

Implementing Vertical Fiscal Policy in Jambi: Strategic Planning and Sustainable Development for Regencies and Cities

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Abstract

In Jambi Province, fiscal imbalances between regencies and cities necessitate a comprehensive approach to ensure equity and efficiency in resource allocation. This study aims to analyze the implementation of vertical fiscal policy in Jambi, focusing on disparities in fiscal capacity and the role of fiscal transfers, such as General Allocation Funds (DAU), Specific Allocation Funds (DAK), and Revenue Sharing Funds (DBH). The objective is to assess fiscal independence and recommend strategies to strengthen local taxing power. The study employs a mixed-method approach, combining quantitative analysis of the Vertical Fiscal Imbalance Coefficient (CVI) from 2018 to 2023 and qualitative insights from interviews with local government officials. The findings reveal Batanghari Regency maintained stable CVI values, reflecting fiscal autonomy, while Tanjung Jabung Barat saw a decline in CVI, indicating increased dependence on central government support. Muaro Jambi demonstrated significant improvement in fiscal independence, while Tanjung Jabung Timur consistently exhibited low fiscal dependence due to strong local revenue sources. Merangin experienced fluctuations, suggesting fiscal instability. Jambi City, Kerinci, and Sungai Penuh displayed varying levels of fiscal independence, with Jambi City showing stable revenue sources, Kerinci relying on stable transfer funds, and Sungai Penuh demonstrating fiscal resilience despite fluctuations. The findings emphasize the importance of strengthening locally generated revenue (PAD) and improving fiscal management to reduce reliance on central government transfers and enhance sustainable fiscal autonomy in the region. To reduce fiscal disparities, the study recommends enhancing local taxing power as stipulated by Law No. 1 of 2022 on Central and Regional Financial Relations (HKPD). Key strategies include forming a task force to address tax and levy management, conducting public socialization in remote areas, establishing a structured evaluation timeline, ensuring regulatory alignment with existing laws, diversifying regional income through economic sector development, improving communication between taxpayers and tax officials, fostering cooperation between central and local governments, and enhancing tax and regional infrastructure to build public trust and support tax official development.

Keywords: Drinking Water; SAF; Regional Development; RGWP.

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1. Introduction

The Law Number 1 of 2022 on Financial Relations between the Central and Regional Governments (HKPD) aims to strengthen fiscal decentralization and improve community welfare. The HKPD Law was established based on four main pillars (Direktorat Jenderal Perbendaharaan Kementerian Keuangan Republik Indonesia, 2023), namely 1) strengthening local taxing power, related to the responsibility of regional governments in financing development; 2) reducing vertical and horizontal fiscal disparities; 3) improving the quality of regional spending; and 4) harmonizing central and regional expenditures (Lazuardi, 2013). However, differences in fiscal capacity and resources among governments lead to horizontal and vertical fiscal disparities. Vertical fiscal disparity refers to the fiscal imbalance between the central government and regional governments, while horizontal fiscal disparity refers to the imbalance among regional governments.

Bird & Tarasov (2002) emphasize that one of the most important instruments in reducing fiscal disparities is fiscal transfers. Therefore, the government must be able to design the types of transfers appropriately to achieve fiscal balance. Variables that need to be considered when designing transfers to regions are fiscal needs and fiscal capacity, where the difference between these two variables reflects the fiscal gap, which serves as one of the inputs to determine the number of transfers from the central government. The fiscal gap is the negative difference between fiscal capacity and fiscal needs, which must be covered by central government transfers. This is closely related to fiscal decentralization, which provides regional governments the freedom to explore their regional potential. Although this reference falls under the category of older research, it remains highly relevant, as it discusses the concepts of vertical fiscal imbalance (fiscal gap) and horizontal fiscal imbalance (equity). The study also briefly outlines the types of intergovernmental fiscal transfers used to address fiscal imbalances in the country where the research was conducted.

