

The Effect of Financial Independence, Spending Efficiency, and Local Government Size on Fiscal Incentive Funds in Provincial Governments in Indonesia

Trio Anggara¹, Yuli Antina Aryani¹, Desri Yanto¹

¹Sriwijaya State Polytechnic, Palembang, Indonesia

*) Corresponding Email: trioanggraa@gmail.com

ARTICLE INFO

Article History:

Submitted July 09, 2026

Revised September 04, 2026

Accepted Online October 17, 2026

Keywords:

Financial Independence, Spending Efficiency, Local Government Size, Fiscal Incentive Funds

Copyright ©2026 by the Author,
Published by the Faculty of Economics
and Business, PGRI University of
Palembang

ABSTRACT

This study aims to determine the effect of Financial Independence, Expenditure Efficiency, and Local Government Size on Fiscal Incentive Funds, both partially and simultaneously, in Provincial Governments in Indonesia during the 2020–2024 period. The data used in this study are secondary data, obtained from the Provincial Government Financial Reports (LKPD) of all provinces in Indonesia for the 2020–2024 period, published on the official website of the Audit Board of the Republic of Indonesia (BPK RI). The population in this study consists of 38 provinces in Indonesia, with samples selected using a purposive sampling technique. Hypothesis testing in this study was conducted through multiple linear regression analysis, using IBM SPSS Version 26 as the data processing tool. The results show that Financial Independence has a positive and significant effect on Fiscal

Incentive Funds, while Expenditure Efficiency and Local Government Size have a negative and significant effect on Fiscal Incentive Funds.

A. INTRODUCTION

Since the enactment of Law No. 22 of 1999 concerning Regional Government, Indonesia entered a new chapter of decentralization and regional autonomy, which provided broader scope for local governments to manage their respective regional finances (Prabowo & Tjenreng, 2025). This change was accompanied by financial management reforms grounded in the principles of accountability, reliability, and transparency, which are essential for producing effective and efficient budgets as well as building public trust. Adequate financial information, presented through the Regional Government Financial Statements (LKPD), serves as a key instrument supporting both accountability and decision-making (Mahmudi, 2019), and based on Law No. 17 of 2003, such statements must comply with the Government Accounting Standards (SAP).

As a form of appreciation for sound financial management, the central government provides Fiscal Incentive Funds (previously known as Regional Incentive Funds/DID, renamed in 2023), which are regulated under Law No. 1 of 2022 and Minister of Finance Regulation (PMK) No. 160/PMK.07/2021. First introduced in 2011 and allocated since 2012, this fund is granted as an incentive to regions demonstrating outstanding performance in four aspects: financial governance, general government administration, basic public services, and community welfare. As stated in PMK No. 160/PMK.07/2021, the fund is allocated to specific regions based on particular criteria or categories, aimed at rewarding improvements and achievements in performance within those areas. Since eligibility to receive the fund depends on meeting these criteria, not all regions receive it every year, and the amount received also varies significantly, as shown in table.



**Table Fiscal Incentive Fund Receipts by Provincial Governments in Indonesia
(Rp billion)**

Province	2020	2021	2022	2023	2024
Aceh	10.39	6.73	31.88	10.45	17.85
North Sumatra	9.87	-	36.19	29.56	2.91
West Sumatra	35.16	50.72	-	8.62	13.25
Riau	21.60	32.47	40.00	21.55	5.86
Jambi	11.16	18.43	14.19	8.71	5.62
South Sumatra	29.19	-	60.87	-	6.63
Bengkulu	21.97	18.83	49.55	-	15.68
Lampung	19.57	17.39	1.44	62.06	27.26
Bangka Belitung Isl.	43.41	56.44	58.13	33.91	-
Riau Islands	38.63	44.44	50.15	6.69	11.32
DKI Jakarta	62.62	43.37	29.68	35.18	44.09
West Java	29.41	88.17	39.62	12.08	36.85
Central Java	68.42	68.71	61.35	87.20	38.00
D.I. Yogyakarta	63.20	77.59	64.31	80.88	12.09
East Java	56.82	52.44	67.26	71.89	17.96
Banten	44.30	44.97	46.28	26.94	19.62
Bali	50.85	37.58	50.36	67.89	23.16
West Nusa Tenggara	43.13	68.52	39.16	-	22.27
East Nusa Tenggara	7.72	7.44	13.96	-	11.35
West Kalimantan	-	16.64	16.33	6.20	19.42
Central Kalimantan	56.96	18.73	41.18	38.62	11.04
South Kalimantan	45.32	8.09	25.99	47.06	14.75
East Kalimantan	69.51	37.45	37.17	-	2.67
North Kalimantan	49.81	72.30	33.82	24.67	12.65
North Sulawesi	0.25	53.53	44.75	33.58	10.64
Central Sulawesi	23.62	45.03	60.96	5.60	-
South Sulawesi	0.50	24.51	-	71.47	18.97
Southeast Sulawesi	54.49	31.46	36.47	-	2.68
Gorontalo	19.65	39.74	70.65	30.45	7.68
West Sulawesi	9.65	16.44	42.86	8.62	-
Maluku	-	9.17	38.60	-	-
North Maluku	-	-	38.68	12.83	-
Papua	-	15.68	11.49	-	-
West Papua	19.91	-	10.75	-	-
South Papua	n/e	n/e	n/e	-	-
Central Papua	n/e	n/e	n/e	-	-
Highland Papua	n/e	n/e	n/e	-	-
Southwest Papua	n/e	n/e	n/e	-	-

