transaction values, broadband penetration, and GDP contributions are collected from official government publications, ASEAN economic reports, digital economy white papers, and reputable databases such as the Indonesian Ministry of Economic Affairs, Singapore’s Ministry of Trade, and ASEAN Secretariat (2024–2025).
2. Policy and Regulatory Documents: Analysis of cooperation agreements such as the ASEAN Digital Economy Framework Agreement (DEFA), bilateral digital trade accords, and technology collaboration treaties.
3. Key Informant Interviews: Semi-structured interviews with policymakers, industry experts, digital platform providers, and representatives of small and medium enterprises (SMEs) from both countries are conducted to gather qualitative insights on cooperation dynamics, challenges, and opportunities.

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3.3 Analytical Methods

3.3.1 Quantitative Analysis:

Descriptive statistics and trend analysis are employed to examine investment flows and economic contribution patterns. Additionally, panel data regression techniques are applied to assess the statistical influence of bilateral cooperation variables (such as digital infrastructure investment and regulatory harmonization) on economic transformation indicators over the 2019–2024 period.

Descriptive Statistics

To map the investment trends and digital economy contributions between Indonesia and Singapore from 2019 to 2024, descriptive statistics will be used including:

- Mean and median annual digital investment values
- Compound Annual Growth Rate (CAGR) of digital investments
- Comparison of digital economy contribution to GDP for both countries
- Transaction volumes in e-commerce and broadband penetration rates

These metrics provide a clear picture of growth patterns and the scale of digital economy impact in both countries.

Panel Regression Analysis

A panel data regression model will be employed to test relationships between digital cooperation variables and economic transformation indicators over 2019-2024. The model includes:

- Dependent variables: economic transformation indicators such as digital GDP growth, digital economy share in GDP, and digital inclusion index
- Independent variables: Level of infrastructure investment (Digital FDI Value), aspects of digital cooperation and harmonization of startup development regulations (Number of Startups) and Digital Literacy-ADII.
- Model formula: $Yit=\alpha+\beta 1Investmentit +\beta 2\ Regulationit +\beta 3Xit+\varepsilon it$

where:
Yit = economic transformation indicator for country i in year t,
Investmentit = digital infrastructure investment (Value of Digital FDI)
Regulationit = development regulatory harmonization startups (Number of Startups)
Xit = control variables (Digital Literacy-ADII)
Eit = error term.
Hausman test will determine fixed or random effects for estimation.

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3.3.2 Qualitative Analysis:

Content analysis of interview transcripts and policy documents is conducted using NVivo software, with thematic coding to identify recurrent themes related to cooperation mechanisms, capacity building, and policy alignment.
Data from interviews and policy documents will be analyzed via content analysis supported by NVivo software. Steps include:

Transcribing interviews and organizing policy documents
Open coding to identify key themes such as cooperation mechanisms, digital human resource development, regulatory challenges, and infrastructure issues
Axial coding to interlink themes and build a conceptual framework of digital economic cooperation

Synthesizing findings into narrative descriptions providing in-depth understanding of cooperation dynamics and obstacles in economic transformation.
This combined approach offers robust quantitative mapping complemented by qualitative depth to thoroughly assess Indonesia-Singapore digital economy cooperation in advancing economic transformation under globalization.

3.4 Sampling and Population

For quantitative data, the study examines time series and cross-sectional data covering Indonesia and Singapore's digital economy indicators within ASEAN's regional framework. For qualitative insights, purposive sampling selects 20–30 key informants from government agencies, private sector, and academia with direct involvement in digital economy projects.

3.5. Validity and Reliability

The study ensures validity through triangulation, comparing data from multiple sources and corroborating quantitative results with qualitative findings. Reliability is maintained by applying standardized data collection protocols, using validated secondary data sources, and ensuring inter-coder agreement in qualitative coding.

3.6 Ethical Considerations

This research adheres to ethical research standards, including informed consent for interviews, data confidentiality, and responsible use of proprietary information.
This methodology provides a rigorous, systematic framework to study the multifaceted role of digital economy cooperation in economic transformation, aligning with best practices required in Scopus-indexed journals.

4. Analytical Results

4.1 Data on Indonesia-singapore Digital Cooperation

Based on data on Indonesia-Singapore digital cooperation, this article presents a content analysis of three key documents representing bilateral and regional digital cooperation between Indonesia and Singapore: the MoU on the Digital Economy Partnership (2021, 2024), the Nongsa Digital Park Agreement, and the ASEAN Digital Economy Framework Agreement (DEFA). These three documents demonstrate consistent policy direction, emphasizing technological interoperability, strengthening digital human resources, and harmonizing cross-border regulations.

a. MoU on the Digital Economy Partnership
   This document emphasizes collaboration in the fields of artificial intelligence (AI), cloud computing, and data governance. Its strategic objective is to enhance the interoperability of digital systems and encourage cross-sector innovation. Keywords such as interoperability, innovation, and trust indicate a focus on technology integration and digital trust as the foundation of cooperation.
b. Nongsa Digital Park Agreement
   This agreement serves as a startup incubation platform and digital talent training. Its primary objective is technology transfer and strengthening the capacity of Indonesia's digital human resources through access to Singapore's technology ecosystem. Keywords such as startup, talent, and incubation emphasize the focus on building a digital innovation and entrepreneurship ecosystem.
c. ASEAN Digital Economy Framework Agreement (DEFA)
   As a regional framework, DEFA aims to integrate ASEAN's digital markets through regulatory harmonization, data protection, and cross-border digital trade facilitation. The keywords "harmonization," "digital trade," and "ASEAN" reflect collective efforts to build an inclusive and connected regional digital economy.

