STRENGTHENING REGIONAL REVENUE THROUGH GOVERNANCE AND STRATEGIC LOCAL SPENDING SYNERGY

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ABSTRACT

This study investigates the effect of regional government expenditure and institutional quality on local own-source revenue in Indonesia during the COVID-19 pandemic. The analysis is based on data from 2021 to 2022 from 34 provincial governments in Indonesia, focusing on how local expenditure can influence local revenue. The study also examines the role of institutional quality in enhancing local revenue. The analysis method used in this study is regression using panel data with a random effect model (REM) as the best model. The results indicate that strategic regional expenditures such as tax incentives and social aid in times of crisis can significantly impact local revenue by stimulating local economic activities, keeping the purchasing power of society, and enhancing public services. Furthermore, the quality of government performance and good governance practices, such as the digitalization of services, positively influence local revenue by increasing public trust and improving administrative efficiency. The result demonstrates that strategic local expenditure, implemented with good governance, can boost taxpayer satisfaction, improve local revenue collection, and increase regional fiscal independence. This research provides valuable insights for policymakers, especially the Ministry of Finance and local governments, to optimize regional spending and governance in achieving regional independence.

Keywords: Regional Expenditure, Institutional Quality, Local Revenue, Good Governance, COVID-19 Pandemic.

INTRODUCTION

The essence of regional autonomy lies in empowering local communities with the authority to manage and govern their affairs, promoting localized decision-making to enhance societal welfare (Moonti, 2019). The primary objectives are to strengthen regional self-reliance and reduce the financial dependency of local governments on the central government (Fachri et al., 2024). Positive economic growth is achieved as economic conditions improve annually (Tolosang, 2018). This growth contributes to increased income levels, which, in turn, enhances public awareness and willingness to

pay taxes and retribution. Consequently, the rise in local own-source revenue supports the achievement of regional independence. Increasing local revenue is essential for regional governments to finance their own needs, reducing their dependence on the central government and ultimately achieving regional independence (Muhtarom, 2015). It can be achieved through local taxes and regional retribution (Law Number 1 Concerning Financial Relations between The Central Government and Regional Governments, 2022).

Unfortunately, that optimistic expectation is still far from being realized. Regional governments are still highly dependent on transfer funds provided by the central government. As of 2023, 68 percent of regional revenue still comes from central government funding (Theodora, 2023). Moreover, the results of the Fiscal Independence Index calculations conducted by the Audit Board of the Republic of Indonesia reveal a significant disparity in fiscal independence among regions, with most local governments still not achieving self-reliance (Satya & Suhayati, 2024). Of the 34 provinces in Indonesia, 16 are still categorized as having weak fiscal capacity since they rely on central government transfer funds. While nine others are still classified as having moderate fiscal capacity, the difference between the local own-source revenue and central transfer ratios is below 25.00%. Only nine provinces have higher local own-source revenue than central government transfer funds (Ministry of Internal Affairs, 2024). In other words, only 26.47% of provinces do not rely on central government transfer funds to run their governance. These facts illustrate the lack of ability of each region to optimize its local revenue.

The COVID-19 pandemic has further exacerbated the challenges faced by regional governments in achieving fiscal independence. Many economic sectors were severely affected (Doloksaribu et al., 2023). The economic slowdown caused by the pandemic severely impacted the primary sources of local revenue, particularly in sectors heavily reliant on mobility, such as transportation (Statistics Indonesia, 2020). Restrictions on social and economic activities resulted in decreased public spending and business closures, leading to a sharp decline in tax collections and regional income. This financial strain highlighted the vulnerability of regional revenue structures, often dependent on specific sectors. Consequently, many regions experienced declining regional own-source revenue (Syamsul et al., 2022). Hence, investigating local own-source revenue during the COVID-19 pandemic is crucial to understanding how regions can enhance fiscal resilience, adapt to economic disruptions, and reduce dependency on central government transfers during crises.