Source: BPK RI Audit Reports on LKPD, processed 2026. "n/e" = not yet established; "-" = did not receive the fund that year.

Seventeen provinces consistently received Fiscal Incentive Funds for five consecutive years (2020–2024), namely Aceh, Riau, Jambi, Lampung, Kepulauan Riau, DKI Jakarta, Jawa Barat, Jawa Tengah, D.I. Yogyakarta, Jawa Timur, Banten, Bali, Kalimantan Tengah, Kalimantan Selatan, Kalimantan Utara, Sulawesi Utara, and Gorontalo. Nevertheless, the amounts received among these provinces varied sharply; in 2023, Jawa Tengah received the highest amount (IDR 87.1 billion), while Kepulauan Riau received only IDR 6.6 billion, even though both provinces met the recipient criteria every year. This gap has prompted a deeper examination of the factors influencing the magnitude of Fiscal Incentive Fund allocations.

The allocation of this fund depends on local government performance with respect to financial indicators, particularly financial independence and expenditure efficiency, which reflect a region's ability to finance its own activities and use its budget effectively (Hidayah et al., 2025). Local government size, generally measured by total assets, further illustrates the capacity and resources available to support the administration of government and public

services. Together, these three variables provide a comprehensive picture of regional financial capacity, which is believed to influence the receipt of Fiscal Incentive Funds.

Financial independence, calculated as the ratio of Locally Generated Revenue (PAD) to transfer revenue and loans, shows considerable variation even among the 17 consistently recipient provinces (Figure 1). Banten (278.57%), DKI Jakarta (243.75%), and Bali (242.42%) demonstrated strong financial independence through PAD, whereas Aceh (21.74%), Gorontalo (28.78%), and Kalimantan Utara (30.20%) remained highly dependent on central government transfers (Mahmudi, 2019).



Figure Financial Independence Ratio of Provincial Governments in Indonesia

Spending efficiency, which compares actual spending realization to the budget allocation (Mahmudi, 2019; Putri et al., 2025), also varied considerably (Figure 1.2). Most provinces fell into the "less efficient" category (90–100%), led by Kepulauan Riau (97.71%), Lampung (97.27%), and Jambi (96.72%), while Bali (79.08%, efficient) and Kalimantan Selatan (80.56%, sufficiently efficient) demonstrated more controlled budget management..

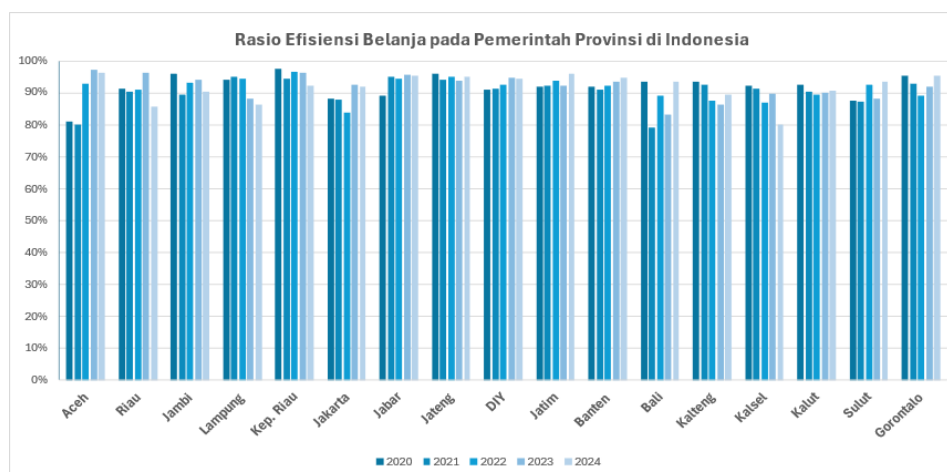


Figure Spending Efficiency Ratio of Provincial Governments in Indonesia

In addition to these two ratios, local government size, measured by total assets, may also influence financial performance, as larger total assets generally provide greater capacity to support government administration and public service delivery (Syaputri et al., 2025; Aulia, 2021). However, previous studies have shown inconsistent evidence regarding how these three variables relate to the receipt of Fiscal Incentive Funds. Septiani & Gamayuni (2023), Hidayah et al. (2025), and Putri et al. (2025) found that financial independence has a positive



effect on Fiscal Incentive Funds, and Septiani & Gamayuni (2023) along with Hidayah et al. (2025) found the same for spending efficiency, whereas Putri et al. (2025) found a negative effect. Similarly, Aisyah et al. (2026) and Syaputri et al. (2025) found that local government size has a positive effect on financial performance, while Febriyanti et al. (2026), Putri & Amanah (2021), and Sari & Mustanda (2019) found a negative effect, which was attributed to suboptimal asset management.