To determine transfer policies to regions, it is necessary to measure vertical fiscal disparities by calculating the ratio of transfer revenues to regional expenditures of the respective region (Sidig, 2018). Intergovernmental transfers are a common occurrence in various countries, representing the financial relationship between the central government and regional governments (Kuncoro, 2004). This is closely aligned with Law Number 1 of 2022 on Financial Relations between the Central and Regional Governments (HKPD), which aims to strengthen fiscal decentralization and improve community welfare while also providing regions with the opportunity to enhance their fiscal independence by leveraging their local potential. There are several benefits to measuring vertical fiscal disparities, including (Tamara & Konde, 2016) 1) accountability and transparency: understanding the level of disparity allows the public and other stakeholders to evaluate policies relevant to regional finances, 2) resource allocation efficiency: understanding fiscal disparities enables policymakers to allocate resources efficiently, 3) Incentives for responsibility: Vertical fiscal disparities can create moral hazard, where regional governments tend to rely on transfers from the central government for revenue. 4) Input for transfer policy design: accurate data on the level of disparity assists the government in formulating transfer policies and revenue-sharing mechanisms.

Jambi Province is one of the regions in Indonesia that has fluctuating regional autonomy levels, making it important to strengthen the regional revenue base to minimize fiscal disparities. Moreover, the resources owned by Jambi Province have quite potential in

contributing to regional revenue. The following is an overview of the Regional Autonomy Independence Level (TKD) of Jambi Province.

Table 1. The Regional Autonomy Independence Level of Jambi Province for the Period 2017-2022.

Province	Year					
	2017	2018	2019	2020	2021	2022
Jambi	0.368	0.38	0.361	0.349	0.391	0.431

Source: (Direktorat Jenderal Perbendaharaan Provinsi Jambi, 2023)

Based on Table 1, the autonomy level of Jambi Province from 2017 to 2021 fluctuated in the range of 0.37% to 0.39% and increased in 2022 to 0.43%. This means that Jambi Province's ability to allocate regional growth sources and financing has started to improve. In addition, there are interesting factors that serve as a reference for the importance of this research, including the development of the local tax ratio and regional autonomy levels in the regencies/cities of Jambi Province. Given that the relationship between these three variables greatly influences fiscal disparities, this is also affected by government expenditure performance and the share of transfers between governments, which in turn determines the vertical fiscal disparity between regencies in Jambi Province. Below is the development of local tax ratio (LTR) data in the regencies/cities of Jambi Province that may influence the level of fiscal autonomy:

Table 2. Development of the Local Tax Ratio in Regencies/Cities of Jambi Province for the Period 2017-2022.

Regencies/Cities	Period	LTR (%)
Bungo	2017	1.14
	2018	0.77
	2019	0.78
	2020	0.73
	2021	0.99
	2022	0.66
Batanghari	2017	0.60
	2018	0.63
	2019	0.56
	2020	0.64
	2021	0.79
	2022	0.57

Regencies/Cities	Period	LTR (%)
Sarolangun	2017	0.63
	2018	0.82
	2019	0.63
	2020	0.49
	2021	0.38
	2022	0.42
Tebo	2017	0.53
	2018	0.55
	2019	0.57
	2020	0.53
	2021	0.55
	2022	0.51
Merangin	2017	0.64
	2018	0.62
	2019	0.69
	2020	0.64
	2021	0.60
	2022	0.65
Muaro Jambi	2017	0.37
	2018	0.39
	2019	0.39
	2020	0.38
	2021	0.40
	2022	0.39
Tanjung Jabung Barat	2017	0.28
	2018	0.25
	2019	0.28
	2020	0.31
	2021	0.28
	2022	0.31
Tanjung Jabung Timur	2017	0.36
	2018	0.21
	2019	0.22
	2020	0.25
	2021	0.37
	2022	0.23

Regencies/Cities	Period	LTR (%)
Kota Jambi	2017	1.51
	2018	1.18
	2019	1.28
	2020	1.21
	2021	1.21
	2022	1.37
Sungai Penuh	2017	0.49
	2018	0.49
	2019	0.47
	2020	0.38
	2021	0.74
	2022	0.84
Kerinci	2017	0.97
	2018	0.86
	2019	0.87
	2020	0.78
	2021	0.59
	2022	0.40

Source: (Direktorat Jenderal Perbendaharaan Provinsi Jambi, 2023)

Based on the data in Table 2, it can be explained that the regencies/cities in Jambi Province have experienced fluctuations in their local tax ratio during the period 2017-2022. This indicates that the regencies/cities in Jambi Province have been striving to achieve fiscal autonomy by maximizing revenue from taxes, yet they remain dependent on transfer funds from the central government.