Studies on local own-source revenue have been conducted in various contexts. Several studies have been undertaken at the regional level to determine the influence of several factors. Hafandi & Romandhon (2020) stated that local tax and other legitimate income positively affect local own-source revenue in Wonosobo. Likewise, the local tax and retribution positively affect the local own-source revenue in Bulukumba (Agusta, 2020) and West Jawa (Anasta & Nengsih, 2019). As a component of local own-source revenue, the increase in local tax and retribution is expected to increase the local own-source revenue (Anasta & Nengsih, 2019). In the context of Covid 19, studies about local own-source revenue mainly focused on the impact of Covid 19 on local own-source revenue. A study by Nurhayati et al. (2022) shows differences in local own-source revenue before and during Covid 19 in South Sumatra. Meanwhile, Rohyani & Badrudin (2022) stated that the Covid 19 has decreased local own-source revenue for the city and region within DI Yogyakarta. Similarly, COVID-19 has decreased the local own-source revenue in Kebumen (Sabrina & Nugraheni, 2022).

At the national level, the study by Rahmawati & Kiswara (2022) investigated the impact of Covid 19 on local own-source revenue in 34 provinces. The result shows a significant difference in local own-source revenue during Covid 19. Similarly, Syamsul et al. (2022) investigated the impact of Covid 19 on the regencies/cities level. The result shows that the local own-source revenue experienced a significant difference during Covid 19. The primary sources of local own-source revenue, tax, and retribution were disrupted during Covid 19. The mobility restriction during COVID-19 decreased business income, such as hotels, restaurants, and entertainment places. The decrease in business income eventually lowered the local own-source revenue (Syamsul et al., 2022). Furthermore, mobility restrictions also hindered government services, decreasing local retribution income (Syamsul et al., 2022). Malkina (2021) conducted a similar study in Russia. The result shows that the pandemic had caused losses of 13.90% of total tax revenue in the country and 6.20% of regional revenue. This result is also similar to the study conducted by Solej (2023) in Slovakia.

One of the government's efforts to increase revenue is implemented through expenditure policies. According to fiscal policy theory, the government also regulates economic conditions through spending and expenditure policies allocated via the state budget and regional budget (Ramadhani et al., 2024). The distribution of government expenditure can be directed toward developing social and economic sectors, which may serve as new revenue sources and increase regional income (Rahman & Sumarni, 2024). Therefore, government spending can function as a tool to enhance local revenue and regional self-sufficiency. However, research on the impact of government spending and governance quality has shown mixed results. Ramadhani et al. (2024) analyzed the influence of regional spending and gross regional domestic product (GRDP) on the increase of local own-source revenue in West Kalimantan. Their findings indicated that regional spending positively affects local revenue, as government expenditure is believed to have a multiplier effect on the local economy, ultimately boosting regional revenue. These results align with the study by Abba et al. (2015), which examined the relationship between spending and local revenue in Adamawa, Nigeria. Conversely, the study by Rahman & Sumarni (2024) on the effect of regional spending on local revenue and economic growth in Makassar City revealed that spending factors do not significantly impact local own-source revenue. Hence, this study aims to provide additional empirical results that will fill the empirical gap on the effect of regional expenditure on local revenue, especially during the pandemic.

Moreover, another government initiative to enhance the local own-source revenue includes improving human resource quality and financial management capacity (Adiya, 2023). Governments with higher governance quality tend to implement better policies to reduce economic disparities, significantly impacting revenue, particularly taxation. The quality of governance has also been proven to play a critical role in increasing tax revenue in developing countries (Günay & Topal, 2021). Effective public services can enhance local economic productivity, increasing regional income through taxes and retribution. Additionally, citizens are more likely to fulfill their obligations, such as paying taxes, when the government is perceived as fair and trustworthy (Beeri et al., 2022). Unfortunately, research on the influence of governance quality on locally generated revenue remains limited. Hoyriyah et al. (2023) investigated the impact of taxpayer service quality on local revenue in Pringsewu Regency. Their findings suggest that high-quality services enhance public trust and legal protection, encouraging taxpayers to fulfill their obligations and increasing local revenue.

Additionally, Priyoko et al. (2020) argued that governance quality amplifies the positive impact of village funds on local revenue. However, numerous studies have examined the role of institutional quality on revenue at the country level. Phuong (2015) emphasized that governments in developing countries must improve institutional quality to enhance tax revenue collection and drive economic growth. Similarly, Beyera (2021) highlighted that improving governance quality significantly strengthens the capacity for tax revenue collection. Hence, this study provides additional empirical evidence of the effect of government institutional quality on compliance at the regional level.