These inconsistencies, coupled with differences in regional characteristics and study periods, motivate this study to re-examine these three variables using a longer observation period (2020–2024) compared to previous studies (generally 2021–2023), as well as adding local government size as a variable alongside financial independence and spending efficiency, replacing the measures of PAD effectiveness and financial efficiency used in earlier studies.

B. THEORETICAL STUDY

Stewardship Theory

This study is grounded in stewardship theory. This theory posits that managerial behavior is not driven by individual self-interest, but rather directed toward achieving organizational goals and collective interests (Davis et al., 1997). Stewardship theory assumes that individuals are inherently trustworthy, possess high responsibility and integrity, and act honestly toward others. In the context of public sector accounting, local governments are viewed as stewards responsible for managing budgets, providing public services, and implementing development policies with an orientation toward long-term benefits for society.

When local governments fulfill their role as stewards by upholding transparency and accountability and demonstrating good performance, they build a higher level of trust from the central government, which in turn increases their opportunities to receive rewards/incentives such as Fiscal Incentive Funds. In this regard, Fiscal Incentive Funds are not merely financial assistance, but a form of appreciation for accountability and performance. This is supported by Septiani & Gamayuni (2023), Hidayah et al. (2025), and Putri et al. (2025), who emphasize that ethical and professional financial management, including well-planned budgeting, transparent financial reporting, independent auditing, and effective oversight, strengthens a region's opportunity to obtain recognition through fiscal incentive funds.

Fiscal Incentive Fund

Fiscal Incentive Funds are part of the Transfer to Regions and Village Funds (TKDD) scheme, allocated by the central government as a reward to regions that demonstrate good financial management performance (Halim, 2017). Based on PMK No. 160/PMK.07/2021, this fund is granted based on the achievement of specific criteria in regional financial governance, general government administration, basic public services, and community welfare.

The main eligibility criteria include obtaining an Unqualified Opinion (WTP) from the Audit Board (BPK) on regional financial statements, timely enactment of the Regional Budget (APBD), implementation of e-Procurement (minimum category B), an e-Budgeting system, and integrated one-stop public services. In addition, based on PMK No. 167/PMK.07/2020, the performance criteria assessed include fiscal health and financial management, basic public services (education, health, infrastructure), general government administration, community welfare, investment growth, export growth, waste management, inflation control, and corruption prevention. The fund is disbursed in two stages: 50% in Stage I (February–June) and 50% in Stage II (starting from July).

Local Government Financial Performance

Based on Government Regulation (PP) No. 12 of 2019 concerning Regional Financial Management, performance refers to the measurable outcomes of planned programs and activities related to budget utilization. The financial performance of local governments reflects the extent to which the management of regional revenue and spending has succeeded in achieving the government's objectives, targets, vision, and mission within one fiscal year. Financial ratio analysis, which includes independence and efficiency ratios, serves as a key

instrument for evaluating the accountability of regional financial management (Mahmudi, 2019). In this study, financial ratio analysis is represented through Financial Independence, Spending Efficiency, and Local Government Size.

Financial Independence

Financial independence reflects a local government's ability to finance governmental activities, development, and public services on its own, calculated by comparing Locally Generated Revenue (PAD) to transfers from the central and provincial governments plus regional loans (Mahmudi, 2019). A higher ratio indicates greater financial independence, while a lower ratio reflects greater dependence on central government transfers. Halim (2017) categorizes the pattern of relationship between the central and local governments based on this ratio into four levels: very low (0–25%), low (25–50%), moderate (50–75%), and high (75–100%).

Spending Efficiency

Spending efficiency compares actual spending realization to the budget allocation, indicating how economically a local government utilizes its budget (Mahmudi, 2019; Silitonga, 2022). A lower spending efficiency ratio indicates more efficient budget utilization, based on the classification issued by Kepmendagri No. 690.900-327 (1996): >100% (inefficient), 90–100% (less efficient), 80–90% (sufficiently efficient), 60–80% (efficient), and <60% (very efficient).

Local Government Size

According to Law No. 23 of 2014 concerning Regional Government, local government size is a criterion used to determine the scale and capacity of a region. Local government size is generally represented by total assets (Sari et al., 2016). Greater asset ownership is expected to support better public service delivery (Aulia, 2021). Local governments with larger capacity also tend to face greater pressure to disclose their financial performance, often by highlighting positive achievements ("good news") in their reporting in order to strengthen their performance scores.