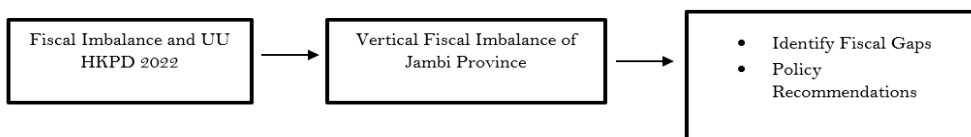
There have been several previous studies analyzing the fiscal capacity of regions in Jambi Province, one of which was conducted by Devita et al. (2022). In this study, the relationship between central and regional finances was examined, but the focus was limited to measuring the financial ratio of Jambi Province by calculating the effectiveness ratio, direct expenditure ratio, indirect expenditure ratio, and expenditure management ratio during the years 2000-2021. Unlike previous studies, the research proposed by the author focuses on the analysis of vertical fiscal balance based on fiscal disparities, using the Regional Revenue and Expenditure Budget (APBD) of regencies/cities in Jambi Province. The novelty of this study lies in the essence of the indicators contained in the Law on Financial Relations between the Central Government and Regional Governments, Law No. 1 of 2022, which calculates vertical fiscal disparity in the regencies/cities of Jambi Province and aligns it with the policy of strengthening local taxing power using the vertical fiscal disparity coefficient (CVI) or Intergovernmental Transfer Share in Subnational Government Expenditure.

1.1 The problems

- 1 What is the value of vertical fiscal disparity in the regencies/cities of Jambi Province during the years 2018-2023?
- 2 What is the formulation of fiscal policy strategies to address vertical fiscal disparity in the regencies/cities of Jambi Province during the years 2018-2023 through the local taxing power scenario?

1.2 Logical Framework

This study aims to analyze fiscal equity between central and regional government financing as outlined in the Law on Financial Relations between the Central Government and Regional Governments (HKPD) No. 1 of 2022. The study focuses on the analysis of vertical fiscal balance regarding fiscal disparities based on the Regional Revenue and Expenditure Budget (APBD) of regencies/cities in Jambi Province, with its novelty lying in the essence of the indicators contained in the Law on Financial Relations between the Central Government and Regional Governments No. 1 of 2022. This includes calculating vertical fiscal disparities in the regencies/cities of Jambi Province and aligning them with the policy of strengthening local taxing power using the vertical fiscal disparity coefficient (CVI) or intergovernmental transfer share in subnational government expenditure, followed by descriptive analysis using qualitative econometric analysis tools. Below is the framework/conceptual diagram.



2. Methods

This study utilizes both secondary and primary data. Secondary data refers to data that is not directly collected by the data collector (Sugiyono, 2008). Meanwhile, primary data is data obtained from original or first-hand sources and is not available in a compiled or aggregated form (Narimawati, 2008). The secondary data in this study refers to data related to i) the total transfer revenue during 2018-2023, ii) transfer expenditures during 2018-2023, iii) government expenditure during 2018-2023, iv) financing revenues during 2018-2023, and v) financing expenditures during 2018-2023. Meanwhile, the primary data in this study comes from questionnaires or in-depth interviews/FGDs with experts in their respective fields to formulate the strengthening of local taxing power and regional fiscal capacity. The scope of this study includes regencies/cities in Jambi Province, with the sampled areas being Batanghari Regency, Muaro Jambi Regency, Tanjung Jabung Timur Regency, and Jambi City. These areas were selected for specific reasons: Muaro Jambi Regency is a hinterland region close to the provincial capital, Batanghari Regency represents a plantation sector area, Tanjung Jabung Timur Regency is a coastal region, and Jambi City is the provincial capital. Each of these regions has different revenue potentials, reflecting the unique characteristics of their respective areas. The sample in this study consists of stakeholders from relevant agencies directly involved in managing local revenue across regencies/cities in Jambi Province. The sampling technique used is purposive sampling. Purposive sampling is a method in which researchers select individuals who have characteristics aligned with the

focus of the study (Turner, 2020). In calculating the vertical fiscal imbalance using the CVI, all regencies/cities in Jambi Province are included in the calculation process. However, for qualitative analysis, only a few experts are selected as representatives of areas with the following characteristics: 1) the provincial capital, 2) plantation areas, 3) hinterland areas or regions directly bordering the provincial capital, and 4) coastal areas.

