Dynamics of Fiscal Dependence and Regional Expenditure Priorities: A Study of the Financial Independence of the Palu City Government 2020–2025

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Abstract

Purpose: *This study describes the dynamics of fiscal dependence, capital expenditure priorities, and regional financial independence of the Palu City Government for the 2020-2025 period.*

Methodology/approach: *Using a descriptive quantitative approach, data were collected from Local Government Financial Statements, supplemented by interviews. The analysis includes fiscal structure breakdown and three financial ratios.*

Findings: *The ratio of regional financial independence averaged 24.26% (instructive), improving to consultative in 2025 (31.73%). The average fiscal dependency ratio was 73.82% (very high), with General Allocation Fund (GAF) accounting for an average of 61% of total transfers. The average capital expenditure ratio was 16.51%, below the minimum threshold of 26% set by the Directorate General of Fiscal Balance. Regional Taxes are the most dominant component of Regional Original Revenue (ROR), accounting for 60-63% of Regional Original Revenue (ROR) in 2024-2025.*

Practical implications: *These findings are useful for regional policymakers designing revenue optimization strategies, and the central government in evaluating transfer mechanisms, including intensification of local taxes, control of operational expenditures, and performance-based transfer reforms.*

Originality/value: *This study integrates fiscal dependence, capital expenditure priorities, and regional financial independence, along with the breakdown of Regional Original Revenue (ROR) components, in a single descriptive framework, explained through Fiscal Federalism Theory and Resource Dependence Theory in the context of post-disaster government, a combination that is rarely studied together.*

Keywords:
Fiscal Dependency; Capital Expenditure Priorities; Regional Financial Independence; Local Government Finance; Palu City.

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INTRODUCTION

The fiscal decentralization policy based on Law Number 22 of 1999 and updated through Law Number 1 of 2022 gives local governments the authority to manage their finances independently in order to encourage the acceleration of development. However, more than two decades after the reform, regional fiscal independence in Indonesia is still not optimal (Hardiana et al., 2020). Based on data from the Directorate General of Fiscal Balance (DGFB, 2024), national Regional Original Revenue (ROR) only contributes around 28.7% of total regional revenue, while transfer funds dominate around 65.7% of Regional Revenue and Expenditure Budget (RREB) revenues. This picture reflects the still very high fiscal dependency, as also shown by the conditions of various regions throughout Indonesia (Ningsih et al., 2023).

Palu City as the capital of Central Sulawesi Province faces multiple fiscal challenges. Based on data from the Central Statistics Agency of Palu City (2024) and the Palu City Government (2025), Palu City transfer funds consistently dominated total regional revenue during 2020-2025. This condition was exacerbated by the impact of the September 2018 earthquake, tsunami, and liquefaction disasters that absorbed large fiscal resources (Masdar et al., 2025), as well as the pressure of the Covid-19 pandemic that suppressed ROR revenues. Such shocks increase the importance of managing fiscal risk in local governments (Amirya & Irianto, 2024). As a result, the proportion of capital expenditure in Palu City is consistently well below the minimum threshold of 26% recommended by the Directorate General of Fiscal Balance (DGFB, 2017). The persistent dominance of operating expenditure reflects the limited regional fiscal orientation towards long-term investment (Maharani et al., 2025; (Setiawan et al., 2026)Setiawan et al., 2026). This fiscal condition is important to be analyzed based on the Regulation of the Minister of Home Affairs Number 77 of 2020 which regulates regional financial management standards (MoHA, 2020).

The following can be seen the development of Regional Original Revenue (ROR), transfer revenue, and total revenue of the Palu City Government during the 2020-2025 period, as presented in the following Table 1:

Table 1. Development of ROR, Transfers, Miscellaneous Revenue and Total Revenue of the Palu City Government in 2020-2025

Year	ROR (Rp)	Transfer (Rp)	Miscellaneous (Rp)	Total Income (Rp)
2020	260.179.004.254	992.442.539.501	51.701.978.616	1.304.323.522.371
2021	341.922.999.304	1.012.164.953.521	38.135.341.000	1.392.223.293.825
2022	297.245.708.755	1.038.000.528.881	48.958.910.037	1.384.205.147.673
2023	352.767.942.672	1.116.036.228.416	504.106.618	1.469.308.277.706
2024	405.748.301.046	1.276.883.583.604	19.980.063.891	1.702.611.948.541

2025	555.887.977.775	1.194.676.827.627	1.225.284.386	1.751.790.089.788

Source: Palu City Regional Government Financial Report (2020-2025)

Table 1 shows that the total revenue of the Palu City Government has increased from IDR 1,304,323,522,371 in 2020 to IDR 1,751,790,089,788 in 2025. A prominent development occurred in 2025, where ROR jumped to IDR 555,887,977,775, much higher than the average of previous years, while transfer funds actually decreased to IDR 1,194,676,827,627. This shift in composition suggests an improvement of the region's fiscal self-sufficiency, although overall the revenue structure is still dominated by central government support.

The following can be seen the development of the Palu City Government's capital expenditure during the 2020-2025 period as an overview of regional expenditure priorities for long-term development, especially in the infrastructure sector, as presented in the following Table 2:

Table 2. Development of Regional Expenditure of the Palu City Government in 2020-2025

Year	Operating Expenditure (Rp)	Capital Expenditure (Rp)	Total Spending (Rp)	CE Ratio (%)
2020	1.527.064.078.062	187.309.386.265	1.733.031.450.274	10,81
2021	1.347.006.916.603	259.476.501.891	1.611.481.408.559	16,10
2022	1.218.513.125.022	289.914.401.250	1.593.624.574.195	18,19
2023	1.263.770.862.946	345.215.809.464	1.613.498.345.228	21,40
2024	1.404.696.843.083	307.620.714.321	1.712.364.168.454	17,96
2025	1.459.019.674.042	249.077.329.947	1.709.028.191.488	14,57

Source: Palu City Local Government Financial Statements (LGFS) (2020-2025)

Note: operating expenditure plus capital expenditure does not equal total spending because total spending also includes other expenditure categories not shown in this table (e.g., unexpected and transfer expenditure); the gap is largest in 2020 (about IDR 18.66 billion). The ratio is calculated on total spending.

Table 2 shows that the capital expenditure ratio of Palu City fluctuates between 10.81% to 21.40%, and in 2025 it will decrease to 14.57%, still well below the minimum threshold of 26% (DGFB, 2011). This condition shows that the allocation of local government budgets to long-term development investment is still relatively low, especially in infrastructure development such as roads, irrigation, networks, and other public facilities and infrastructure. The low proportion of development expenditure has the potential to affect the quality of public services and hinder the sustainable strengthening of regional economic capacity.