The novelty of this research lies in its exploration of the relationship between governance quality at the regional level and local expenditure on local revenue. The topic is still narrowly discussed. Furthermore, this study specifically examines the context of the COVID-19 pandemic, which has not been addressed in previous research. This study also used regional government performance as a proxy of institutional quality, which is still narrowly utilized. This study offers several contributions. For the Ministry of Finance and Ministry of Internal Affairs, the findings can serve as valuable input for formulating policies on regional government spending and contribute directly to improving the efficiency of intergovernmental transfer disbursements in the future. For regional governments, the study can provide a basis for developing strategies to enhance local revenue. This study also provides additional literature on the impact of local expenditure and institutional quality on local own-source revenue, which is still narrowly discussed.

Stewardship theory asserts that there is no situation in which management is motivated solely by individual goals (Anasta & Nengsih, 2019). Instead, management focuses more on achieving the main objectives, namely the organization's interests (Anasta & Nengsih, 2019). The philosophical assumptions underlying stewardship theory are built on the nature of human beings, considered trustworthy, capable of acting responsibly, possessing integrity, and behaving honestly toward others. In other words, stewardship theory views that management can behave ethically in favor of public and general interests and shareholders (Anasta & Nengsih, 2019). This theory highlights a strong relationship between organizational satisfaction and success. Achieving success within an organization can be realized by maximizing the utility of principals and management. Stewardship theory can be applied in research on public sector accounting organizations, such as governmental and other non-profit entities (Adnan, 2016). In this context, the government's success in collecting revenue can be realized by maximizing the utility of society as the main principal.

Fiscal decentralization gives local governments the authority to manage their finances. It includes the management of regional revenue and regional financing. Regional revenue is further divided into regional income and financing. Furthermore, regional revenues can be sourced from local own-source revenues, transfer funds from the center, and other revenues (Law Number 1 Concerning Financial Relations between The Central Government and Regional Governments, 2022). Locally generated revenue refers to regional income derived from regional taxes, retribution, proceeds from the management of separated regional assets, and other local revenue sources stipulated by legislation (Law Number 1 Concerning Financial Relations between The Central Government and Regional Governments, 2022). Hence, local revenue is a logical consequence of implementing a fiscal decentralization system. It is a funding source for regional governments to exercise regional autonomy in line with their respective potentials. It enables each region to develop optimally according to its unique characteristics. In addition, local revenue is also a key indicator of the success of fiscal decentralization in Indonesia (Muharsono et al., 2016). Therefore, local revenue is

expected to be the primary source of income to support regional financial performance (Ramadhani et al., 2024). The funds obtained are used to implement local government, such as improving the quality of services and the welfare of the local community. Optimization of local revenue will increase the ability of regions to carry out their regional development without relying on funds transferred from the central government. Therefore, local revenue optimization is essential, especially in achieving the goal of regional autonomy, namely equitable development in each region.

Regional expenditure is one of the fiscal tools available to the government to achieve development objectives. Regional expenditure is defined as the total obligations of a region that decrease its net asset value within a specific budget period (Ramadhani et al., 2024). This expenditure can be categorized into various types, including personnel expenditure, goods expenditure, capital expenditure, debt interest payments, subsidies, grants, social assistance, and other expenditures (Regulation of the Minister of Finance Number 101/PMK.02/2011 Concerning Budget Classification, 2011). Local revenue optimization through regional expenditure can be done by developing social and economic sectors that can become new sources of revenue and increase regional revenue (Rahman & Sumarni, 2024). Local expenditure to improve infrastructure and public services can increase local economic activity. Good infrastructure attracts investors and increases economic productivity, increasing local revenue through higher taxes and retribution. The expenditure distribution can also support regional strategic sectors that will produce a multiplier effect on the regional economy and ultimately impact local revenue (Rahman & Sumarni, 2024). In addition, local expenditure directed at improving local governments' administrative and managerial capacity can result in more efficient and effective management. Expenditures such as team member training, information technology, and better financial management systems can improve local revenue collection and management. In the context of COVID-19, local expenditure is the primary tool to stimulate the economy (Iriyadi & Purba, 2022). The increase in economic activity will eventually be realized through local revenue.