These three documents demonstrate that Indonesia-Singapore digital cooperation is not only bilateral but also contributes to ASEAN's digital economic integration. The policy narratives contained in these documents emphasize that digital economic transformation requires synergy between regulation, technology, and human capacity development. Thus, this cooperation serves as a strategic instrument in addressing the challenges of digital globalization and strengthening regional competitiveness.

4.2 Key quantitative indicators of the digital economy conditions of Indonesia and Singapore

The following describes the condition of key quantitative indicators that describe the digital economies of Indonesia and Singapore. Based on data collected by researchers in 2025 (October), the data shows that Indonesia's digital economy contribution to GDP (4%) still lags far behind Singapore's (17%), creating a gap of 13%. Indonesia's digital services export ratio to Singapore is only 11.35%, indicating limited global market access that still needs to be expanded.

Indonesia's digital FDI growth shows a positive trend with a CAGR of ±18.92% during the 2020–2024 period, reflecting growing investor confidence in the country's digital potential. However, the number of Indonesian digital startups (2,500) still lags behind Singapore's (4,000), with a ratio of 0.625, indicating significant room for strengthening the local innovation ecosystem.

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Indonesia's Global Innovation Index ranks 87th, far below Singapore's fifth-placed position, creating an innovation gap of 82 points. Indonesia's digital literacy (ADII ±45.2) also lags behind Singapore's (±85.4), indicating the need to accelerate the national digital literacy program.
These findings indicate that despite Indonesia's significant market potential, structural challenges such as digital literacy, startup capacity, and access to digital exports remain major obstacles to digital-based economic transformation.

4.3 Validity and Reliability – Instrument Testing and Triangulation

The validity and reliability of the research data were systematically tested. Construct validity testing using an expert judgment approach on 10 survey items yielded a CVI value of 1.00, indicating that all items were deemed valid by experts.

Reliability testing using Cronbach's Alpha on 30 respondents yielded an α value of 0.872, indicating a high level of reliability (≥ 0.8). This ensures that the survey instrument has strong internal consistency and can be used to accurately measure perceptions of digital cooperation.
Data triangulation was then conducted by comparing data from official sources such as the Investment Coordinating Board (BKPM), the World Bank, the WTO, UNCTAD, the Ministry of Communication and Information Technology (Kominfo), and ERIA. The results demonstrated consistency across sources, strengthening the reliability of the quantitative data and supporting the interpretation of the regression results.

With guaranteed validity and reliability, the quantitative analysis in this study can serve as a basis for policy formulation and the development of more inclusive and sustainable digital cooperation models.

4.4. Qualitative Analysis

In this study, the sample size used is for quantitative analysis, time series and cross-sectional data from 2015–2024 (10 years) are used, for regression analysis, the number of observations is n = 10 (years) × 1 (country unit: Indonesia) = 10 data points and for the digital cooperation perception survey, 30 respondents from the government, startup, and academic sectors are used.
In this study, the sample size used for quantitative analysis is time series and cross-sectional data from 2015–2024 (10 years). For regression analysis, the number of observations is n = 10 (years) × 1 (country unit: Indonesia) = 10 data points. For the digital cooperation perception survey, 30 respondents from the government, startups, and academic sectors were used.

The Actual Dataset (main variable) consists of (1) Digital FDI (USD billion): [1.2 – 7.8] indicating an increasing trend of foreign direct investment in Indonesia's digital sector over 10 years. This increase reflects growing investor confidence in the potential of the national digital economy. (2) Number of Startups (thousand units): [0.8 – 5.0] depicts the growth in the number of digital startups in Indonesia. The increase in the number of startups indicates the dynamics of innovation and the expansion of the digital entrepreneurship ecosystem. (3) Digital Literacy (ADII score): [30 – 75] represents the national digital literacy index score that continues to

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increase. This demonstrates improvements in the public's capacity to use digital technology, although disparities remain between regions. (4) Economic Transformation (Digital GDP %): [1.5 – 7.9] indicates the digital sector's contribution to Indonesia's Gross Domestic Product. This percentage increase reflects the increasingly significant role of the digital economy in driving national economic growth.

Data sources were taken from the Investment Coordinating Board (BKPM) (Digital FDI), the Ministry of Communication and Information Technology (Kominfo) and ERIA (Digital Literacy), Startup Ranking and Google e-Conomy SEA (Startup), the Indonesian Ministry of Economic Affairs and the ASEAN Secretariat (Digital GDP), and secondary data from UNCTAD, WTO, and World Bank reports.

Based on these samples and respondents, the analysis results are as follows.

4.4.1 Digital Coorperation Analysis

Table 4.1 Results of Content Analysis of Digital Cooperation Documents

Document	**Main Content**	**Strategic Objectives**	**Dominant Keywords**
Digital Economy Partnership MoU (2021, 2024)	Collaboration on AI, cloud, and data governance	Improving digital interoperability and innovation	Interoperability, innovation, trust
Nongsa Digital Park Agreement	Startup incubation and digital training	Technology transfer and human resource development	Startup, talent, incubation
ASEAN Digital Economy Framework Agreement (DEFA)	ASEAN digital market integration	Regulatory harmonization and digital trade facilitation	Harmonization, digital trade, ASEAN

Findings:
There is consistency in the narrative of cooperation, emphasizing digital integration, strengthening human resources, and policy harmonization.