The analysis methods used are quantitative and qualitative approaches. The quantitative approach involves calculating vertical fiscal disparity using the following mathematical formula (Bird & Tarasov, 2002):

$$CVI = \frac{\text{Net transfer between governments}}{(\text{Government Expenditure}) + (\text{Net government financing})}$$

Explanation:

Net transfer between governments: total transfer revenue minus transfer expenditures

Government Expenditure: Total local government expenditure

Net government financing: financing revenue minus financing expenditure

CVI: Transfer shares between the government and local government expenditure

The extent of vertical fiscal imbalance is measured by the vertical fiscal imbalance coefficient. In Indonesia, this coefficient is often below half, and it could even be considered close to zero. However, for a local government to demonstrate fiscal capacity and relative autonomy in decision-making, the coefficient should be above half or closer to one (1). A coefficient value of one means that the local government has a high degree of fiscal autonomy in decision-making and can fund its services independently, indicating strong fiscal capacity (Gedeona, 2009).

Meanwhile, the qualitative approach method used is designing policy formulations from experts, analyzed with the help of Nvivo analysis tools. Qualitative research is a research method that examines events, phenomena, or human experiences to answer questions about why something happens, how it happens, and what causes it (Bogdan & Biklen, 2007). With an in-depth and focused approach, qualitative research allows researchers to explore the meanings contained in every aspect of the phenomenon being studied. This enables researchers to capture nuances and contexts that might be overlooked in more structured quantitative research approaches. Overall, qualitative research is a powerful and relevant approach in the social sciences and humanities. By focusing on in-depth understanding and complex analysis of events, phenomena, and human experiences, qualitative research makes valuable contributions to expanding our knowledge and understanding of this complex and diverse world. Nvivo, used in this research, is a tool for managing data from various sources such as FGDs, in-depth interviews, and other sources like books, research reports, historical documents, journals, field notes, memos, and more. Nvivo facilitates qualitative research in managing data, such as non-numerical data in the form of text and visuals. Coding is an important link in qualitative research that connects data collection and the explanation of meaning (Priyatni & et al., 2020). NVivo is also commonly referred to as software designed for the development, support, and management of qualitative data analysis, with its primary function being to code data effectively and efficiently. Therefore, coding the research data sources is key to presenting qualitative research data in the form of tables, graphs, or diagrams.

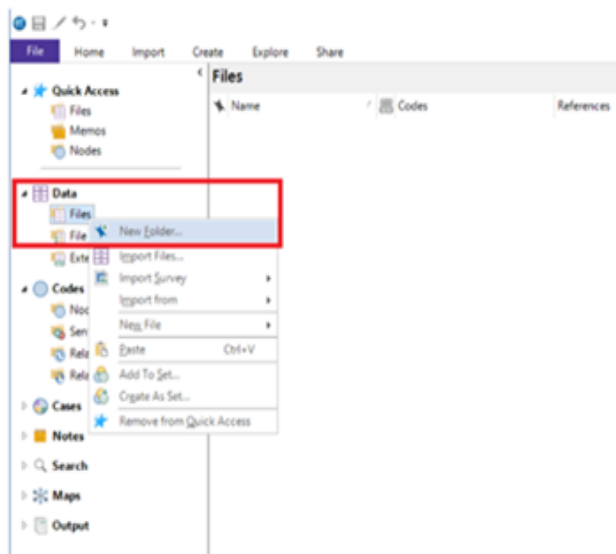


Figure 1. An example of coding in NVivo.
 Source: (Zevaya et al., 2024)

The coding scheme and code retrieval serve as key tools for qualitative analysis. We discuss the terminology and philosophy underlying the coding process. Specific methodologies use certain routines when creating codes. More general thematic analysis or methods less focused on coding can use coding tools in ways that include strategies for data reduction, indexing, and tagging. The structure of the coding scheme, alternative grouping, and basic code retrieval mechanisms are key to moving forward. A coding scheme is the framework or structure used by researchers to organize and categorize data during the analysis process. It involves creating a set of codes or labels that represent various themes, concepts, or ideas within the data. These codes are then applied to relevant sections of data, such as interview transcripts, field notes, or other documents, to help identify patterns, trends, or relationships. One of the primary goals of a coding scheme is to facilitate the organization and management of data. By systematically categorizing information into different codes, researchers can more easily navigate and analyze large volumes of data. This allows them to identify key themes or patterns emerging from the data and draw meaningful conclusions from their analysis. Additionally, a coding scheme provides a common language or framework for communication among researchers. By using a standardized set of codes, researchers can ensure consistency and reliability in their analysis, making it easier to compare findings and interpretations across studies or researchers. In terms of code retrieval, this refers to the process of accessing or retrieving coded data for further analysis or interpretation. After data is coded using the coding scheme, researchers can then retrieve specific codes or categories of interest to explore further. This may involve searching for particular codes within the data set or grouping related codes to explore broader themes or patterns. There are various techniques and tools that researchers can use to retrieve coded data, depending on the complexity of the analysis and the nature of the data (Libraries, 2023). Other methods may involve manually reviewing coded text segments or using visualization techniques to explore relationships between different codes or categories. Overall, the coding scheme and code retrieval process are essential components of qualitative analysis, providing