Numerous studies have been conducted on the influence of regional spending on local revenue. Ramadhani et al. (2024) analyzed the effect of regional spending and Gross Regional Domestic Product on increasing local revenue in West Kalimantan. Their findings indicate that regional spending positively impacts local revenue, as government expenditures are believed to generate a multiplier effect on the regional economy, ultimately increasing revenue. It is consistent with Rafsanjani & Suharno's (2022) study on the impact of regional spending on local revenue in Central Java, which highlights that allocating local expenditure toward economic development, human resource development, and tourism can enhance local revenue. Similarly, international studies, such as Abba et al. (2015) in Adamawa, Nigeria, also confirm a significant relationship between regional spending and local revenue. Their research found that both routine and capital expenditures, particularly in agriculture and natural resource management, road infrastructure, electricity, market development, healthcare, education, water resources, and social development, have a substantial impact on increasing local revenue.

H_1 : Regional expenditure has a positive influence on local revenue

Another effort to enhance local revenue is by improving governance quality. Based on the theory of political legitimacy, the level of public trust in the government determines tax compliance (Beeri et al., 2022). Therefore, the government must ensure its political legitimacy is upheld appropriately and fairly for all citizens. People tend to comply with obligations, such as paying taxes, when the government is fair and reliable (Günay & Topal, 2021). Furthermore, the quality of governance plays a significant role in economic

growth and activities, which serve as sources of local revenue through taxes and fees. Quality public services can boost local economic productivity, increasing local revenue through taxes and fees. High-quality local governments are also more innovative in exploring new revenue sources. For instance, they may develop the tourism sector, creative industries, or technology to increase local revenue. Moreover, effective local governments are often associated with success in combating corruption. Local governments that effectively tackle corruption can ensure that funds obtained from various sources are optimally utilized for development and public services. Low levels of corruption enhance public and investor trust, stimulate economic growth, and ultimately boost local revenue (Günay & Topal, 2021). Lastly, effective governance positively impacts revenue through increased government efficiency and adherence to sound governance principles (Phuong, 2015).

Research on the impact of good governance on local revenue at the regional level remains limited. Hoyriyah et al. (2023) examined the influence of taxpayer service quality on local revenue in Pringsewu Regency. Their findings suggest that high-quality services enhance public trust and provide legal protection, encouraging tax compliance and increasing local revenue. Similarly, Priyoko et al. (2020) found that the quality of governance strengthens the positive effect of village funds on local revenue. However, numerous studies have explored the relationship between governance quality and tax revenue at the national level. Phuong (2015) argued that governments in developing countries must improve institutional quality to boost tax revenue and drive economic growth. Additionally, Beyera (2021) demonstrated that enhancing the quality of government institutions significantly increases tax revenue collection capacity. Hence, the local level of government institutional quality also positively affects local revenue.

H_2: The quality of government services positively influences local revenue

RESEARCH METHODS

This study employs a quantitative approach using secondary data obtained from electronic sources (Sugiyono, 2022). The population for this research consists of all 34 provinces in Indonesia in 2021 and 2022. The year was selected because it coincided with the COVID-19 pandemic, which was also chosen in other research Raainaa & Zahrurrijal (2024). Data on local revenue, regional expenditures, and population size were sourced from the Regional Basic Data Management and Information System of Bappenas, accessible at https://simreg.bappenas.go.id. Meanwhile, data on the Evaluation of Regional Government Administration were obtained from the performance reports of the Ministry of Home Affairs and Ministerial Decrees. The data used in this study were collected through literature review and documentation methods.

The population in this study comprises all provincial governments in Indonesia. The research was conducted using a census approach, whereby all 34 provincial governments in Indonesia were included as the sample. All provinces in this study are referred to as Decision Making Units (DMUs), meeting the assumption of homogeneity.