The fiscal condition of the Palu City Government is not only reflected in the region's ability to produce ROR in aggregate, but also from the components that form ROR itself, namely regional taxes, regional levies, the results of segregated regional wealth management, and other

legitimate ROR. High fiscal dependence can be understood more comprehensively through three interrelated dimensions: (1) the revenue dimension, which shows how large the proportion of ROR and its constituent components is compared to total regional revenue; (2) the transfer dimension, which describes the dominance of the General Allocation Fund (GAF), Special Allocation Fund (SAF), and Revenue Sharing Fund (RSF) components in total regional revenue; and (3) the expenditure dimension, which reflects the extent to which the use of the budget is oriented towards long-term development investment. Understanding the three these dimensions simultaneously, including dissecting the structure of the ROR, are needed to obtain a complete picture of the fiscal condition of the region.

A mapping of previous studies shows three separate strands: (1) fiscal independence and dependence ratios in specific regions (Hapsari et al., 2025; Saragih & Nurlinda, 2023; Digdowiseiso & Satrio, 2022); (2) the effect of transfer funds on regional independence and capital expenditure, including the flypaper effect (Musfirati & Sugiyanto, 2021; Sania et al., 2024; Ramadhani et al., 2025) and (3) capital expenditure and economic growth (Holung et al., 2021). Each strand is examined separately, and none of them links the three dimensions with the breakdown of ROR components in a post-disaster city.

Although various studies have examined fiscal dependence, regional financial independence, and expenditure priorities separately, the mapping above shows that descriptive studies that integrate these three dimensions while dissecting the components of ROR in one analytical framework in a post-disaster regional context are still very limited. A more specific contribution of this study lies in the asynchrony between rising revenue independence and regional investment priorities: in 2025 the ROR to total revenue ratio rose from 23.83% to 31.73%, yet the capital expenditure ratio fell from 17.96% to 14.57% and the share of operating expenditure rose to 85.37%. This pattern, observed in a city recovering from a disaster, is more specific than the general finding of high fiscal dependence and, to the best of our knowledge, has not been examined in the studies mapped above. Therefore, this study aims to comprehensively describe the dynamics of the fiscal condition of the Palu City Government during the 2020-2025 period, which includes an analysis of the revenue structure along with the ROR component, the composition of transfer funds, the expenditure structure, and the calculation of three regional financial ratios: the independence ratio, the fiscal dependence ratio, and the capital expenditure ratio, with particular attention to whether the improvement in revenue independence in 2025 was accompanied by a shift in expenditure priorities toward capital expenditure.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Theory of Fiscal Federalism

This research is first based on the Fiscal Federalism Theory developed by Musgrave &

Musgrave (1989, as cited in Wijaya & Tuah, 2025). This theory divides government functions into three main roles: allocation, distribution, and stabilization, where the central government tends to control the distribution and stabilization functions through fiscal transfer instruments, while local governments ideally play a dominant role in the local resource allocation function. Fiscal Federalism Theory explains that the vertical fiscal imbalance between regional revenue capacity and expenditure needs is a structural consequence of the distribution of the tax base that is more favorable to the central government, so that regions with limited economic bases tend to face persistent fiscal dependence regardless of ROR intensification efforts Musgrave & Musgrave (1989, as cited in Wijaya & Tuah, 2025). This framework is used as the main lens to explain why the revenue structure of Palu City remains dominated by transfers despite various efforts to optimize ROR that have been made, because the root of the problem lies in the systemic design of fiscal power distribution, not just management failures at the local level.

Resource dependency theory

The second framework used is the Resource Dependence Theory proposed by Pfeffer & Salancik (1978, as cited in Gomes, 2006), which was initially developed in an organizational context but is relevant to fiscal relations between levels of government. This theory explains that an entity that depends on external resources for its operational continuity will experience limited autonomy in decision-making, because the resource provider has the power to influence the policy direction of the recipient of the resource. In the context of regional finance, the dependence of the Palu City Government on central transfer funds, especially the General Allocation Fund (GAF) which accounts for an average of 61% of the total transfers during 2020-2025, reflects the pattern of resource dependence as explained by Pfeffer & Salancik (1978, as cited in Gomes, 2006): the greater the proportion of resources coming from external parties, the greater the influence of the party on the regional budget allocation pattern.

This theory is used to explain why Palu City's spending decisions are structurally tied to the direction of the central government's transfer policy, as will be shown in the analysis of the fiscal dependency ratio in the discussion section.

Fiscal Decentralization Theory

As a complement to the two frameworks above, this study also uses the Theory of Fiscal Decentralization pioneered by Oates (1999), which states that local governments that have the authority to manage their revenues and expenditures independently will be more responsive to the needs of local communities. In the reality of implementation in Indonesia, fiscal decentralization often gives birth to structural vertical imbalances, thus encouraging chronic dependence on central transfer funds (Kusuma & Anwar, 2023). Ningsih et al. (2023) emphasized that fiscal decentralization in Indonesia still leaves the problem of uneven regional capacity. This condition

also shows that the goal of regional fiscal independence has not been fully achieved because local governments are still highly dependent on transfer funds from the central government (Pertiwi et al., 2026). In contrast to the Fiscal Federalism Theory and Resource Dependence Theory which explain the structural roots of dependence, the Fiscal Decentralization Theory serves more as a normative framework regarding the ideal of regional autonomy, which is a benchmark to assess how far Palu City has achieved the goal of decentralization.

In summary, the three theories play distinct and complementary roles in this study. Fiscal Federalism Theory explains the structural causes of dependence on the revenue and transfer sides, namely the distribution of the tax base between levels of government. Resource Dependence Theory explains the consequences of that dependence for the autonomy of local decisions, especially on the expenditure side, including the priority given to capital expenditure. Fiscal Decentralization Theory is used only as a normative benchmark against which the independence ratio and its classification are assessed. These roles are applied consistently in the Results and Discussion.

Regional Financial Independence

Regional financial independence is measured through the ratio of ROR to total income and is classified in four relationship patterns based on the classification used by Zukhri (2020): instructive (0-25%), consultative (25-50%), participatory (50-75%), and delegative (75-100%). The higher the independence ratio, the greater the capacity of regions to run their governments autonomously (Hapsari et al., 2025). Hanif & Handoyo (2024) and Sulhia (2025) emphasized that low regional financial independence reflects the structural limitations of local fiscal capacity, as also underlined by Putra et al. (2024) in a review of the relevance of regional fiscal independence. These findings are in line with Saragih & Nurlinda (2023) who found an increase in fiscal dependence after expansion in North Tapanuli, and Digdowiseiso & Satrio (2022) who analyzed the ratio of independence and fiscal dependence in relation to the Human Development Index (HDI) in South Kalimantan.