C. RESEARCH METHODS

This study applies a quantitative approach utilizing secondary data sourced from the Audit Report (LHP) on the Financial Statements (LKPD) of provincial governments throughout Indonesia for the 2020–2024 period, obtained through the official website of the Audit Board of the Republic of Indonesia (BPK RI) at e-ppid.bpk.go.id.

The dependent variable in this study is Fiscal Incentive Funds (Y), while the independent variables consist of Financial Independence (X1), Spending Efficiency (X2), and Local Government Size (X3). The operational definitions and measurements of each variable are presented in Table below.

Table Operational Definition of Variables

Variable	Definition	Measurement	Scale
Fiscal Incentive Fund (Y)	A component of the Transfer to Regions and Village Funds (TKDD) sourced from the State Budget (APBN), allocated to local governments as a reward for the achievement of certain performance criteria.	Ln (Total Fiscal Incentive Fund)	Ratio
Financial Independence (X1)	Describes the ability of local governments to finance the administration of government independently (Mahmudi, 2019).	$PAD \div (\text{Transfer Revenue} + \text{Borrowing}) \times 100\%$ (Mahmudi, 2019)	Ratio



Variable	Definition	Measurement	Scale
Spending Efficiency (X2)	A comparison between actual and budgeted spending, used to assess the efficiency of local government budget utilization (Mahmudi, 2019).	Realized Expenditure ÷ Budgeted Expenditure × 100% (Mahmudi, 2019)	Ratio
Local Government Size (X3)	Describes the scale of an organization's capacity and resources owned by a local government, generally measured through total assets (Syaputri et al., 2025).	Ln (Total Assets) (Sari et al., 2016)	Ratio

Source: Processed by the author (2026).

The population of this study consists of all 38 provincial governments in Indonesia. The sample was determined using a purposive sampling technique, based on predetermined criteria. A summary of the sample selection criteria is presented in Table.

Table Sample Selection Criteria

No.	Criteria	Count
1	Provincial governments in Indonesia	38
2	Provincial governments that did not fully publish their Budget Realization Reports for 2020–2024 on the BPK RI website	(4)
3	Provincial governments with a very low financial independence ratio (< 25%)	(4)
4	Provincial governments that did not receive the Fiscal Incentive Fund every year during the 2020–2024 research period	(13)
5	Provincial governments selected as the research sample	17
6	Number of years observed (2020–2024)	5
Total (17 provinces × 5 years)		85

Source: Data processed by the author (2026).

Based on these criteria, the final sample consists of 17 provincial governments, namely Aceh, Riau, Jambi, Lampung, Kepulauan Riau, DKI Jakarta, Jawa Barat, Jawa Tengah, Daerah Istimewa Yogyakarta, Jawa Timur, Banten, Bali, Kalimantan Tengah, Kalimantan Selatan, Kalimantan Utara, Sulawesi Utara, and Gorontalo. All samples were observed over a 5-year period (2020–2024), resulting in 85 units of analysis.

D. RESULTS AND DISCUSSION

Results

Descriptive Statistical Analysis

Descriptive statistics results for the four research variables are presented in table. For Financial Independence, the lowest value was 21.74%, recorded in Aceh Province in 2020, while the highest value was 278.57%, recorded in Banten Province in 2023, with a mean of 110.11% and a relatively high standard deviation of 70.22. This condition reflects a fairly significant gap in the level of fiscal independence among provinces. For Spending Efficiency, the minimum value of 79.08% was found in Bali Province in 2021, while the maximum value of 98.11% was found in Aceh Province in 2023, with a mean of 91.58% and a standard deviation of 4.08, indicating a relatively low level of data variation. Local Government Size, measured using the natural logarithm of total assets, had a minimum value of 28.05 in Gorontalo Province in 2022 and a maximum value of 34.33 in DKI Jakarta Province in 2022, with a mean of 30.61. Meanwhile, the Fiscal Incentive Funds variable, also expressed in natural logarithm form, had a minimum value of 23.18 in Lampung Province in 2022 and a maximum value of 24.56 in Jawa Tengah Province in 2023, with a mean of 24.08 and a standard deviation of 0.29.

Table Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Dev
X1 – Financial Independence	21.74	278.57	110.1148	70.21671
X2 – Spending Efficiency	79.08	98.11	91.5838	4.07884
X3 – Local Government Size	28.05	34.33	30.6129	1.21765
Y – Fiscal Incentive Fund	23.18	24.56	24.0803	0.28654

Source: SPSS Version 26 Output (2026); N = 85 for all variables.