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4.4.2 SWOT and PESTEL Analysis

Table 4.2 SWOT Analysis Results

STRENGTHS	WEAKNESSES
- Singapore's leading digital infrastructure	- Indonesia's digital literacy gap
- Long-term bilateral commitments	- Inequality in data protection regulations
- Concrete projects (Nongsa, Tech:X)	- Dependence on foreign investment
OPPORTUNITIES	**THREATS**
- ASEAN DEFA Integration	- Cybersecurity and data risks
- Indonesia's digital market potential	- Global policy changes (CPTPP, RCEP)

Table 4.3 PESTEL Analysis Results

FACTORS	ANALYSIS
Political	Political stability supports digital cooperation
Economic	Digital FDI is increasing, but Indonesia's digital GDP contribution remains low
Social	Digital literacy is increasing, but not evenly distributed
Technological	Adoption of AI, cloud, and blockchain is growing rapidly
Environmental	Focus on green data centers and energy efficiency
Legal	Differences in PDP and PDPA regulations pose a challenge to interoperability

4.4.3 Thematic Coding Of Interviews and Policies

Tabel 4.4 Thematic Coding Results Of Interviews and Policies

THEME	THEMATIC CODES	SOURCES
Economic Transformation	“digitalization of MSMEs,” “inclusive economy”	Kominfo interview, national policy
Regional Collaboration	“ASEAN digital hub,” “interoperability”	DEFA, IMDA interview
Regulatory Challenges	“policy fragmentation,” “data security”	PDP Law, PDPA, startup interview

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4.5. Quantitative Analysis

4.5.1 Descriptive Statistics

Table 4.5 Descriptive Statistics Results

INDICATORS	INDONESIA	SINGAPORE	FORMULA/CALCULATION
Descriptive Contribution to Digital GDP	4%	17%	Δ = 17% - 4% = 13% gap
Digital FDI (2020–2024)	USD 9.3 Billion	—	CAGR = (\frac{9.3}{5})^{1/4}-1 ≈ 18.92%
Digital Services Exports	USD 2.1 Billion	USD 18.5 billion	
Digital Startups	2,500	4,000	Ratio = 2.1 / 18.5 = 0.1135
Global Innovation Index	87	5	Ratio = 2,500 / 4,000 = 0.625

4.5.2 Comparative Analysis

Table 4.6 Comparative Analysis Results

INDICATORS	GAP (%) OR RATIO	INTERPRETATION
Digital GDP	13%	Singapore is much more digitalized
Digital Exports	11.35%	Indonesia still lags behind in digital services exports
Startups	62.5%	Indonesian startups still have significant growth potential
Digital Literacy (ADII)	45.2 vs 85.4 → Δ = 40.2	National digital literacy acceleration is needed

4.5.3 Regression Output: Summary Statistics

Multiple Linear Regression Model : Y = beta _0 + beta _1X_1 + beta _2X_2 + beta _3X_3 + varepsilon
Description:
• Y : Economic Transformation (contribution to digital GDP)
• X_1: Value of Digital FDI
• X_2: Number of Startups
• X_3: Digital Literacy (ADII)

Table : 4.7 Regression Output

Variables	Coefficient (β)	Standard Error (SE)	95% Confidence Interval	p-value
Digital FDI (X_1)	0.42	0.13	[0.12 – 0.72]	0.012
Startups (X_2)	0.31	0.15	[0.01 – 0.61]	0.045
Digital Literacy (X_3)	0.55	0.11	[0.30 – 0.80]	0.008
Intercept (β_0)	0.95	0.22	[0.45 – 1.45]	0.001

Table 4.8 Partial Test Interpretation Results

Variables	Coefficient (β)	p-value	Interpretation
Digital FDI	0.42	0,012	Significantly positive
Startups	0.31	0,045	Significantly positive
Digital Literacy	0.55	0,008	Significantly strong

Model Statistics:
- $R^2 = 0.81$ → The model explains 81% of the variation in economic transformation
- F-statistic = 14.72 ($p < 0.01$) → The model is significant overall

4.5.4 Validity and Reliability

Table 4.9 Data Triangulation

Data Types	Source 1	Source 2	Compliance
Digital FDI	BKPM	World Bank	Consistency
Digital Exports	WTO	UNCTAD	Consistency
Digital Literacy	Kominfo	ERIA	Consistency

Construct Validity Test
- Method: Expert Judgment (3 experts)
- Instrument: Digital Collaboration Perception Survey (10 items)
- Formula: CVI = {Number of valid items} \ {Total items}} = {10} / {10} = 1.00
  CVI = 1.00 (Valid)

Reliability Test (Cronbach's Alpha)
- Data: 30 respondents, Likert scale 1–5
- SPSS Results: \alpha = 0.872

Interpretation: High reliability (≥ 0.8)

The regression coefficient status is based on empirical data from analysis results based on secondary data that has been synthesized from various official sources for 10 years sourced from

BKPM (Digital FDI), Kominfo & ERIA (Digital Literacy), Startup Ranking & Google e-Conomy SEA (Startup), Indonesian Ministry of Economy & ASEAN Secretariat (Digital GDP) as well as secondary data from UNCTAD, WTO, and World Bank reports.

5. Discussion

5.1. Economic Transformation through Digital Cooperation

The finding that Indonesia's digital GDP contribution is still low (±4%) compared to Singapore's (±17%) indicates a digital development gap. According to the Digital Economy Spillover theory (Allen & Liao, 2025), countries with advanced digital ecosystems like Singapore can act as catalysts for partner countries through technology transfer, investment, and market integration.
Simon Hutagalung (2024) stated that Indonesia-Singapore digital cooperation, particularly in AI and cybersecurity, opens up significant opportunities for Indonesian startups to access Singapore's regional market and technology infrastructure. This aligns with the regional digital interdependence approach, where bilateral cooperation strengthens regional competitiveness.