Fiscal Dependence

Fiscal dependence is measured through the ratio of transfer funds to total revenue: the higher this ratio, the weaker the regional initiative in exploring ROR independently (Maggara et al., 2024). Fiscal dependence can be analyzed from three sides: first, in terms of revenue, which is how large the proportion of ROR is compared to total regional revenue; second, from the transfer side, namely the composition and dominance of components of central transfer funds such as GAF, SAF, and RSF; and third in terms of spending, that is, the extent to which budget use reflects dependence on transfers through the dominance of operational expenditure over capital expenditure (Musfirati & Sugiyanto, 2021). Musfirati & Sugiyanto (2021) prove that the

dominant GAF is related to low regional independence, indicating a substitution effect between central transfers and local ROR initiatives. Fadhli et al. (2022) show that fiscal stress due to transfer dependence has an impact on the overall financial performance of regions. Dewi et al. (2025) and Indriawati & Hasmarini (2025) affirm the validity of the financial ratio approach to describe regional fiscal conditions in a descriptive manner.

Shopping Priorities

Regional expenditure priorities are operationalized through the ratio of capital expenditure to total expenditure. Capital expenditure reflects local government expenditure to acquire or add fixed assets that provide long-term benefits, especially related to the development of public infrastructure such as roads, irrigation, networks, buildings, and public service facilities. The allocation of expenditure in this sector plays an important role in improving the quality of public services, encouraging economic activities, and supporting sustainable regional development. Capital expenditure for infrastructure and productive assets is theoretically able to stimulate long-term economic growth and expand the tax base (Juwita & Hasbi, 2025). Rahmitasari & Asyik (2023) confirm that ROR is the main factor related to the orientation of regional capital expenditure. Putra et al. (2023) found that regional fiscal variables simultaneously describe the amount of capital expenditure allocation, while Holung et al. (2021) prove that capital expenditure is positively related to regional economic growth. This finding is strengthened by Sania et al. (2024)(2024) who prove the flypaper effect in Central Sulawesi, where GAF and SAF are more dominant in driving capital expenditure than ROR, and Ramadhani et al. (2025) who found a similar phenomenon in South Sulawesi.

METHODS

Data on the Reasons for Choosing Research Objects

The selection of Palu City as the research object is based on several considerations. First, Palu City is the capital of Central Sulawesi Province which is the center of government, economic, and regional public service activities, so that its fiscal condition has a significant effect on the development performance of the surrounding area. Second, Palu City experienced earthquake, tsunami, and liquefaction disasters in September 2018 which caused large-scale damage to regional infrastructure and assets, making it a relevant case to examine regional fiscal dynamics in the context of post-disaster recovery. Third, the 2020-2025 research period includes two external shocks as well as a gradual recovery process, namely the 2018 post-disaster recovery, the pressure of the Covid-19 pandemic, and the fiscal improvement trend that began to be seen in 2025, so that Palu City becomes a rich case for analyzing the full cycle of regional fiscal pressure and recovery. Fourth, the availability of complete and accessible Local Government Financial Statements (LGFS) data from the Palu City Regional Financial and Asset Management Agency

(RFAMA) for the entire research period is also a technical consideration in the selection of this object.

Data Types and Sources

The type of data used is secondary data in the form of the Palu City Local Government Financial Statements (LGFS) for the 2020-2025 fiscal year, especially the Budget Realization Report (BRR) component, which was obtained from the Palu City Regional Financial and Asset Management Agency (RFAMA). All LGFS data for six budget years was used as a research sample with a saturated sampling technique, so that no partial sample was withdrawn. As the formal accountability reports prepared under government accounting standards, LGFS provide a suitable basis for the analysis (Nufaisa et al., 2022; Putri & Rahayu, 2026)

Data Collection Techniques and Procedures

Data collection in this study is carried out through the following procedure. First, documentation, namely the stage of collecting and reviewing the Palu City LGFS document for 2020-2025 which includes Regional Original Revenue (ROR) data and its components (regional taxes, regional levies, results of separated regional wealth management, and other legitimate ROR), transfer funds and their components (GAF, SAF, RSF), total regional revenue, operating expenditure, capital expenditure, and total regional expenditure. This stage is carried out through a request for official data to the Palu City RFAMA, followed by verification of the completeness and consistency of figures in each fiscal year before the data is further processed. Second, a semi-structured interview with the Head of Financial Management and Accounting of the Palu City RFAMA (hereafter referred to as the informant), which serves as supporting data to strengthen and provide contextual explanations of the results of financial ratio analysis obtained from documentation data, not as the main source of data calculated quantitatively.

Data Analysis Techniques

The data analysis was carried out in two stages. The first stage is a descriptive analysis of the fiscal structure that outlines the composition of regional revenues, including the dissection of the components that make up the ROR of the transfer fund component, and the expenditure structure for each fiscal year. The second stage is the analysis of regional financial ratios using three ratios, namely: (1) the fiscal dependency ratio, which measures how much of the proportion of regional revenue is sourced from central government transfer funds (Maggara et al., 2024); (2) the regional financial independence ratio, which measures the ability of local governments to finance the administration of government through Regional Original Revenue (ROR) without over-reliance on central transfers, classified based on Zukhri (2020); and (3) the capital expenditure ratio, which measures the proportion of regional expenditure directed at long-term development investment with a minimum standard reference of 26% recommended by the Directorate General of Fiscal

Balance (2017). All calculations are carried out using Microsoft Excel and interpreted based on Zukhri's (2020) classification and relevant literature.

Scope of the research design. This study is descriptive: it reports the levels, trends, and composition of fiscal variables over six annual observations and does not estimate causal effects or statistical associations. Six observations and one supporting informant do not allow causal inference. Relationships between fiscal dimensions are therefore interpreted as patterns that are consistent (or inconsistent) with the theories and previous studies, and the interview excerpts are used as contextual explanation, not as proof of causality.

RESULTS AND DISCUSSION

Analysis of the Regional Revenue Structure of Palu City 2020-2025

Before analyzing the fiscal ratio, it is necessary to first understand how the composition of Palu City's regional revenue is formed from year to year. The regional revenue structure reflects how much real fiscal independence a region is because it shows the proportion of each source of income to the total budget (Indriawati & Hasmarini, 2025).

Table 3. Revenue Structure and ROR Ratio to Total Revenue of Palu City in 2020-2025

Year	ROR (Rp)	Transfer (Rp)	Miscellaneous (Rp)	Total (Rp)	ROR/Total Ratio (%)
2020	260.179.004.254	992.442.539.501	51.701.978.616	1.304.323.522.371	19,95
2021	341.922.999.304	1.012.164.953.521	38.135.341.000	1.392.223.293.825	24,56
2022	297.245.708.755	1.038.000.528.881	48.958.910.037	1.384.205.147.673	21,47
2023	352.767.942.672	1.116.036.228.416	504.106.618	1.469.308.277.706	24,01
2024	405.748.301.046	1.276.883.583.604	19.980.063.891	1.702.611.948.541	23,83
2025	555.887.977.775	1.194.676.827.627	1.225.284.386	1.751.790.089.788	31,73

Source: Palu City Budget Realization Report, processed (2026)

Based on Table 3, Palu City's total revenue grew from IDR 1,304,323,522,371 (2020) to IDR 1,751,790,089,788 (2025), an increase of 34.30% over six years. The most notable development occurred in 2025, where the ROR to total revenue ratio jumped to 31.73%, a significant increase from 23.83% in 2024 and well above the average for the 2020-2024 period (22.76%). This surge indicates a new chapter in Palu City's fiscal independence, although cumulatively the six-year average ROR/Total Revenue ratio remains at 24.26%, still in the instructive category according to the classification (Zukhri, 2020).

