

ABSTRACT

The implementation of fiscal decentralization in Indonesia aims to enhance regional financial independence through strengthening the fiscal capacity of local governments. However, most regencies/cities still exhibit low levels of independence and high dependence on transfer funds from the central government. Differences in fiscal characteristics across regions indicate heterogeneity in the relationship between regional revenue sources and financial independence, which cannot be fully explained by linear regression. Therefore, this study analyzes the factors influencing regional financial independence by considering inter-regency/city heterogeneity using the Clusterwise Linear Regression (CLR) method.

This study uses secondary data from the Directorate General of Fiscal Balance (DJPB) with the analysis unit being all regency/city governments in Indonesia in 2024, totaling 508 regions, excluding the Province of DKI Jakarta. The dependent variable is the regional financial independence ratio, while the independent variables include Local Own-Source Revenue (PAD), Revenue Sharing Fund (DBH), General Allocation Fund (DAU), Special Allocation Fund (DAK), and capital expenditure. The optimal number of clusters is determined based on the Bayesian Information Criterion (BIC) value, with parameter significance testing using the Wald test.

The results show the formation of 6 clusters, reflecting significant heterogeneity in the inter-regional fiscal relationship structure. PAD has a positive and significant effect on financial independence in all clusters, affirming its role as the main determinant of fiscal independence. Conversely, DBH, DAU, and DAK tend to have a negative and significant effect on most clusters, indicating high fiscal dependence on the central government. The coefficient of determination for each cluster falls into the strong category, ranging from 96,75% to 99,99% and is higher than that of the linear regression model which is 71,29%. These findings show that the CLR method is effective in revealing regional fiscal heterogeneity and is relevant as a basis for formulating cluster-based fiscal policies.

Keywords: Fiscal Decentralization, Regional Financial Independence, Clusterwise Linear Regression, Local Own-Source Revenue, Transfer Funds, Capital Expenditure