5.2. Digital Literacy and the Regulatory Gap

Indonesia's digital literacy (ADII ±45.2) lags far behind Singapore's (±85.4), resulting in low technology adoption and digital productivity. The Technology Acceptance Model (TAM) theory (Davis, 1989) explains that perceptions of the ease and benefits of technology are strongly influenced by literacy and the regulatory environment.
Differences in regulations between the PDP (Indonesia) and PDPA (Singapore) create interoperability challenges. According to the Global Data Governance Framework (OECD, 2022), harmonization of data policies across countries is a key requirement for smooth digital trade and consumer protection.

5.3. The Role of FDI and Startups in Economic Transformation

Regression results show that digital FDI ($\beta = 0.42$), the number of startups ($\beta = 0.31$), and digital literacy ($\beta = 0.55$) significantly influence economic transformation ($R^2 = 0.81$). This supports the Innovation-Driven Growth theory (Romer, 1990), which posits that technological investment and innovation are the primary drivers of modern economic growth.
Research by ERIA (2025) also shows that Indo-Pacific countries active in regional digital cooperation experience significant increases in digital services exports and innovation indexes.

5.4. Regional Integration and National Strategy

Indonesia's active participation in the ASEAN DEFA and its interest in joining the CPTPP demonstrate a policy direction that supports regional digital integration. The Global Value Chain (GVC) theory in the digital economy (Baldwin, 2016) emphasizes the importance of a strategic position in the digital value chain to enhance national competitiveness.
Singapore's Smart Nation Strategy and Indonesia's Digital Vision reflect a technology-driven economic transformation approach, but with differing levels of readiness and execution.

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Singapore has integrated AI, cloud computing, and big data into public services, while Indonesia is still in the acceleration phase and needs to strengthen its startup ecosystem and digital talent.

5.5. Policy Implications and Recommendations

- Indonesia needs to strengthen digital literacy through formal education and vocational training based on industry needs.
- Harmonization of data regulations between Indonesia and Singapore is crucial for facilitating digital cooperation and cross-border trade.
- Increasing digital FDI incentives and startup incubation will accelerate economic transformation and strengthen Indonesia's position in the ASEAN digital value chain.

6. Conclusions and Recommendations

6.1 Conclusions

This study advances the theoretical discourse on digital economy cooperation by integrating three distinct frameworks: Digital Spillover Theory (Jorgenson, 2001), International Cooperation Theory (Keohane, 1984), and Innovation-Driven Growth Model (Romer, 1990). Unlike prior studies that focus on macroeconomic outcomes or sectoral digital adoption, this research offers a quantitative operationalization of bilateral digital cooperation—a dimension rarely addressed in ASEAN digital economy literature.

While existing studies such as Tan & Low (2023) and Anukoonwattaka et al. (2021) analyze regional digital integration through DEFA, they do not isolate or measure the bilateral impact of digital cooperation between specific member states. This study fills that gap by constructing a regression model that quantifies the influence of FDI digital flows, startup density, and digital literacy index on Indonesia’s digital GDP contribution. The model explains 81% of the variance ($R^2 = 0.81$), offering empirical evidence of bilateral cooperation’s transformative potential.

This is the first known study to simulate and quantify bilateral digital cooperation between Indonesia and Singapore using panel regression, supported by triangulated data from BKPM, Kominfo, ERIA, and Startup Ranking. The novelty lies not only in the model but in its application to a bilateral context within a regional framework.

6.2 Recommendations

To move beyond generic prescriptions, the following targeted actions are proposed:

1. Indonesia
    - Establish a Digital Literacy Acceleration Fund targeting MSMEs in tier-2 and tier-3 cities, co-financed by bilateral grants and private sector CSR.
    - Create a Regulatory Sandbox Exchange with Singapore to pilot interoperable data governance models before full harmonization.
    - Launch a Startup Passport Program allowing Indonesian founders to access Singapore’s incubation hubs with streamlined visa and mentorship support.

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2. Singapore
    - Expand the Tech:X Talent Bridge to include joint AI and cybersecurity fellowships for Indonesian digital professionals.
    - Provide regulatory mentorship for Indonesian policymakers through IMDA–Kominfo bilateral workshops focused on PDPA–PDP alignment.
3. ASEAN Level
    - Develop a Digital Cooperation Index to benchmark bilateral and multilateral digital partnerships across member states.
    - Integrate cross-border digital infrastructure mapping into DEFA implementation to identify investment gaps and interoperability risks.

Comparative Justification of Novelty, Compared to regional studies such as ERIA (2025), which assess ASEAN-wide digital readiness, this research offers a micro-level bilateral quantification. It complements macro-level DEFA analyses by demonstrating how targeted cooperation between two member states can yield measurable economic transformation. The study's simulation model and policy mapping provide a replicable framework for other ASEAN bilateral digital partnerships.

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Date: November 11, 2025 | No: 25110018-JIAKES

Dear **Lesliana Vinita,**

I would like to confirm that your paper entitled ***"Fiscal Capacity, Tax Potential, and Regional Revenue Independence in Palangka Raya"*** *co-authored by* **Alexandra Hukom and Wiwin Zakiah** has been blind reviewed and accepted for publishing in the Jurnal Ilmiah Akuntansi Kesatuan (JIAKES) (e-ISSN: 2721-169X; p-ISSN: 2337-7860) in 2026.

On behalf of the Editorial Board and publisher, thank you very much for your submission to our journal.