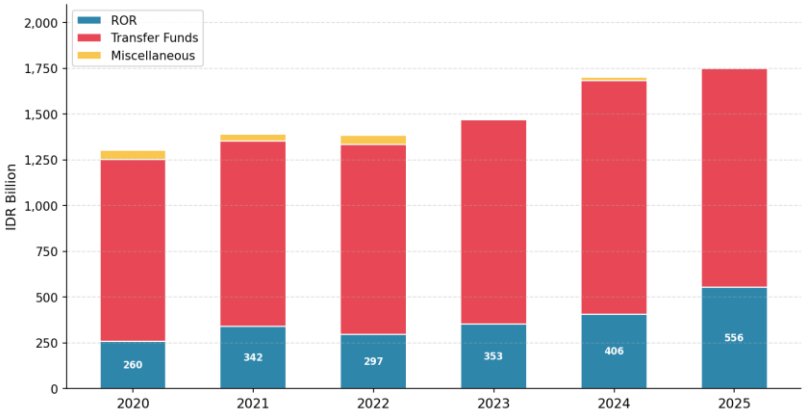


Figure 1. Regional Revenue Structure of Palu City 2020-2025

Composition of Regional Original Revenue (ROR)

To understand the sources of fiscal independence in more depth, the Palu City ROR needs to be broken down into its constituent components, namely regional taxes, regional levies, the results of segregated regional wealth management, and other legitimate ROR. Details of the ROR components are available in full for 2024 and 2025 as presented in Table 4; the ROR component data for 2020-2023 are not available separately in the concise Budget Realization Report (BRR) document used in this study, so the composition analysis is focused on the last two years for which the data are complete.

Table 4. Composition of Regional Original Revenue (ROR) Components of Palu City in 2024-2025

Year	ROR Components	Realization (Rp)	% of ROR	Previous Year Realization (Rp)
2024	Regional Taxes	255.895.966.576	63,07%	-
	Regional Levy	21.912.583.709	5,40%	-
	Regional Wealth Revenue Separated	4.156.827.667	1,02%	-
	Other Legitimate ROR	123.782.923.094	30,51%	-
	Total ROR 2024	405.748.301.046	100,00%	-
2025	Regional Taxes	333.825.309.117	60,05%	255.895.966.576
	Regional Levy	41.348.071.805	7,44%	21.912.583.709
	Regional Wealth Revenue Separated	4.402.560.317	0,79%	4.156.827.667
	Other Legitimate ROR	176.312.036.536	31,72%	123.782.923.094
	Total ROR 2025	555.887.977.775	100,00%	405.748.301.046

Source: Palu City Budget Realization Report, processed (2026)

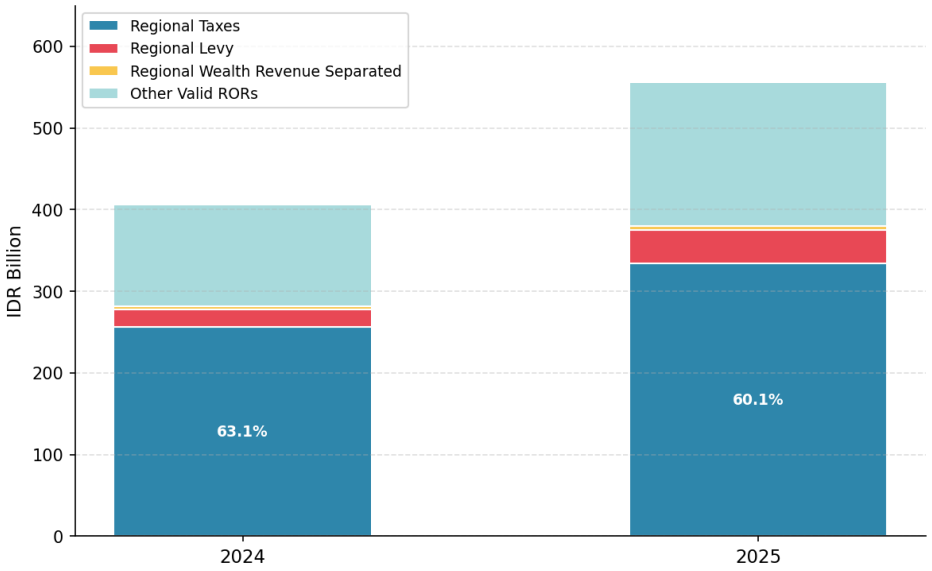


Figure 2. Composition of Palu City ROR 2024-2025

Based on Table 4, Regional Taxes are the most dominant component in the Palu City ROR structure, accounting for 63.07% in 2024 and 60.05% in 2025. In nominal terms, regional tax revenues grew significantly from IDR 255,895,966,576 (2024) to IDR 333,825,309,117 (2025), or an increase of 30.45% in one year. The second largest component is Other Legitimate ROR, which accounts for around 30-32% of the total ROR, followed by Regional Levies which increase its contribution from 5.40% (2024) to 7.44% (2025). The results of Segregated Regional Wealth Management are consistently the smallest component, only contributing less than 1.1% of the total ROR in those two years. This pattern suggests that efforts to optimize Palu City's ROR are likely to be most productive when focused on intensifying regional taxes, given their dominant contribution and their fastest growth among all ROR components.

Regarding the significant growth of ROR in 2025, the Head of Financial Management and Accounting of RFAMA Palu City explained the strategy that has been carried out by the local government:

> *"What has been implemented is related to how effective it is, the nature of the assessment, this assessment, because of the hotel tax, the restaurant tax, then there is underground water, it's all an assessment... The steps that have been implemented by the Regional Government, such as the installation of water meters, for groundwater taxes, then the installation of installed equipment, to monitor every transaction, for hotels and restaurants... with this tool, every transaction, it is immediately monitored... then also for digital financial transactions, digitalization, to reduce leaks."*
>
> *(Informant, Interview, 2026)*

This condition is consistent with the Fiscal Federalism Theory (Musgrave & Musgrave, 1989):

a significant increase in local fiscal capacity by 2025 suggests that the regional allocation function can be strengthened through the optimization of local tax bases that are fully under the authority of local governments, especially hotel, restaurant, and groundwater taxes based on local economic activity.

Analysis of the Composition of Palu City Transfer Funds 2020-2025

To understand fiscal dependence more deeply, it is necessary to analyze the composition of transfer funds received by Palu City. The main components of transfer funds include the General Allocation Fund (GAF), Special Allocation Fund (SAF), Revenue Sharing Fund (RSF), and other transfers including the Regional Incentive Fund and provincial tax revenue sharing.