Classical Assumption Test

Normality Test

The normality test conducted using the Kolmogorov–Smirnov approach produced an Asymp. Sig. (2-tailed) value of 0.200, exceeding the 0.05 significance threshold. This finding indicates that the residual data in this study conform to the assumption of normal distribution. This conclusion is further supported by the Normal Probability Plot (Figure 3), which shows the data points scattered along the diagonal line, and the standardized residual histogram (Figure 4), which displays a symmetrical bell-shaped curve without any meaningful indication of skewness.

Table Normality Test (Kolmogorov-Smirnov)

Normality Indicator (Unstandardized Residual)	Value
N	85
Mean	0.0000000
Std. Deviation	0.22243161
Kolmogorov-Smirnov Z (Test Statistic)	0.077
Asymp. Sig. (2-tailed)	0.200

Source: SPSS Version 26 Output (2026). SPSS Version 26 Output (2026).

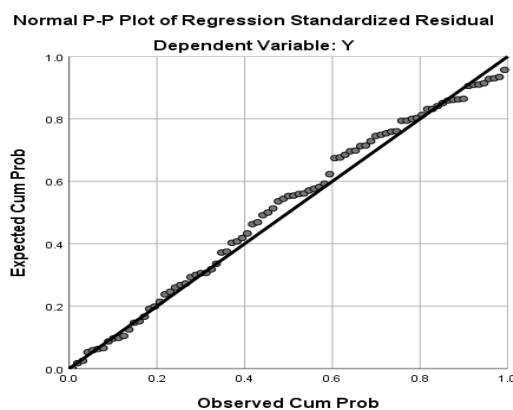


Figure Normal Probability Plot of Regression Standardized Residual

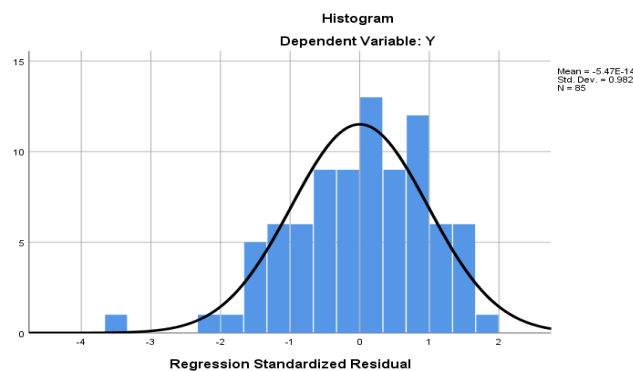


Figure Histogram of Regression Standardized Residual



Multicollinearity Test

Table Multicollinearity Test

Variable	Tolerance	VIF
X1 – Financial Independence	0.669	1.495
X2 – Spending Efficiency	0.966	1.035
X3 – Local Government Size	0.673	1.485

SPSS Version 26 Output (2026). Dependent Variable: Y.

Based on the results of the multicollinearity test, tolerance values > 0.10 and VIF values < 10 were obtained for all three independent variables. These results indicate that no multicollinearity was found among the variables of Financial Independence, Spending Efficiency, and Local Government Size.

Autocorrelation Test

Table Durbin-Watson Autocorrelation Test

R Square	Adjusted R ²	Std. Error of Estimate	Durbin-Watson
0.397	0.375	0.22651	1.357

SPSS Version 26 Output (2026).

To detect the presence or absence of autocorrelation, this study used the Durbin–Watson (DW) statistical test, which produced a value of 1.357. Since this value falls within the criterion range of -2 to $+2$, the regression model constructed in this study can be considered free from autocorrelation problems.

Heteroscedasticity Test

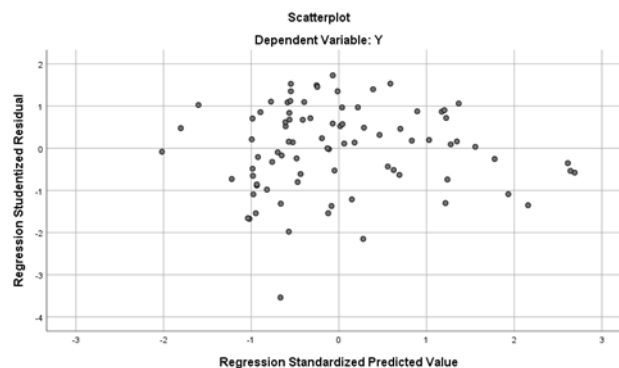


Figure Heteroscedasticity Scatterplot

The resulting scatterplot shows that the data points are randomly scattered around zero on the Y-axis, in both positive and negative areas, without forming any particular regular pattern. This condition indicates that the regression model is free from heteroscedasticity, or can be said to be homoscedastic. Overall, the results of the classical assumption tests conducted show that the regression model in this study has satisfied all the required assumptions, and is therefore considered suitable for use in further analysis.