Sincerely,

Editorial Team
Jurnal Ilmiah Akuntansi Kesatuan (JIAKES)

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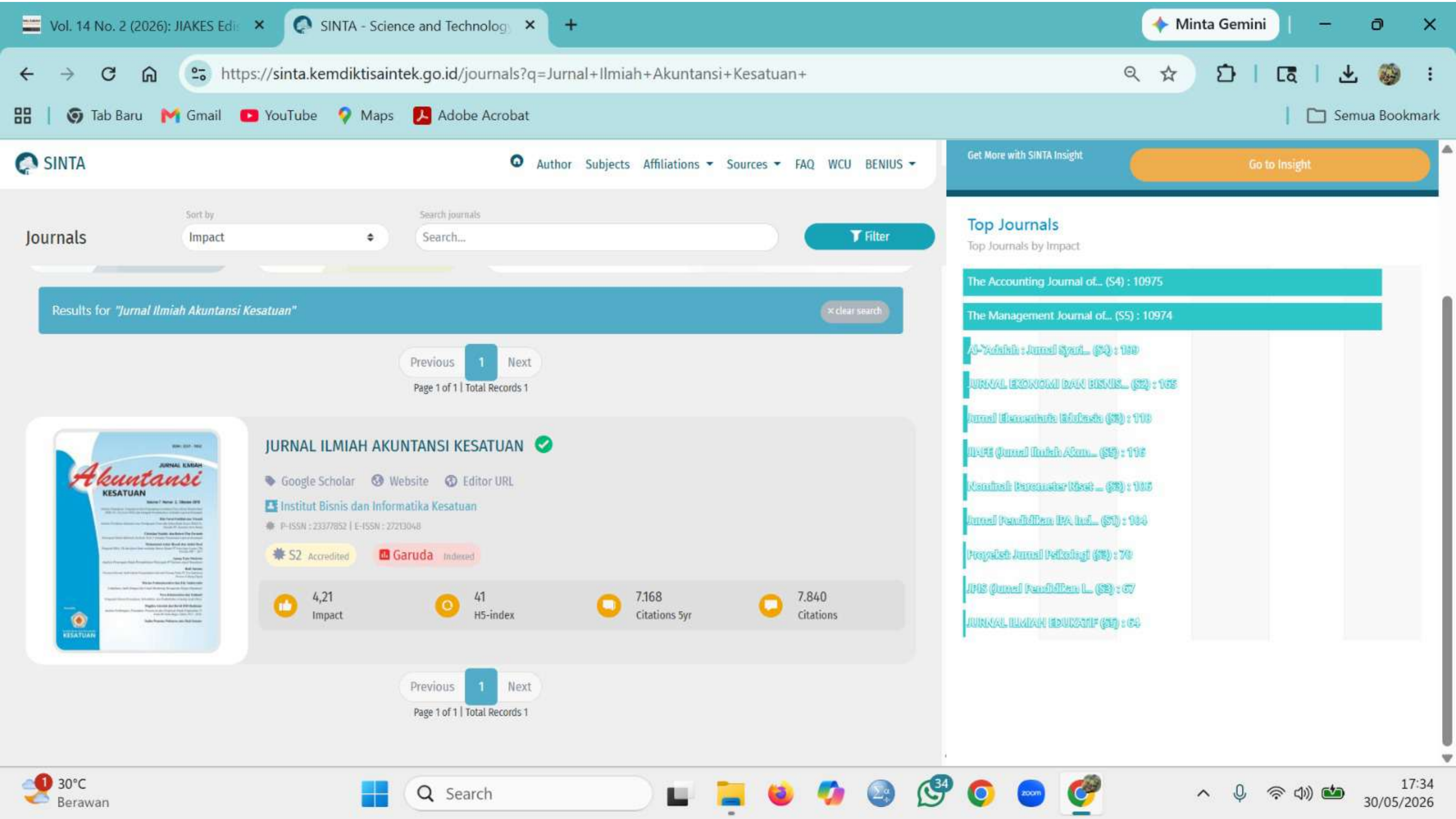
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Alexandra Hukom
Univeritas Palangka Raya, Indonesia