Table 5. Composition of Palu City Transfer Funds in 2020-2025

Year	GAF (Rp)	SAF (Rp)	RSF (Rp)	Other (Rp)	Total Transfer (Rp)
2020	648.404,0	180.550,0	57.467,0	106.021,5	992.442,5
2021	636.240,5	175.736,6	73.901,7	126.286,1	1.012.165,0
2022	633.480,1	183.409,2	98.074,0	123.037,3	1.038.000,6
2023	667.077,2	256.191,2	65.503,2	127.264,7	1.116.036,3
2024	730.059,9	252.522,2	145.553,1	148.748,4	1.276.883,6
2025	718.561,2	212.596,7	113.741,6	149.777,4	1.194.676,9

Source: Palu City Budget Realization Report, processed (2026)

Based on Table 5, the General Allocation Fund (GAF) is consistently the largest component in the transfer structure of Palu City, with contributions fluctuating between 57.18% (2024) to 65.33% (2020) of total transfers, an average of around 61% over six years. GAF is a block grant that is not tied to specific sectoral use, so it tends to be absorbed more by operational expenditure, especially employee expenditure (Musfirati & Sugiyanto, 2021). Total transfer funds will actually decrease in 2025 to IDR 1,194,676.9 million, down from IDR 1,276,883.6 million in 2024, in line with the central government's budget efficiency policy. SAF showed a significant surge in 2023 (IDR 256,191.2 million) reflecting the intensification of the central government's sectoral programs, but also decreased in 2025. The dominance of GAF in the composition of transfers is consistent with the high absorption of the budget by operating expenditure, which in line with Resource Dependence Theory, may be associated with the low capital expenditure ratio of Palu City.

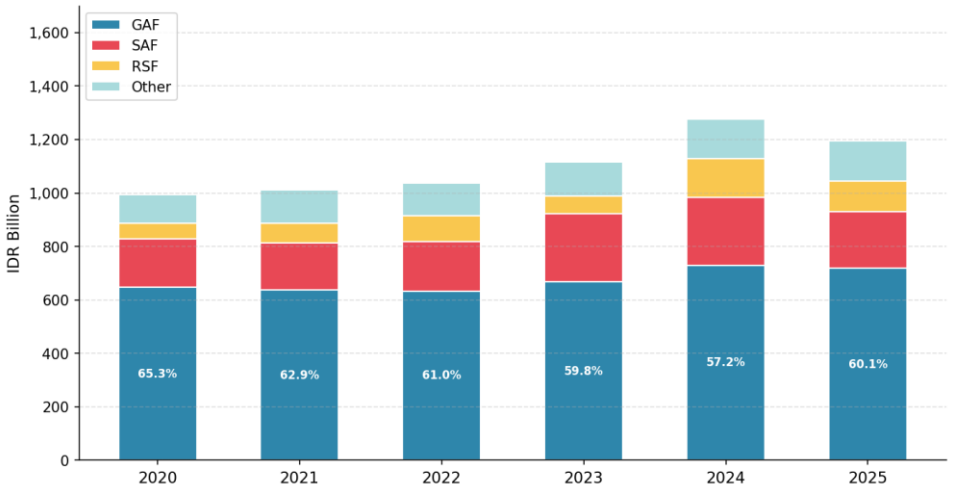


Figure 3. Composition of Palu City Transfer Funds 2020-2025
Figure 3 shows that GAF is the largest transfer component in every year (57.2%–65.3% of total transfers), while total transfers fell in 2025 to IDR 1,194.7 billion from IDR 1,276.9 billion in 2024.

This was confirmed by the results of an interview with the Head of Financial Management and Accounting of RFAMA Palu City who stated:

> *"When the general allocation funds have a large value in our transfers, it automatically affects the achievement of our budget realization... when we have enough money, automatically all the financing, whether it is from physical work, from operations in 41 RAOs, automatically God willing, it can be covered all... If the allocation is appropriate. So the general allocation fund as I said earlier, we use it for salary payments."*
>
> *(Informant, Interview, 2026)*

Because GAF is largely absorbed by compulsory expenditures such as employee salaries, the fiscal space left for local development priorities is very limited. This implies that transfer reform should favor specific purpose grants for productive infrastructure over block grants, in line with Fiscal Federalism Theory, which holds that transfer design should support the regional allocation function and not only close the vertical fiscal gap (Musgrave & Musgrave, 1989).

Analysis of the Regional Expenditure Structure of Palu City 2020-2025

The analysis of expenditure structure aims to understand how local governments allocate budgets between routine operational needs and long-term development investments. The composition of expenditure reflects fiscal orientation and regional development priorities.

Table 6. Palu City Regional Expenditure Structure 2020-2025

Year	Operating Expenditure (Rp)	Capital Expenditure (Rp)	Total Spending (Rp)	% Operations	% Fashion
2020	1.527.064.078.062	187.309.386.265	1.733.031.450.274	88,12%	10,81%
2021	1.347.006.916.603	259.476.501.891	1.611.481.408.559	83,59%	16,10%

2022	1.218.513.125.022	289.914.401.250	1.593.624.574.195	76,46%	18,19%
2023	1.263.770.862.946	345.215.809.464	1.613.498.345.228	78,33%	21,40%
2024	1.404.696.843.083	307.620.714.321	1.712.364.168.454	82,03%	17,96%
2025	1.459.019.674.042	249.077.329.947	1.709.028.191.488	85,37%	14,57%

Source: Palu City Budget Realization Report, processed (2026)

Based on Table 6, operating expenditure consistently dominates Palu City's total regional expenditure with a proportion ranging from 76.46% (2022) to 88.12% (2020), and again increased sharply in 2025 to 85.37%, the second highest after 2020. The high proportion of operating expenditure indicates that most of the budget is spent to finance routine activities such as employee salaries, goods and services expenditures, as well as grants and social assistance, leaving very limited space for capital expenditure. This pattern is examined further in the capital expenditure ratio analysis below.

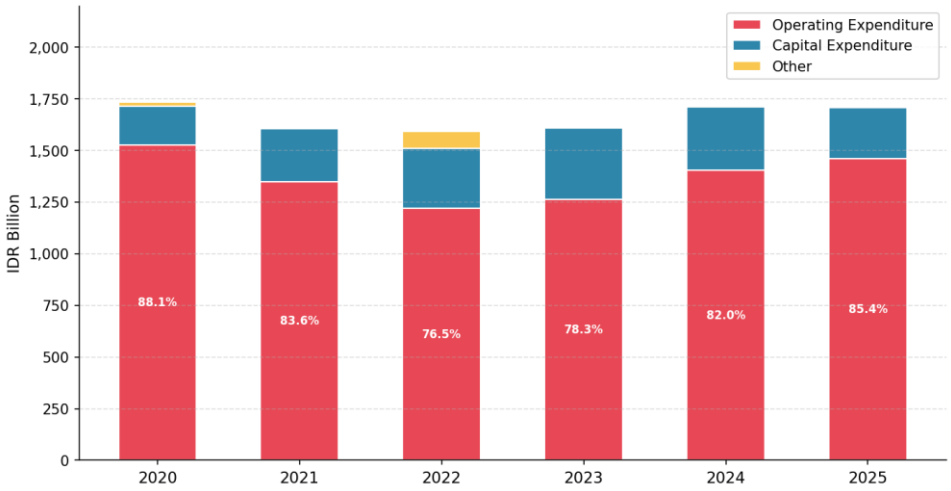


Figure 4. Regional Expenditure Structure of Palu City 2020-2025

Figure 4 shows that operating expenditure dominates in all years (76.5%–88.1%) and rises again to 85.4% in 2025, while the capital expenditure segment does not grow.