Multiple Linear Regression Analysis

This analysis serves to measure the effect of Financial Independence, Spending Efficiency, and Local Government Size on Fiscal Incentive Funds. The results of the analysis are presented in table, which produces the following regression equation:

Table Multiple Linear Regression Results

Model	B	Beta
(Constant)	26.921	—
X1 – Financial Independence	0.003	0.733
X2 – Spending Efficiency	-0.015	-0.206
X3 – Local Government Size	-0.060	-0.256

Source: SPSS Version 26 Output (2026). Dependent Variable: Y.

$$\text{Fiscal Incentive Fund} = 26.921 + 0.003 X1 - 0.015 X2 - 0.060 X3 + e$$

The constant value obtained is 26.921, meaning that if the three independent variables Financial Independence, Spending Efficiency, and Local Government Size are all equal to zero, the predicted value of Fiscal Incentive Funds remains positive at 26.921. For the Financial Independence variable (X1), a positive regression coefficient of 0.003 was obtained, indicating that a 1% increase in Financial Independence would drive an increase in Fiscal Incentive Funds of 0.003, assuming the other independent variables remain constant. In contrast, the Spending Efficiency variable (X2) shows a negative regression coefficient of – 0.015. This means that a 1% increase in the Spending Efficiency ratio which indicates a decline in spending efficiency would actually decrease Fiscal Incentive Funds by 0.015. Meanwhile, the Local Government Size variable (X3) also shows a negative regression coefficient of – 0.060, meaning that a 1% increase in Local Government Size would result in a decrease in Fiscal Incentive Funds of 0.060, assuming the other independent variables remain constant.

Hypothesis Testing

Coefficient of Determination (R²)

To determine the extent to which the model is able to explain the variation occurring in the dependent variable, a coefficient of determination measurement was used. The results of this test are presented in detail in table.

Table Coefficient of Determination

R	R Square	Adjusted R ²	Std. Error of Estimate
0.630	0.397	0.375	0.22651

Source: SPSS Version 26 Output (2026).

Predictors: (Constant), X3, X2, X1; Dependent Variable: Y

The Adjusted R² value obtained was 0.375, indicating that the three independent variables Financial Independence, Spending Efficiency, and Local Government Size simultaneously explain 37.5% of the variation in Fiscal Incentive Funds. The remaining 62.5% is explained by other factors/variables not included in this study's model.

Partial Significance Test (t-Test)

The t-test was conducted to examine the effect of each independent variable partially on Fiscal Incentive Funds, using a significance level of 0.05 and a t-table value (df = 81) of 1.98969. The results of this test are presented in detail in Table 10.

Table Partial Significance (t-Test) Results

Model	t	Sig.	Decision
X1 – Financial Independence	6.951	0.000	H1 accepted
X2 – Spending Efficiency	-2.353	0.021	H2 accepted
X3 – Local Government Size	-2.433	0.017	H3 accepted

Source: SPSS Version 26 Output (2026).

Dependent Variable: Y. t-table (df = 81, α = 0.05) = 1.9896



For Financial Independence (X1), a calculated t-value of 6.951 was obtained with a significance level of 0.000 (< 0.05). Since the calculated t-value exceeds the t-table value, it can be concluded that Financial Independence has a partial positive and significant effect on Fiscal Incentive Funds, so H1 is accepted. Next, Spending Efficiency (X2) obtained a calculated t-value of -2.353 with a significance level of 0.021 (< 0.05), indicating that Spending Efficiency has a partial negative and significant effect on Fiscal Incentive Funds, so H2 is accepted. Meanwhile, Local Government Size (X3) obtained a calculated t-value of -2.433 with a significance level of 0.017 (< 0.05), indicating that Local Government Size has a partial negative and significant effect on Fiscal Incentive Funds, so H3 is accepted.

Simultaneous Significance Test (F-Test)

The presence or absence of a simultaneous effect of the three independent variables Financial Independence, Spending Efficiency, and Local Government Size on Fiscal Incentive Funds was determined through the F-test. This test used a significance level of 0.05, with an F-table value ($df_1 = 3$; $df_2 = 81$) of 2.72, and the results are presented in table.

Table Simultaneous Significance (F-Test) Results

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.741	3	0.914	17.808	0.000
Residual	4.156	81	0.051		
Total	6.897	84			

Source: SPSS Version 26 Output (2026). Dependent Variable: Y. F-table ($df_1 = 3$, $df_2 = 81$, $\alpha = 0.05$) = 2.72.

The results of the F-test show a calculated F-value of 17.808 with a significance level of 0.000 (< 0.05). Since the calculated F-value $>$ the F-table value of 2.72, it can be concluded that Financial Independence, Spending Efficiency, and Local Government Size jointly (simultaneously) have a significant effect on Fiscal Incentive Funds. Based on these results, H4 is accepted.