Table 1. List of Population and Sample

Criteria	Samples
Number of Province in Indonesia	34
Outliers	0

Table 1. List of Population and Sample (continuous)

Criteria	Samples
Number of Research Sample	34
Number of Processed data (34 x 2)	68

Source: Data Processed, 2024

The dependent variable used in this study is locally generated revenue. Local revenue refers to the income regional governments receive from local taxes, regional retribution, the management of separated regional assets, and other legitimate local revenues following applicable laws and regulations (Law Number 1 Concerning Financial Relations between The Central Government and Regional Governments, 2022). The local revenue variable is measured using the nominal revenue value divided by the region's population, which becomes revenue per capita in the current year (2021 and 2022). This variable has also been applied in previous studies such as in Hadiwibowo et al. (2023), Junejo et al. (2021), and Korkmaz et al. (2022).

The independent variables used in this study are local expenditure and government service quality. The regional expenditure variable is measured using the nominal value of regional spending divided by the region's population, which becomes expenditure per capita in the current year, as applied in previous studies (Ahuja & Pandit, 2020; Hadiwibowo et al., 2023). Meanwhile, the institutional quality variable is measured using the Evaluation of Regional Government Administration scores published by the Ministry of Home Affairs. This variable has also been utilized in prior research, such as in (Priyoko et al., 2020). The Evaluation of Regional Government Administration scores serve as an indicator for measuring both macro performance and the performance of regional government functions, calculated using the regional government performance score formula provided by the Ministry of Home Affairs. The formula for calculating regional government performance is as follows :

$$EPPD = [CKM + CKUP] \times 0{,}75 + [PKM] \times 0{,}25$$

Where:

EPPD : Regional Government Performance

CKM : Macro Performance Achievement

CKUP : Performance Achievement in Government Affairs and Supporting Functions

PKM : Changes in Macro Performance

The performance status of regional government administration is then classified into five categories as follows:

Table 2. Score Classification

Performance Score	Labels
1.00 – 1.80	Very Low
1.81 – 2.60	Low
2.61 – 3.40	Medium
3.41 – 4.20	High
4.21 – 5.00	Very High

Source: Data Processed, 2024

Key control variables are included to increase the model's goodness of fit. The control variable used in this research is the population size measured by the population

size for regencies in 2021 and 2022, as released by the Central Statistics Agency. This variable has also been used in several previous research studies, such as in Rahmawati & Sebayang (2023) and Salsabila et al. (2021). Increasing the region's population will improve economic activities and produce additional local revenue. Local revenue, local expenditure, and population size will be presented in logarithm form to avoid the impact of different measurements.

The multiple linear regression analysis method examines the study's hypotheses. The regression models have been evaluated in exploring the relationship between local expenditure and institutional quality on local revenue :

$$REV_{it} = \beta_0 + \beta EXP_{it} + \beta INQ_{it} + \beta SIZE_{it} + \varepsilon_{it}$$

Where:

REV_{it} : Local revenue in the respective year.

EXP_{it} : Local expenditure in the respective year.

INQ_{it} : Government institution quality in the respective year.

$SIZE_{it}$: Population size in the respective year

RESULTS AND DISCUSSION

The results of the descriptive statistical analysis are presented in Table 3 below :

Table 3. Descriptive Statistics for Selected Variables

Variable	Obs	Mean	Std. dev.	Min	Max
REV	68	5.74	0.26	5.43	6.83
EXP	68	6.20	0.24	5.80	6.86
INQ	68	2.95	0.51	1.08	3.71
SIZE	68	15.32	1.01	13.48	17.72

Source: Data Processed by STATA, 2024

Table 3 provides descriptive statistics for the variables of local revenue log per capita (REV), Regional Expenditure log per capita (EXP), Government Institution Quality (INQ), and Log Population Size (SIZE) based on 68 observations. The average REV is recorded at 5.74, with a standard deviation of 0.26, a minimum value of 5.43 billion, and a maximum value of 6.83. EXP has an average of 6.20, with a standard deviation of 0.24, a minimum value of 5.80, and a maximum value of 6.86. INQ, which reflects the quality of government institutions, has an average of 2.95 with a standard deviation of 0.51 and minimum and maximum values of 1.08 and 3.71, respectively. SIZE shows an average population size of 15.32, with a standard deviation of 1.00, a minimum value of 13.48, and a maximum value of 17.71. These data provide helpful preliminary insights for further analysis of the impact of regional expenditure and government performance on local revenue.