Regarding the high operating expenses, the Head of Financial Management and Accounting of RFAMA Palu City explained:

> *"The actual operating expenditure that absorbs the most is salaries, the employee's salary for operating expenses is more than 30%, because the position is an employee, then there is P3K budgeting... In the operating expenditure, the most dominant is employee spending, including employee expenditure related to teacher certification, our budget can be up to 100 billion for teacher certification."*
>
> *(Informant, Interview, 2026)*

Analysis of the Regional Financial Independence Ratio of Palu City 2020-2025

The analysis of the regional financial independence ratio was carried out by comparing the realization of ROR to the total regional revenue of Palu City for each fiscal year in the study period.

Table 7. Palu City Regional Independence Ratio in 2020-2025

Year	ROR (Rp)	Total Income (Rp)	Ratio (%)	Categories
2020	260.179.004.254	1.304.323.522.371	19,95%	Instructive
2021	341.922.999.304	1.392.223.293.825	24,56%	Instructive
2022	297.245.708.755	1.384.205.147.673	21,47%	Instructive
2023	352.767.942.672	1.469.308.277.706	24,01%	Instructive
2024	405.748.301.046	1.702.611.948.541	23,83%	Instructive
2025	555.887.977.775	1.751.790.089.788	31,73%	Consultative

Source: Palu City Budget Realization Report, processed (2026)

Based on Table 7, the ratio of financial independence in Palu City during the 2020-2024 period is consistently in the instructive category based on the Zukhri classification (2020), with a value range between 19.95% (2020) to 24.56% (2021). However, in 2025 there will be a significant jump to 31.73%, which for the first time brings Palu City up to consultative. On an average of six years, the independence ratio remains at 24.26% (instructive category), but the 2025 trend is an important signal that the fiscal capacity of Palu City is beginning to transform.

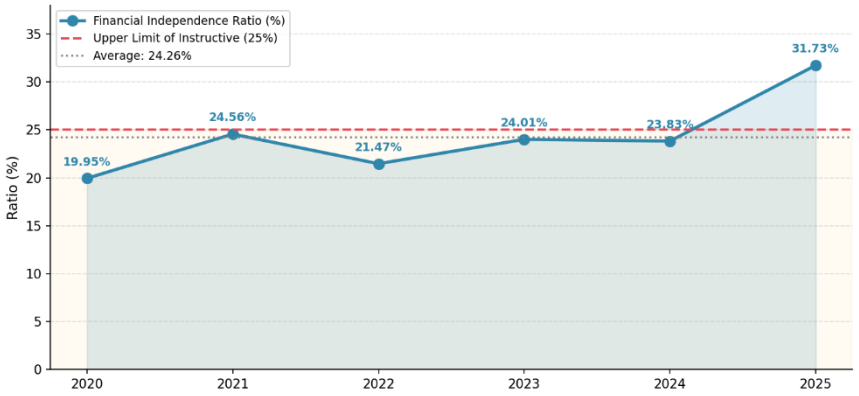


Figure 5. Regional Financial Independence Ratio of Palu City 2020-2025

This condition is confirmed by the results of the interview. The Head of Financial Management and Accounting of RFAMA Palu City stated:

"Because it depends, we still go to the center, because our ROR is still small. Independence

is measured from ROR, receipt of regional results, with receipts from transfers... we will do services, yes, if in Palu City, yes, we have mining too, but it is included in RSF, only profit sharing."

(Informant, Interview, 2026)

The sharp increase in the independence ratio in 2025 coincided with the rapid growth of regional taxes of 30.45%, which is consistent with the informant's account that the digitalization-based intensification strategy (the installation of transaction monitoring devices in hotels and restaurants) may be starting to yield results. However, this descriptive study cannot establish that the strategy caused the increase. Referring to the Resource Dependence Theory (Pfeffer & Salancik, 1978), this increase may reflect the initial steps of Palu City in reducing dependence on external resources, although cumulatively the independence ratio is still relatively low. Sustaining this trend would require permanent strengthening of the regional tax base, as regional taxes are the most dominant component of ROR.

Analysis of the Fiscal Dependence Ratio of Palu City 2020-2025

The analysis of the fiscal dependency ratio was carried out by comparing the realization of transfer funds received by Palu City from the central government to the total regional revenue for each fiscal year.

Table 8. Fiscal Dependence Ratio of Palu City in 2020-2025

Year	Transfer Funds (Rp)	Total Income (Rp)	Ratio (%)	Categories
2020	992.442.539.501	1.304.323.522.371	76,09%	Very High
2021	1.012.164.953.521	1.392.223.293.825	72,70%	Very High
2022	1.038.000.528.881	1.384.205.147.673	74,99%	Very High
2023	1.116.036.228.416	1.469.308.277.706	75,96%	Very High
2024	1.276.883.583.604	1.702.611.948.541	75,00%	Very High
2025	1.194.676.827.627	1.751.790.089.788	68,20%	Very High

Source: Palu City Budget Realization Report, processed (2026)

Based on Table 8, Palu City's fiscal dependency ratio during the 2020-2025 period is consistently in the very high category, with a range between 68.20% (2025) to 76.09% (2020) and an average of 73.82%. Although it remains in the very high category, the dependency ratio in 2025 is the lowest throughout the study period, suggesting that transfer dominance may be starting to decrease as ROR capacity increases.