Discussion

The Effect of Financial Independence on the Fiscal Incentive Fund

The positive and significant effect of Financial Independence on Fiscal Incentive Funds indicates that provincial governments with a greater ability to finance their expenditures through Locally Generated Revenue (PAD) tend to receive larger Fiscal Incentive Funds. This finding is in line with Mahmudi (2019), who argues that a high level of financial independence reflects strong fiscal autonomy and sound regional financial conditions. This finding is also consistent with Septiani and Gamayuni (2023), Hidayah et al. (2025), and Putri et al. (2025). For example, the financial independence ratio of Bali Province increased from 111.28% in 2021 to 191.47% in 2022, followed by an increase in Fiscal Incentive Funds from IDR 37.58 billion to IDR 50.36 billion. Based on Stewardship Theory, local governments that are able to improve their financial independence demonstrate good resource management, thereby gaining the trust of the central government through Fiscal Incentive Funds.

The Effect of Spending Efficiency on the Fiscal Incentive Fund

The negative and significant effect of Spending Efficiency indicates that the lower the spending efficiency ratio (i.e., the more efficient), the greater the Fiscal Incentive Funds received by local governments. This finding is in line with Mahmudi (2019) as well as Putri et al. (2025), Hidayah et al. (2025), and Pasinringi (2022). For example, when Bali Province's spending efficiency ratio improved from 88.82% in 2022 to 82.69% in 2023, Fiscal Incentive Funds increased from IDR 50.36 billion to IDR 67.89 billion. Based on Stewardship Theory, local governments capable of managing their budgets efficiently demonstrate responsibility in managing public resources, thereby earning recognition from the central government.

The Effect of Local Government Size on the Fiscal Incentive Fund

The negative and significant effect of Local Government Size indicates that a larger total asset value does not always correspond to a larger amount of Fiscal Incentive Funds received. This finding is in line with Febriyanti et al. (2026), Putri and Amanah (2021), and Sari and Mustanda (2019). As an illustration, DKI Jakarta had total assets of IDR 715.50 trillion in 2023, yet received only IDR 35.18 billion in Fiscal Incentive Funds, while Jawa Tengah, with assets of IDR 40.93 trillion, received IDR 87.20 billion. Based on Stewardship Theory, large assets need to be managed optimally in order to improve regional financial performance.

The Simultaneous Effect of Financial Independence, Spending Efficiency, and Local Government Size on the Fiscal Incentive Fund

The results of the simultaneous test show that Financial Independence, Spending Efficiency, and Local Government Size jointly have a significant effect on Fiscal Incentive Funds. This indicates that the allocation of Fiscal Incentive Funds takes into account the overall quality of regional financial management, ranging from the ability to generate PAD and the efficiency of spending management to the management of regional assets. This finding is in line with the studies of Septiani and Gamayuni (2023), Hidayah et al. (2025), Putri et al. (2025), Febriyanti et al. (2026), Putri and Amanah (2021), and Sari and Mustanda (2019). Based on Stewardship Theory, local governments capable of optimally managing revenue, spending, and assets will gain the trust of the central government through Fiscal Incentive Funds.

E. CONCLUSION AND SUGGESTIONS

Conclusion

Based on the results and discussion regarding the effect of Financial Independence, Spending Efficiency, and Local Government Size on the Fiscal Incentive Fund among provincial governments in Indonesia during 2020–2024, the following conclusions can be drawn:

1. Financial Independence (X1) has a significant positive effect on Fiscal Incentive Funds. This means that the greater a region's ability to finance its needs through Locally Generated Revenue (PAD), the larger the Fiscal Incentive Funds it receives.
2. Spending Efficiency (X2) has a significant negative effect on Fiscal Incentive Funds. This means that the lower the spending efficiency ratio (i.e., the more efficient the budget utilization), the larger the Fiscal Incentive Funds received by local governments.
3. Local Government Size (X3) has a significant negative effect on Fiscal Incentive Funds. This indicates that a larger total asset value is not always followed by a larger amount of Fiscal Incentive Funds received, suggesting that asset size is not the sole indicator reflecting the quality of regional financial management.
4. Financial Independence, Spending Efficiency, and Local Government Size simultaneously have a significant effect on Fiscal Incentive Funds. This indicates that a region's ability to finance its own needs, manage spending efficiently, and optimize assets collectively influences the amount of Fiscal Incentive Funds received.

Suggestions

Based on the findings of this study, the researcher offers the following suggestions:

1. For local governments, it is recommended to continuously improve financial independence by optimizing Locally Generated Revenue (PAD), maintaining spending efficiency by prioritizing effective programs, and optimizing the management of regional assets so that they contribute to improved financial performance. In addition, local governments need to implement sound financial governance in order to meet the eligibility criteria for Fiscal Incentive Funds.
2. For the central government, particularly the Ministry of Finance, it is recommended to continuously refine the Fiscal Incentive Funds assessment system to make it more transparent and reflective of the actual conditions of each region. The central government



should also strengthen mentoring programs for regions with lower performance in order to help them improve their financial management capacity.