We conducted several tests to determine the best regression model since the data was displayed. Hence, the best model test only examines whether to use random or common effects. The Lagrangian Multiplier test results are 0.01, which is lower than 0.05. Hence, the best model is the random effect model.

We then conducted a classic assumption test. The normality test showed the value 0.00, below 0.05. It indicates that the data does not follow a normal distribution. However,

according to the Central Limit Theorem, data is considered normal when the sample size exceeds 30 (Gujarati, 2015). The heteroskedasticity test was conducted in this study, and the obtained Prob F value is 0.00, lower than 0.05. It indicates that there is an issue with heteroskedasticity in the data used. Therefore, the regression analysis was conducted using robust syntax in STATA.

Table 4. Multicollinearity Test Result

	EXP	**INQ**	**SIZE**
EXP	1		
INQ	-0.30	1	
SIZE	-0.54	0.47	1

Source: Data Processed by STATA, 2024

Based on table 4, all correlation coefficients for the independent variables are below the critical values of ± 0.8 or ± 0.9, as used in (Salvi et al., 2020). It indicates no multicollinearity issues in the model and no correlation between the independent variables :

Table 5. Result of The Regression Model

Variable	**Coefficient**	**P>t**
C	0.36	0.44
INQ	0.17	0.00
EXP	0.64	0.01
SIZE	0.06	0.08
Adj R-Squared		0.45
F Test		0.00

Source: Data Processed by STATA, 2024

Table 5 shows the random effect regression results in the model. The P>|t| values shown in the table have been adjusted by dividing P>|t| values from the STATA application by two to find one-tailed statistical test results illustrated by the study hypothesis.

The Effect of Local Expenditure on Local Revenue

From the first hypothesis testing, it is found that regional expenditure has a significant positive effect on local revenue. This result supports the research results of Abba et al. (2015), Rafsanjani & Suharno (2022), and Ramadhani et al. (2024). During the pandemic, local expenditure is refocused and reallocated to social aid (BPK NTT, 2020). This policy triggered economic growth and saved the purchasing power of society. Economic growth would eventually be realized as local revenue for the government. Furthermore, several regional governments, such as East Java, also allocate their expenditure in fiscal stimulus such as vehicle tax incentives, which trigger the society to comply (Riyanto & Andiani, 2021). This policy has effectively enhanced local own-source revenue, especially from local taxes (Riyanto & Andiani, 2021). Moreover, the expenditure distribution can also support regional strategic sectors that will produce a multiplier effect on the regional economy and ultimately impact local revenue (Rahman & Sumarni, 2024).

In the context of stewardship theory, these findings highlight the role of local governments as stewards responsible for managing public resources to foster economic growth and enhance local revenue. The refocusing and reallocation of regional expenditures during the pandemic, such as social aid programs, reflect the government's

commitment to maintaining household purchasing power and sustaining economic activity. In this theory, the government is not merely an agent pursuing self-interest but a steward prioritizing public welfare by ensuring that regional spending is directed toward strategic sectors capable of generating multiplier effects. For instance, vehicle tax incentives in East Java have successfully encouraged tax compliance, ultimately increasing local own-source revenue. Furthermore, allocating regional expenditures to productive sectors accelerates economic growth and creates new revenue streams for the government. Thus, these findings reinforce the notion that well-targeted fiscal expenditure is a crucial mechanism for local governments to act as effective stewards in promoting societal welfare while strengthening regional fiscal capacity. In other words, it is a sign that the expenditure allocation policies satisfied society as a principal. Hence, it enhanced the willingness to comply from society, eventually realizing the rise in local own-source revenue.