researchers with a systematic and structured approach to organize, manage, and analyze their data. By carefully designing and applying a coding scheme, researchers can effectively identify and interpret patterns, themes, and relationships within their data, ultimately leading to meaningful findings (Silver & Lewins, 2023).

3. Result, Analysis and Discussions

The following are the results of the calculation of vertical fiscal imbalance (CVI) for regencies/cities in Jambi Province during the years 2018-2023:

Table 3. Results of Vertical Fiscal Imbalance in Regencies/Cities in Jambi Province during 2018-2023

Regencies/Cities	CVI					
	2018	2019	2020	2021	2022	2023
Batanghari	0.72	0.72	0.72		0.69	0.71
Tanjung Jabung Barat	0.66	0.66	0.68		0.67	0.60
			0.65			
			0.66			
Bungo	0.63	0.66	0.67		0.65	0.63
			0.65			
Sarolangun	0.64	0.62	0.64		0.68	0.65
Kerinci	0.63	0.63	0.67		0.67	0.64
Merangin	0.71	0.69	0.62		0.73	0.72
Tanjung Jabung Timur	0.75	0.75	0.65		0.74	0.76
Tebo	0.73	0.70	0.64		0.62	0.71
Muaro Jambi	0.72	0.68	0.61		0.71	0.79
Kota Jambi	0.70	0.67	0.72		0.68	0.67
Kota Jambi	0.76	0.77	0.75		0.72	0.72
Sungai Penuh			0.67			
			0.65			
			0.67			
			0.71			
			0.65			
			0.63			
			0.75			
			0.68			

Source: processed, 2024.

The following data shows the Vertical Fiscal Imbalance (CVI) coefficient for each regency/city in Jambi Province from 2018 to 2023. The CVI value indicates the fiscal dependency of the regencies/cities on the central government, with lower values indicating better fiscal independence. From the analysis of the CVI trend for regencies/cities in Jambi Province, the stability or fluctuation of CVI values shows that most regencies/cities in Jambi

Province experience low fluctuations, indicating relative stability in their fiscal dependence on the central government.

According to Suyanto (2016), the concept of calculating the fiscal imbalance coefficient is based on various formulas from experts, where the value of the vertical fiscal imbalance coefficient ranges from 0 to 1. A smaller coefficient value indicates that a region is more dependent on the central government. Conversely, a larger fiscal imbalance coefficient signifies that the region is more independent in financing its expenditures. Based on the CVI data for regencies/cities in Jambi Province from 2018 to 2023, it is evident that some regions show stability in CVI values with minor fluctuations, indicating relatively constant levels of fiscal dependence. For example, Batanghari Regency maintained a stable CVI between 0.68 and 0.72, reflecting a fiscal position that is relatively independent compared to the average. Meanwhile, Tanjung Jabung Barat experienced a decline in its CVI from 0.66 in 2018 to 0.60 in 2023, indicating increased fiscal dependence on the central government. Regencies such as Bungo, Sarolangun, and Kerinci exhibited relatively stable trends, suggesting consistent levels of fiscal dependence without significant changes.

On the other hand, some regions demonstrated notable changes. Muaro Jambi Regency, for instance, saw a significant increase in its CVI from 0.71 in 2022 to 0.79 in 2023, reflecting an improvement in fiscal independence. Similarly, Tanjung Jabung Timur consistently maintained high CVI values, from 0.75 in 2018 to 0.76 in 2023, indicating low fiscal dependence. However, areas like Merangin experienced significant fluctuations, with a sharp decline in CVI to 0.61 in 2021 before recovering to 0.72 in 2023, indicating fiscal instability despite recovery at the end of the period.