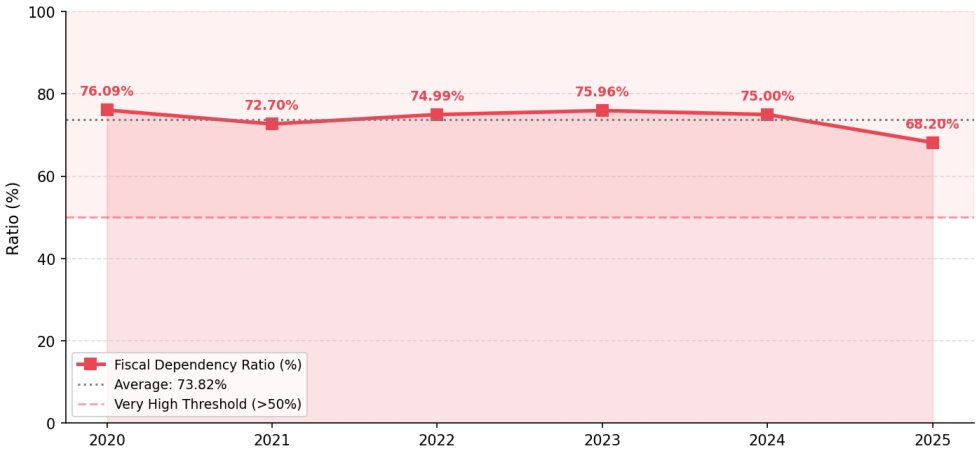


Figure 6. Fiscal Dependence Ratio of Palu City 2020-2025

This condition is emphasized by the results of the interview. The Head of Financial Management and Accounting of RFAMA Palu City explained the structural roots of this dependence:

> *"All regions must be dependent... because many of our needs are employee spending, employee spending is one of the sources of financing, it must be from the balance fund, from the central side, GAF, yes, all GAF. So indeed our dependence will definitely be higher, because indeed the ROR receipt we have not been able to finance all the local government spending, let alone finance employee spending. ROR alone for employee spending is not enough."*
>
> *(Informant, Interview, 2026)*

This high fiscal dependence ratio suggests that policies oriented only toward increasing ROR are unlikely to be sufficient, given the structural nature of the vertical fiscal imbalance described by Fiscal Federalism Theory (Musgrave & Musgrave, 1989). At the same time, the lower dependence ratio in 2025 is consistent with the possibility that local policy interventions, especially the intensification of local taxes, can influence this ratio in the short term, as predicted by Resource Dependence Theory (Pfeffer & Salancik, 1978); this descriptive design, however, cannot confirm a causal effect.

Analysis of Palu City's Capital Expenditure Priority Ratio 2020-2025

The analysis of the ratio of capital expenditure priorities is carried out by comparing the realization of capital expenditure to the total regional expenditure of Palu City for each fiscal year.

Table 9. Palu City Capital Expenditure Ratio in 2020-2025

Year	Capital Expenditure (Rp)	Total Spending (Rp)	CE Ratio (%)	Min. DGFB Standard (%)
2020	187.309.386.265	1.733.031.450.274	10,81%	>= 26%

2021	259.476.501.891	1.611.481.408.559	16,10%	>= 26%
2022	289.914.401.250	1.593.624.574.195	18,19%	>= 26%
2023	345.215.809.464	1.613.498.345.228	21,40%	>= 26%
2024	307.620.714.321	1.712.364.168.454	17,96%	>= 26%
2025	249.077.329.947	1.709.028.191.488	14,57%	>= 26%

Source: Palu City Budget Realization Report, processed (2026)

Based on Table 9, the capital expenditure ratio of Palu City during the 2020-2025 period fluctuated in the range of 10.81% (2020) to 21.40% (2023), with an average of 16.51%. All of these values are below the minimum threshold of 26% recommended by the DGFB. In 2025, the capital expenditure ratio will actually decrease to 14.57%, although total revenue and ROR increased significantly in the same year, indicating that the increase in ROR has not necessarily been directed to increase development investment.

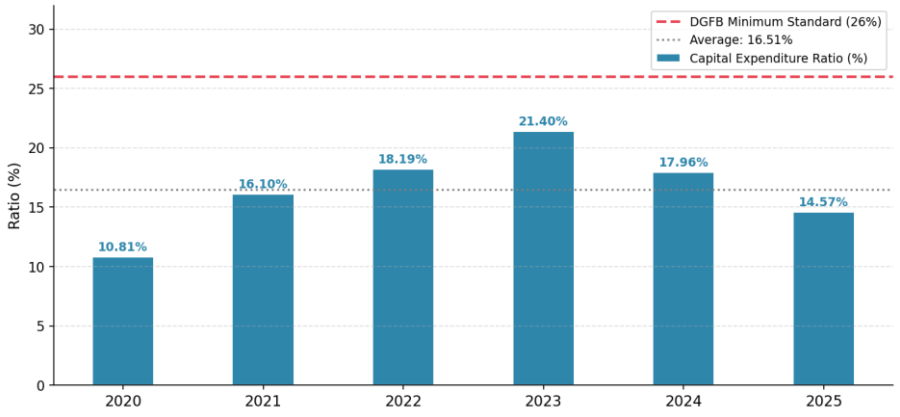


Figure 7. Palu City Capital Expenditure Ratio 2020-2025

The cause of the rise and fall of this capital expenditure ratio was explained directly by the Head of Financial Management and Accounting:

> *"In 2023, there are still a lot of transfer funds. So this means that most of the revenue from the balance fund is indeed specifically intended for capital expenditure, SAF funds and infrastructure GAF... The largest until 2023 is that we will get physical SAF for roads. Starting in 2024, the physical SAF for roads will no longer exist until now... So why did capital expenditure decrease? Because the sources of financing that were previously from the central transfer fund have disappeared or decreased."*
>
> *(Informant, Interview, 2026)*

These findings have important implications for the sustainability of Palu City's infrastructure

development. The fall in the capital expenditure ratio despite the 2025 increase in ROR suggests that additional revenues were not channeled to long-term investment, while the share of operating expenditure rose to 85.37% (Table 6). Relevant policies include: setting a minimum allocation of capital expenditure from each new ROR increase, strengthening multi-year contracts for strategic infrastructure projects so that they are not interrupted due to annual transfer fluctuations, and advocating for the central government to provide physical SAF allocation for post-disaster areas with a multi-year scheme that is more assured of certainty.

Analysis of the Linkages Between Fiscal Dimensions

If the six analyses above are combined, a generally consistent pattern emerges that begins to shift in 2025: low independence (average 24.26%) and high dependence (average 73.82%) coexist with GAF dominance in transfers and a capital expenditure ratio far below the 26% standard (average 16.51%).

Conceptually, the relationship between dimensions can be described as follows; this sequence is drawn from the literature and is not tested statistically in this study. First, when ROR does not grow significantly, local governments tend to rely on transfer funds to cover their budget needs (Sakinah & Satriawan, 2021). Second, the transfer funds received, especially GAF, tend to be used to finance mandatory operational expenditures so that the space left for capital expenditure becomes narrow (Musfirati & Sugiyanto, 2021; Sania et al., 2024). Third, low capital expenditure means limited infrastructure investment, which, according to the literature, may slow economic growth, limit the expansion of the tax base, and keep ROR at a low level, potentially creating a vicious circle that is difficult to break (Holung et al., 2021; Ramadhani et al., 2025). The 2025 findings suggest that this circle may be starting to loosen on the revenue side, as a significant ROR increase coincided with the intensification of regional taxes, but not on the capital expenditure side.