The Effect of Institutional Quality on Local Revenue

The results of testing the second hypothesis also indicate that the quality of government performance significantly influences local revenue. This result is consistent with research results conducted by Beyera (2021), Hoyriyah et al. (2023), and Phuong, (2015). High-quality public services enhance public trust and legal certainty, encouraging tax compliance and increasing local revenue (Hoyriyah et al., 2023). The policy taken by the government in adapting their service procedure and giving some fiscal stimulus such as tax incentives and social aid satisfied the society. This satisfaction is realized in the form of trust in the government. The increase in public trust could increase voluntary compliance in society. Besides, strong institutional quality also improves the capacity for collecting local tax revenues, contributing to higher local revenue (Beyera, 2021). Effective government administration also positively impacted revenue through improved efficiency and good governance practices (Phuong, 2015). The results prove that institutional quality is not only the tax revenue at the national level but also at the regional level. This efficiency is implied in the form of innovation in online service during the pandemic, which made all government services accessible through the gadget. Such efficiency boosts local economic productivity, increasing local revenue through taxes and retribution.

From the stewardship theory perspective, these findings highlight the role of government institutions as responsible stewards in managing public resources and ensuring good governance. High institutional quality, reflected in effective public service delivery, strong legal frameworks, and transparent administration, directly influences local revenue by increasing tax compliance and improving revenue collection mechanisms. In other words, government officials act in the best interest of society, ensuring that policies and administrative processes benefit the public.

When the government enhances service efficiency through digital innovations and streamlined procedures, it reduces administrative burdens and creates a more predictable business environment. This predictability strengthens public confidence in the government's ability to manage resources effectively, leading to greater voluntary tax compliance. Additionally, strong institutional quality ensures better enforcement of tax regulations and minimizes inefficiencies in revenue collection (Arvin et al., 2021). High-quality institutions ensure the appropriate incentives are in place for individuals and firms to pay taxes, better tracking of tax files, and punitive measures to prevent under-reporting of taxes. Regional government policies such as giving vehicle tax incentives and adapting the government service through digitalization during periods showed the government's good quality, hence increasing the society's trust, which will eventually be converted to

voluntary compliance and local revenue. Therefore, institutional quality is critical in ensuring local governments can optimize their revenue potential through efficient administration and trustworthy governance.

CONCLUSION

This study reveals that regional expenditure and institutional quality are crucial in increasing local revenue. Strategic allocation of regional expenditure, particularly during the pandemic, has been instrumental in driving economic growth and maintaining societal purchasing power, ultimately enhancing local revenue. Policies such as reallocating funds for social aid and providing fiscal stimuli, including tax incentives, effectively increased public compliance and boosted local tax revenue. Furthermore, investments in regional strategic sectors generated a multiplier effect on the local economy, further strengthening revenue generation. Meanwhile, the quality of institutional performance significantly influenced local revenue by improving public trust, legal certainty, and tax compliance. Efficient governance, exemplified by innovations such as online service delivery, enhanced accessibility, and economic productivity, further contributes to local revenue. These results highlight the importance of effective expenditure management and high institutional quality in fostering economic resilience and sustainable revenue growth.

This research is limited by its focus on specific timeframes and regional contexts, particularly during the COVID-19 pandemic, which may not fully capture long-term trends or variations in regional economic and institutional dynamics. Moreover, this research only uses 2 years of timeframe, which might not provide enough evidence due to the data availability. Future evidence might use longer-period data samples to provide a better illustration. Additionally, this research uses data from each province, which might not provide details. Future research could expand the analysis to use more detailed data, such as for each region or city, to provide better details for each region since the regency/city government is the act that directly interacts with the society. Future studies could also use another proxy of local revenue and expenditure since the absolute number might not be able to illustrate the local government's ability to generate revenue correctly.

For the theoretical implication, this study highlights the effect of strategic expenditure and good institutional quality on revenue at the regional level. Something that has been widely studied at the national level but narrowly explored at the regional level. Several recommendations can be made for key actors. The Ministry of Finance and Ministry of Internal Affairs provide the basis for formulating the transfer fund policy and spending guidance for the next crisis. The expenditure focusing on saving the purchasing power of society in the form of incentives and social aid has proven effective in times of crisis. Moreover, enhancing the efficiency of intergovernmental transfers and supporting local governments in financial management and capacity building will also be beneficial. Furthermore, local governments should focus on improving the quality of public services and governance, as this can increase public trust and encourage tax compliance, ultimately enhancing local revenue.

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