Overall, this analysis reveals that most regions in Jambi Province exhibit relatively stable levels of fiscal dependence, with some areas like Tanjung Jabung Timur and Muaro Jambi showing better fiscal independence. However, regions like Tanjung Jabung Barat have experienced increased fiscal dependence, requiring special attention. Policies to strengthen locally generated revenue (PAD) could be prioritized in areas with low CVI values to reduce fiscal reliance on the central government. Changes in the CVI (Vertical Fiscal Imbalance Coefficient) values across various regencies in Jambi Province from 2018 to 2023 can be linked to variations in transfer funds received from the central government, such as the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH).

Batanghari Regency demonstrated stable CVI values between 0.68 and 0.72, reflecting a relatively independent fiscal position. This stability may be attributed to consistent transfer fund flows, enabling the local government to plan and manage its budget more effectively. Conversely, Tanjung Jabung Barat Regency experienced a decline in CVI from 0.66 in 2018 to 0.60 in 2023, indicating increased fiscal dependence on the central government. This decline could be due to an increase in DAU or DAK allocations, which are designed to support regions with lower fiscal capacity. However, excessive reliance on transfer funds can hinder efforts to enhance Locally Generated Revenue (PAD).

Muaro Jambi Regency recorded a significant increase in CVI from 0.71 in 2022 to 0.79 in 2023, indicating improved fiscal independence. This improvement might be linked to efforts to boost PAD and more efficient budget management, reducing dependence on transfer funds such as DAU and DAK. Tanjung Jabung Timur Regency consistently maintained high CVI values, from 0.75 in 2018 to 0.76 in 2023, suggesting low fiscal dependence. This independence could stem from strong PAD and significant DBH

allocations, especially if the region exploits natural resources, generating revenue that enhances fiscal independence.

Meanwhile, Merangin Regency experienced significant fluctuations, with a sharp drop in CVI to 0.61 in 2021 before rising to 0.72 in 2023, indicating fiscal instability. These fluctuations might result from changes in transfer fund allocations or instability in PAD, affecting the region's ability to plan and manage its budget effectively.

Jambi City, Kerinci, and Sungai Penuh exhibit distinct trends in their CVI values from 2018 to 2023. Jambi City demonstrates relatively stable CVI values, ranging from 0.63 (2021) to 0.70 (2018), with minor fluctuations. This stability reflects a balanced level of fiscal dependence, likely supported by robust locally generated revenue (PAD) sources such as regional taxes and levies, given its role as the provincial capital. However, slight fluctuations may result from variations in General Allocation Funds (DAU) or Special Allocation Funds (DAK). Kerinci, on the other hand, shows a stable trend in CVI values, ranging from 0.63 to 0.67, peaking in 2022. This stability suggests consistent receipt of transfer funds such as DAU, DAK, and Revenue Sharing Funds (DBH), along with stable PAD contributions, potentially derived from its tourism and natural resource potential.

Sungai Penuh City exhibits higher but more fluctuating CVI values, starting at 0.76 in 2018 and settling at 0.72 in 2023, with a sharp drop to 0.68 in 2021. This indicates generally strong fiscal independence, though the decline in 2021 points to a temporary increase in fiscal dependence, possibly due to reduced PAD or changes in transfer fund allocations. The recovery of CVI values in subsequent years suggests improvements in budget management or an increase in local revenue sources.

In summary, Jambi City shows controlled fiscal dependence with consistent PAD contributions, Kerinci reflects moderate dependence supported by stable transfer funds and local revenue, and Sungai Penuh demonstrates relatively strong fiscal independence despite temporary fluctuations. These trends highlight the importance of effective management of PAD and transferring funds to maintain fiscal independence and reduce dependence on the central government.

Comprehensively, the General Allocation Fund (DAU) has a significant negative impact on the level of regional financial independence. An increase in DAU can reduce regional financial independence, as a larger DAU allocation realized by local governments increases their dependence on general-purpose grants (transfer funds). Meanwhile, the Special Allocation Fund (DAK) can positively influence regional financial independence. This is because the realization of DAK allocations effectively addresses fiscal gaps not covered by DAU and Revenue Sharing Funds (DBH). By utilizing DAK to fund productive physical and non-physical needs, DAK acts as a catalyst for optimizing Locally Generated Revenue (PAD), thereby enhancing regional financial independence. As for DBH, it can have either a positive or a negative significant impact on regional financial independence, depending on the variability of DBH potential across regencies/cities or the central government's policies regarding DBH allocations (Musfirati & Sugiyanto, 2021).