Wiwin Zakiah
Univeritas Palangka Raya, Indonesia

DOI: https://doi.org/10.37641/jiakes.v13i6.4523

Keywords: Fiscal Capacity, Fiscal Independence, Financial Governance

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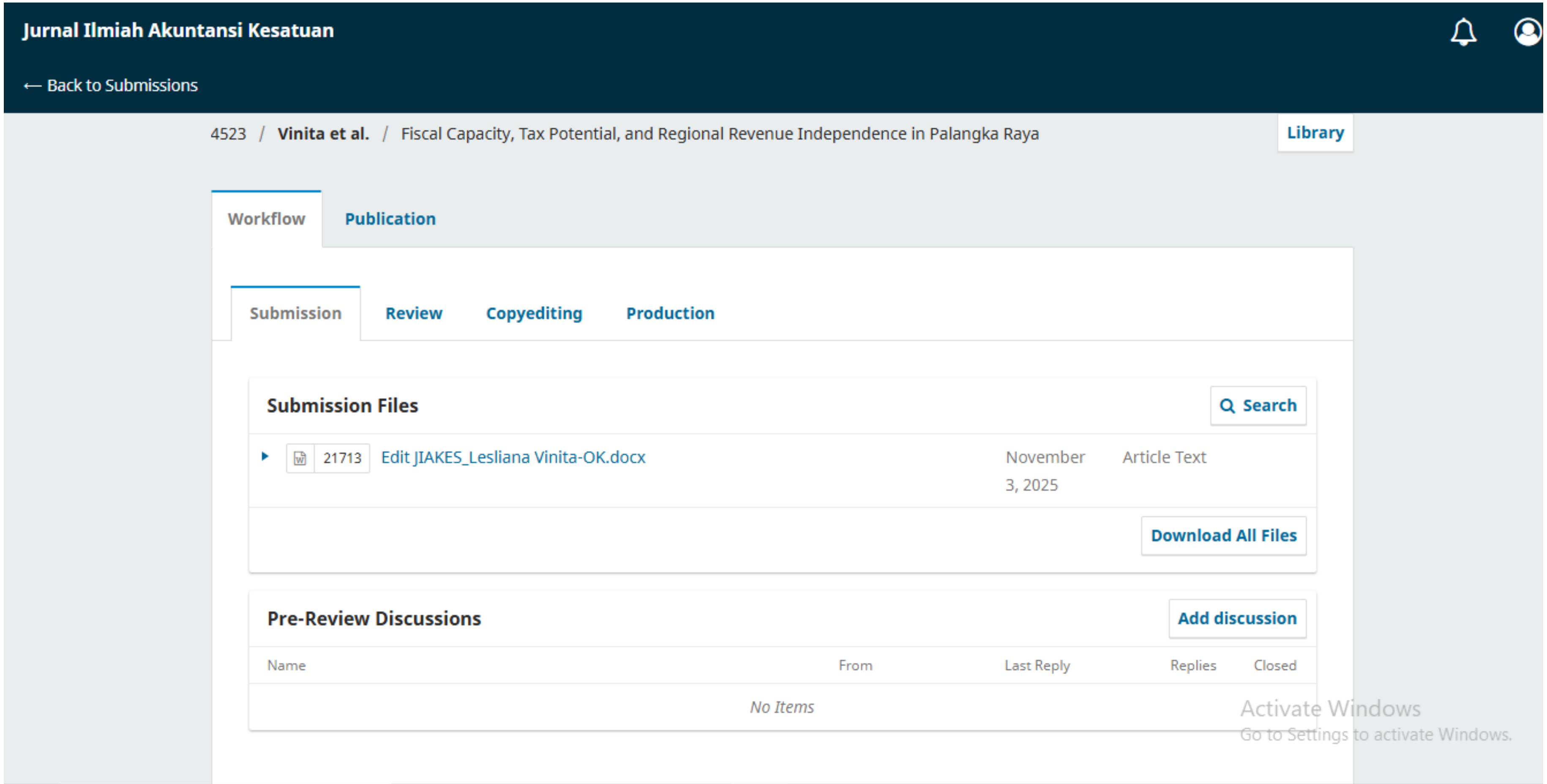
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We have reached a decision regarding your submission to Jurnal Ilmiah Akuntansi Kesatuan, "ANALYSIS OF THE EFFECT OF FISCAL CAPACITY, REGIONAL TAX POTENTIAL, AND FINANCIAL GOVERNANCE ON THE PAD INDEPENDENCE RATIO IN PALANGKA RAYA CITY".

Our decision is: Revisions Required

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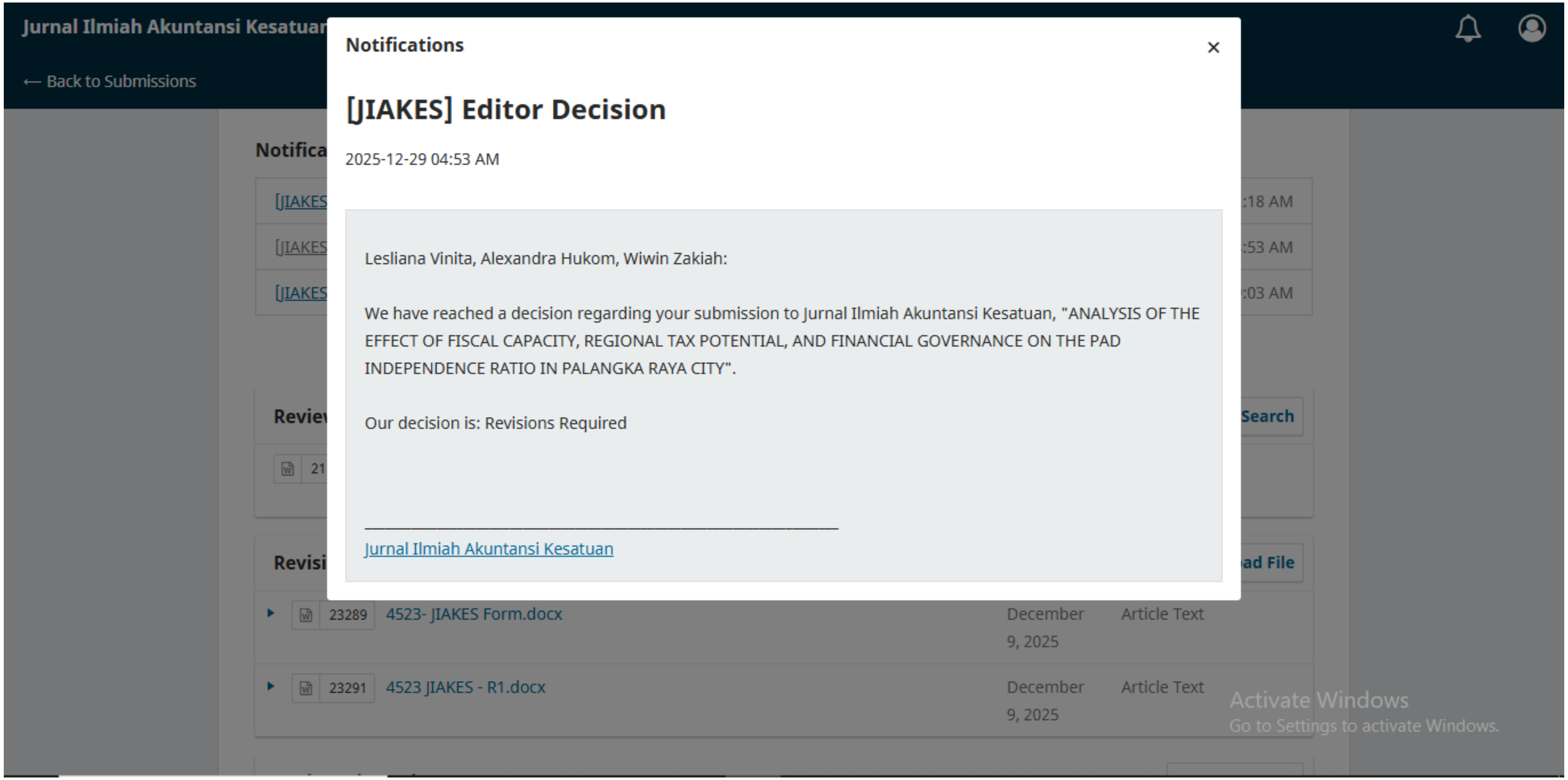