3. For future researchers, it is recommended to add other variables related to financial performance as well as non-financial factors, considering that the assessment of Fiscal Incentive Funds is not based solely on financial aspects, but also encompasses public services, community welfare, inflation control, corruption prevention, and other performance indicators.

BIBLIOGRAPHY

- Aisyah, R., Armaini, R., & Dwitayanti, Y. (2026). The Influence of Local Government Size, Leverage, Capital Expenditure, and Balancing Funds on the Financial Performance of Regency/City Local Governments in South Sumatra Province. *JEMSI (Journal of Economics, Management, and Accounting)*, 12(1), 37–46.
- Aulia, R. E. (2021). The Influence of Regional Size, Degree of Dependence on the Central Government, and Regional Expenditure on Local Government Performance. Islamic University of Riau.
- Davis, J. H., Schoorman, D. F., & Donaldson, L. (1997). Toward a Stewardship Theory of Management. *Academy of Management Review*, 22(1), 20–47.
- Febriyanti, K., Zulkifli, & Oktarida, A. (2026). Determinants of Regional Government Financial Performance in Indonesia. *Journal of Applied Economics, Accounting, and Business*, 8(1), 35–53.
- Halim, A. (2017). Public Sector Financial Management (Edisi ke 2). Salemba Empat.
- Hidayah, A., AR, S., & Mayasari, R. (2025). The Influence of Financial Performance on Fiscal Incentive Funds for Provincial-Level Local Governments in Indonesia. *Economic Reviews Journal*, 4(2), 843–859. <https://doi.org/10.56709/mrj.v4i2.530>
- Mahmudi. (2019). AAnalysis of Local Government Financial Reports: Concepts and Applications. UPP STIM YPKN.
- Pasinringi, A. M. F. (2022). The Effectiveness of Regional Expenditure Management in Increasing Regional Incentive Funds in Barru Regency, South Sulawesi Province. Institute of Domestic Governance (Institut Pemerintahan Dalam Negeri).
- Prabowo, A., & Tjenreng, M. B. Z. (2025). Decentralization and Regional Autonomy: A Historical and Conceptual Review. *International Journal of Science and Society*, 7(1), 413–425. <https://doi.org/10.54783/ijssoc.v7i1.1082>
- Putri, N. A., Yulina, B., & Dwitayanti, Y. (2025). PThe Influence of the Independence Ratio, Locally-Generated Revenue (PAD) Effectiveness Ratio, Expenditure Efficiency Ratio, and Financial Efficiency Ratio on Fiscal Incentive Funds for Provincial Governments in Indonesia. Al-Kharaj: *Journal of Islamic Economics, Finance & Business*, 7(10), 3488–3502. <https://doi.org/10.47467/alkharaj.v7i10.9143>
- Putri, R. A. R., & Amanah, L. (2021). The Influence of Local Government Size, Locally-Generated Revenue, and Balancing Funds on Local Government Financial Performance. *Journal of Accounting Science and Research*, 9(8).

- Ruhmaini, R., Abdullah, S., & Darwanis, D. (2019). Analysis of Budget Expenditure Absorption in the Central Aceh Regency Government. *Jurnal Perspektif Ekonomi Darussalam*, 4(1), 31–43. <https://doi.org/10.24815/jped.v4i1.10914>
- Sari, I. P., Agusti, R., & Rofika. (2016). The Influence of Local Government Size, Locally-Generated Revenue (PAD), Leverage, Balancing Funds, and Legislative Size on Local Government Financial Performance. 3(1), 679–692.
- Sari, N. M. D. P., & Mustanda, I. K. (2019). The Influence of Local Government Size, Locally-Generated Revenue, and Capital Expenditure on Local Government Financial Performance. *E-Journal of Management*, 8(8), 4759–4787.
- Septiani, P. R., & Gamayuni, R. R. (2023). The Influence of Financial Performance on the Receipt of Regional Incentive Funds by Provincial Governments in Indonesia. *Student Scientific Creativity Journal (SSCJ)*, 1(2), 843–859. <https://doi.org/10.56709/mrj.v4i2.530>
- Silitonga, P. V. (2022). Analysis of the Budget Realization Report at the Regional Financial and Asset Management Agency of Medan City. *Prima Journal of Economics, Business, and Management*, 4(1), 1–17.
- Suseno, B. N. (2025). Regional Financial Autonomy in Supporting Government Performance in Tangerang City, Banten Province. Institute of Domestic Governance (Institute of Homeland Government)., 32(3), 167–186.
- Syaputri, T. S., Periansya, & Hartaty, S. (2025). Determinants of Provincial Government Financial Performance in Indonesia, 2019–2023. *Jurnal Media Wahana Ekonomika*, 22(3), 648–661.