The post-disaster and post-pandemic context that sets the background for the beginning of this research period provides an additional dimension that exacerbates the vicious cycle. The 2018 disaster caused large-scale infrastructure damage, while the 2020-2021 pandemic suppressed ROR while increasing operational spending needs (Masdar et al., 2025). The improvement trend that has been consistent since 2023 and reached its peak in 2025 suggests that Palu City's fiscal capacity may be entering a structural recovery phase, although its sustainability still needs to be strengthened through targeted policies, especially in terms of capital expenditure.

This connection is strengthened by the statement of the Head of Financial Management and Accounting of RFAMA Palu City:

"If we are here in Palu City, for infrastructure development, some of it is almost 40 percent

from ROR. And also, if it is from the center, it is only for the balance fund, for infrastructure, it can only be from physical SAF... So indeed it will also encourage employees or RAOs managing regional revenues, both in levies, to increase their revenue, because indeed the source for payment of additional employee income is based on ROR."

(Informant, Interview, 2026)

Overall, these interconnections suggest that policies targeting only one variable, such as raising the ROR target without reforming the transfer structure and without ensuring that additional ROR is allocated to capital expenditure, are unlikely to break the vicious circle as a whole. Fiscal Federalism Theory suggests the need for a systemic redesign of the distribution of the fiscal base between levels of government (Musgrave & Musgrave, 1989), while Resource Dependence Theory emphasizes the importance of diversification strategies and strengthening internal resources so that the Palu City Government is not completely dependent on a single financing channel controlled by external parties (Pfeffer & Salancik, 1978). The 2025 findings provide preliminary descriptive evidence that is consistent with the combination of these two perspectives: the intensification of regional taxes coincided with a shift in the trajectory of the independence and dependence ratios in a relatively short time.

Comparison with Previous Research Findings

To reinforce the validity and position the contribution of this study in the existing literature treasure, the findings of this study are compared with the relevant results of previous research, as presented in the following Table 10.

Table 10. Comparison of Research Findings with Previous Research

Researcher (Year)	Objects	Key Findings	Comparison with These Findings
Hapsari et al. (2025)	Penajam Paser Utara Regency	Fiscal dependency is very high (>70%), self-reliance is very low	Consistent with the findings of Palu City (73.82% and 24.26%); strengthen the general pattern of the region by limited economic base
(Saragih & Nurlinda, 2023)	North Tapanuli Regency	Dependence increased to 85.94% post-expansion	Dependence of Palu City (73.82%) is slightly morelow, but equally triggered by shocks Structural (expansion vs disaster)
Sulhia (2025)	Bali Province	High independence, delegative category thanks to a strong tourism base	Contrast with Palu City which has just started to move to the consultative category in 2025 after many years. Stagnant Year in Instructive
Sania et al. (2024)	Regency/City Central Sulawesi	Flypaper effect: capital expenditure is more determined by GAF/SAF than ROR	In line with these findings, the dominance of GAF (average 61% of transfers) depresses spending ratios capital of Palu City
Holung et al. (2021)	Manado City	Capital expenditure has a positive effect on regional	Supporting the urgency of this research recommendation so that

economic growth	Palu City Increases Capital Expenditure Ratio to Standard 26%

Source: processed from various previous studies (2026)

Based on Table 10, the findings of this study are generally consistent with patterns found in areas with similar characteristics, especially areas with limited economic bases and a history of structural shocks. This consistency strengthens the argument that the fiscal dependence of Palu City is not solely a matter of local governance, but rather reflects a broader structural pattern as described by Fiscal Federalism Theory. However, the improvement trend in 2025 suggests that Palu City is beginning to show a different recovery path from the stagnant pattern generally found in previous studies, opening up a space for discussion about the success factors of regional tax intensification that can be replicated by other regions with similar characteristics.

CONCLUSIONS, IMPLICATION AND LIMITATION

Based on the results of the analysis of the financial performance of the Palu City Government for the 2020-2025 period, there are several main findings. First, the average level of regional financial independence is at instructive category (24.26%), but experienced a significant surge in 2025 to 31.73% (consultative category), accompanied by regional tax growth of 30.45% as the most dominant component of ROR (60-63% of total ROR). Second, the level of fiscal dependence is classified as very high with an average of 73.82%, indicating that the regional revenue structure is still dominated by transfer funds with GAF as the largest component (average 61% of total transfers), although it decreased to the lowest point in 2025 (68.20%). Third, the average capital expenditure ratio of 16.51% is still below the minimum standard of 26%, and will actually decrease in 2025 (14.57%) despite a significant increase in ROR, suggesting that additional revenue has not been directed to long-term investment. Overall, these findings are interpreted through the Fiscal Federalism Theory, which highlights the structural inequality of the distribution of the fiscal base; the Resource Dependence Theory, in light of which the 2025 shift is consistent with a beginning reduction of the dependence of the City of Palu on external resources; and the Fiscal Decentralization Theory as the normative benchmark.

This study has several limitations that need to be considered in interpreting its findings. First, this study only uses three regional financial ratios (independence, dependence, and capital expenditure), so it does not include other fiscal performance dimensions such as the ratio of effectiveness, efficiency, and growth. Second, the interviews in this study only involve one informant from the internal RFAMA of Palu City, so perspectives from external parties such as the Regional House of Representatives (RHR), academics, or the community as beneficiaries of public services have not been explored. Third, this study is a single case study in one region, so the findings cannot be generalized directly to all districts/cities in Indonesia. Fourth, data on ROR

components (regional taxes, levies, and others) is only available in full for 2024-2025, so the analysis of the composition of ROR for the 2020-2023 period cannot be carried out in detail due to the limitations of source documents. Fifth, limited access to data on the realization of expenditure by function/affair (such as education, health, and infrastructure separately) causes this study to only be able to analyze expenditure based on economic type. Sixth, because the design is descriptive, this study cannot establish causal relationships between the fiscal dimensions.

To increase fiscal independence and reduce dependence on transfer funds, the Palu City Government needs to continue and expand the regional tax intensification strategy that appears effective based on the 2025 data, considering that regional taxes are the most dominant and most responsive component of ROR to policy. Concrete steps include: expanding the scope of transaction digitalization to more hotel and restaurant taxpayers, strengthening groundwater tax assessments, and replicating digital payment channels to other types of levies, which is also in line with the importance of transparent and accountable financial management at the local level (Lathifah & Syihabuddin, 2025). On the spending side, the Palu City Government needs to establish a policy of minimum capital expenditure allocation from each new ROR increase so that the increase in revenue is not entirely absorbed by operational spending, and prioritize the additional use of ror for economic infrastructure that has an impact on the expansion of the tax base further. For the central government, the design of the transfer mechanism needs to be evaluated so as not to create disincentives for local fiscal initiatives, for example through a performance incentive-based transfer scheme that rewards regions that have succeeded in increasing their self-reliance ratio. For the next researcher, it is recommended to obtain complete ROR component data since 2020, expand the scope of interview informants, use expenditure realization data according to functions/affairs if available, and compare the fiscal condition of Palu City with other districts/cities in Central Sulawesi to test the generalization of regional tax intensification patterns found.

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