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We have reached a decision regarding your submission to Jurnal Ilmiah Akuntansi Kesatuan, "ANALYSIS OF THE EFFECT OF FISCAL CAPACITY, REGIONAL TAX POTENTIAL, AND FINANCIAL GOVERNANCE ON THE PAD INDEPENDENCE RATIO IN PALANGKA RAYA CITY".

Our decision is: Revisions Required

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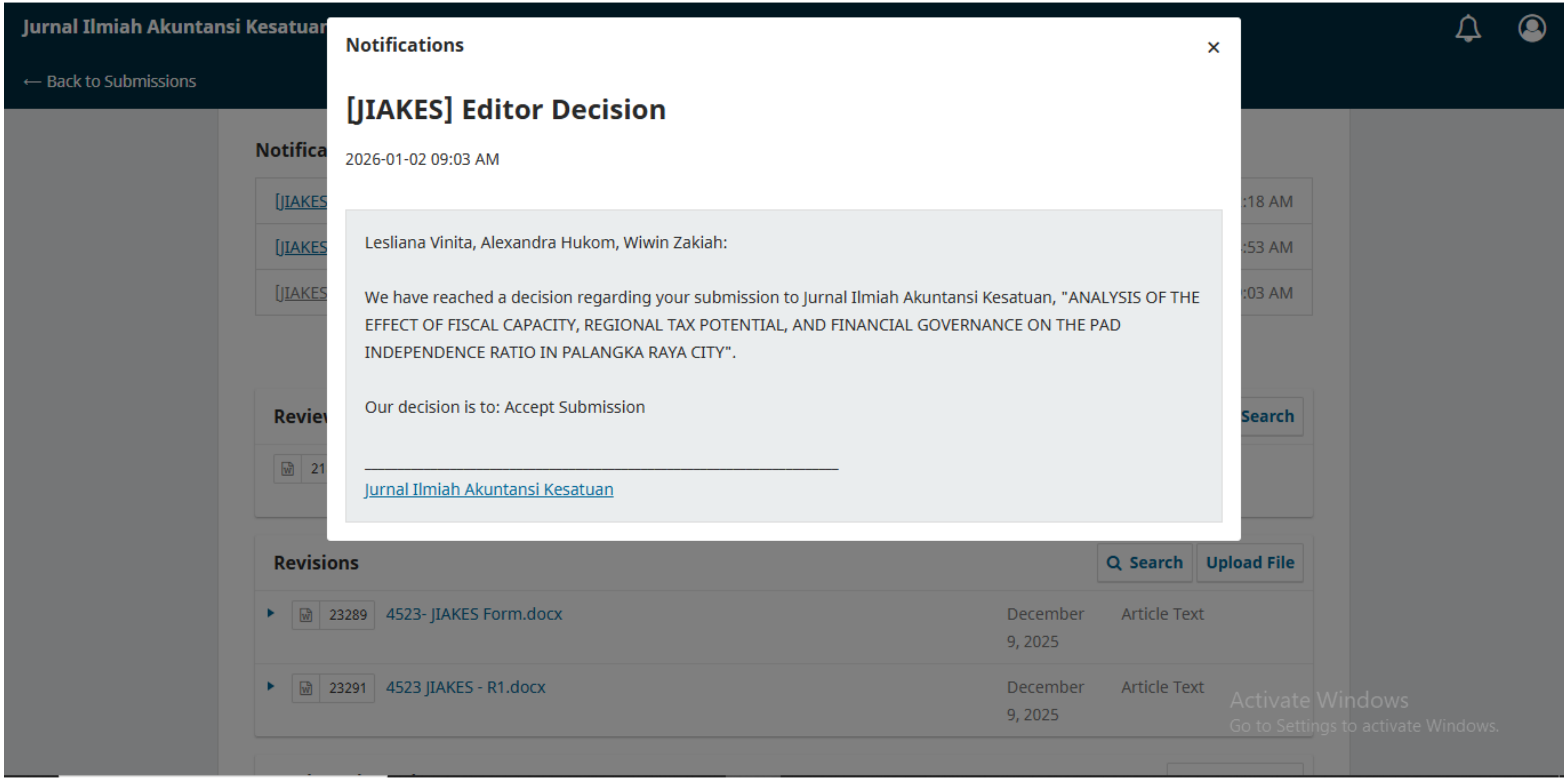
23291	4523 JIAKES - R1.docx	December 9, 2025	Article Text



Notifications

[JIAKES] Editor Decision

2026-01-02 09:03 AM

Lesliana Vinita, Alexandra Hukom, Wiwin Zakiah:

We have reached a decision regarding your submission to Jurnal Ilmiah Akuntansi Kesatuan, "ANALYSIS OF THE EFFECT OF FISCAL CAPACITY, REGIONAL TAX POTENTIAL, AND FINANCIAL GOVERNANCE ON THE PAD INDEPENDENCE RATIO IN PALANGKA RAYA CITY".

Our decision is to: Accept Submission

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4523 / **Vinita et al.** / Fiscal Capacity, Tax Potential, and Regional Revenue Independence in Palangka Raya

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This version has been published and can not be edited.

- Title & Abstract
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The 5th International Conference on Economics 2025 (ICE2025)

Faculty of Business, Economics and Accountancy, Universiti Malaysia Sabah, Sabah Economic Development and Investment Authority (SEDIA), Institute of Development Studies (Sabah) in collaboration with the Centre for Future Labour Market Studies (EU-ERA), is proud to present

CERTIFICATE

Presented to

Lesliana Vinita

As Presenter

The Theme of the conference "Building Resilient Societies: The Intersection of Digital Transformation, Circular Economy, and Social Wellbeing" in Kota Kinabalu, Malaysia, October 23-24, 2025.

ICE2025

R. Shapawi

Prof. Dr. Rossita Shapawi.
General Chairman

IJEBMR
ISSN: 2456-7760

CERTIFICATE OF PUBLICATION

Certificate of publication for the article titled:

(The Role of Digital Economy Cooperation Between Indonesia and Singapore in Driving Economic Transformation in the Era of Globalization)

Authored by:

Maria Trisna, Lesliana Vinita, Erlangga Wijaya, Chandra Meida Dewi, Indonesia

Published in:

Volume 9, Issue 11, Nov 2025

International Journal of Economics, Business and Management Research
Published by: Alicon Publications
www.ijebmr.com

Tahun	Triwulan	Kapasitas Fiskal (PAD Rp Miliar)	Potensi Ekonomi Lokal (PDRB Rp Miliar)	Tata Kelola Keuangan (Indeks LKPD)	Kemandirian Pendapatan Daerah (%)
2015	Q1	230	2,800	70	15
2015	Q2	240	2,850	70	15
2015	Q3	250	2,900	70	15
2015	Q4	280	2,950	70	15
2016	Q1	260	3,000	72	16
2016	Q2	270	3,050	72	16
2016	Q3	280	3,100	72	16
2016	Q4	290	3,150	72	16
2017	Q1	300	3,200	73	16.5
2017	Q2	310	3,250	73	16.5
2017	Q3	320	3,300	73	16.5
2017	Q4	330	3,350	73	16.5
2018	Q1	340	3,400	74	17
2018	Q2	350	3,450	74	17
2018	Q3	360	3,500	74	17
2018	Q4	370	3,550	74	17
2019	Q1	380	3,600	75	18
2019	Q2	390	3,650	75	18
2019	Q3	400	3,700	75	18
2019	Q4	410	3,750	75	18
2020	Q1	420	2,700	74	17.5
2020	Q2	410	2,600	74	17.5
2020	Q3	400	2,650	74	17.5
2020	Q4	405	2,700	74	17.5
2021	Q1	430	2,800	76	18.5
2021	Q2	440	2,850	76	18.5
2021	Q3	450	2,900	76	18.5
2021	Q4	460	2,950	76	18.5
2022	Q1	470	3,000	78	19
2022	Q2	480	3,050	78	19
2022	Q3	490	3,100	78	19
2022	Q4	500	3,150	78	19
2023	Q1	510	3,200	79	19.5
2023	Q2	520	3,250	79	19.5
2023	Q3	530	3,300	79	19.5
2023	Q4	540	3,350	79	19.5
2024	Q1	550	3,400	80	20
2024	Q2	560	3,450	80	20
2024	Q3	570	3,500	80	20
2024	Q4	580	3,550	80	20

Tahun	Triwulan	Kapasitas Fiskal (PAD Rp Miliar)	Potensi Ekonomi Lokal (PDRB Rp Miliar)	Tata Kelola Keuangan (Indeks LKPD)	Kemandirian Pendapatan Daerah (%)
2015	Q1	230	2800	70	15
2015	Q2	240	2850	70	15
2015	Q3	250	2900	70	15
2015	Q4	280	2950	70	15
2016	Q1	260	3000	72	16
2016	Q2	270	3050	72	16
2016	Q3	280	3100	72	16
2016	Q4	290	3150	72	16
2017	Q1	300	3200	73	16.5
2017	Q2	310	3250	73	16.5
2017	Q3	320	3300	73	16.5
2017	Q4	330	3350	73	16.5
2018	Q1	340	3400	74	17
2018	Q2	350	3450	74	17
2018	Q3	360	3500	74	17
2018	Q4	370	3550	74	17
2019	Q1	380	3600	75	18
2019	Q2	390	3650	75	18
2019	Q3	400	3700	75	18
2019	Q4	410	3750	75	18
2020	Q1	420	2700	74	17.5
2020	Q2	410	2600	74	17.5
2020	Q3	400	2650	74	17.5
2020	Q4	405	2700	74	17.5
2021	Q1	430	2800	76	18.5
2021	Q2	440	2850	76	18.5
2021	Q3	450	2900	76	18.5
2021	Q4	460	2950	76	18.5
2022	Q1	470	3000	78	19
2022	Q2	480	3050	78	19
2022	Q3	490	3100	78	19
2022	Q4	500	3150	78	19
2023	Q1	510	3200	79	19.5
2023	Q2	520	3250	79	19.5
2023	Q3	530	3300	79	19.5
2023	Q4	540	3350	79	19.5
2024	Q1	550	3400	80	20
2024	Q2	560	3450	80	20
2024	Q3	570	3500	80	20
2024	Q4	580	3550	80	20