Furthermore, the findings of this study are supported by Rahayu et al. (2024), who explain that the contribution of regional taxes collected by local governments plays a crucial role in supporting regional financial independence. Regional taxes have a significant and positive impact on the financial independence of regions. One manifestation of decentralization is the granting of taxation authority from the central government to local

governments (local taxing power). Provinces have the authority to manage seven types of taxes, while regencies/cities manage nine types of taxes as stipulated in the Local Government Financial Law (UU HKPD). With greater authority, local governments can be more active and creative in designing policies that support the increase in regional tax contributions. This, in turn, can make a positive contribution to local development, community welfare, and funding for expenditures. Consequently, the need for transfer funds from the central government can be reduced, ultimately helping to strengthen the local economy.

The smaller the Revenue Sharing Fund (DBH) received, the lower the dependence of local governments (Pemda), or the more independent they become. Additionally, the findings align with the research conducted by Ermawati & Aswar (2020), which states that DBH has a significantly negative impact on financial independence because regions receiving DBH often do not maximize their locally generated revenue (PAD) and rely on the allocation of DBH generated within their territory.

Meanwhile, according to Shoba (2022), DBH has a strong influence on regional financial independence, indicating that the amount of DBH allocated to local governments is directly proportional to regional income. If local governments expect high DBH allocations, they must optimize their tax and natural resource potential. This suggests that DBH can influence regional financial independence through local taxation. The amount of DBH received by a region depends on the taxes or natural resources generated by that region or other governing regulations.

As one of the revenue components whose use is entrusted to local governments and calculated based on taxes and natural resources from those local governments, DBH differs from other types of transfer allocations. The central government's phased disbursement of DBH poses a unique challenge for local governments, as it limits fiscal flexibility. For regions with significant tax and natural resource potential, the inability to immediately utilize DBH hampers their ability to design policies that promote local growth and welfare, such as infrastructure development, due to delays in disbursements from the central government.

However, following decentralization guidelines in developing countries, DBH, particularly tax-related DBH, is considered an alternative to promoting interregional equity and maintaining vertical balance. DBH is expected to reduce interregional disparities and enhance regional financial independence by boosting PAD. The larger the Special Allocation Fund (DAK) transferred by the central government, the less independent a region becomes, as it indicates an inability to fund infrastructure, education, healthcare, SMEs, and early childhood education (PAUD) using its own locally generated revenue (PAD). However, it is noted that DAK allocated for infrastructure development can significantly boost regional economic growth, thereby having a significant impact on regional financial independence (Andriana, 2020).

Before formulating the right policy strategies, it is necessary to identify the obstacles encountered in each region selected as a sample in improving local tax capacity.

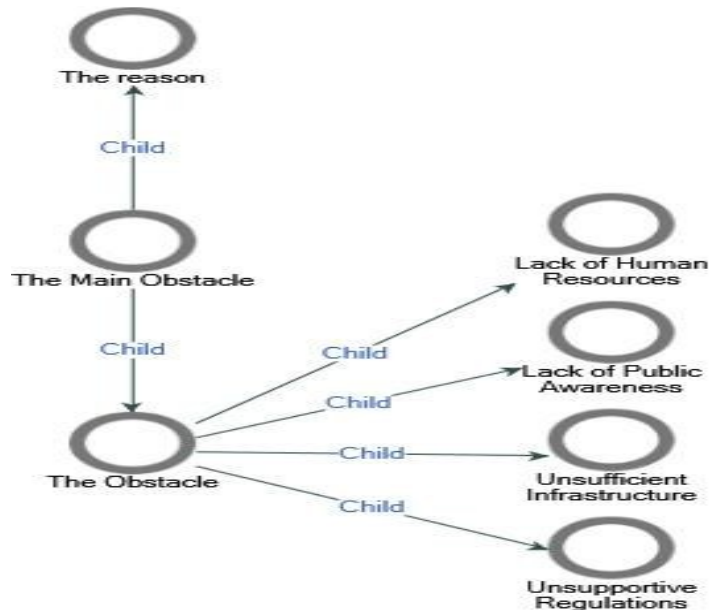


Figure 2. The Obstacles

Some of these obstacles include regulations that do not support, a lack of human resources, a lack of public awareness, inadequate infrastructure, and other barriers that could potentially be factors in improving local tax collection.

Based on this, the following is a formulation of strategies designed to improve local tax capacity and reduce vertical fiscal imbalance.

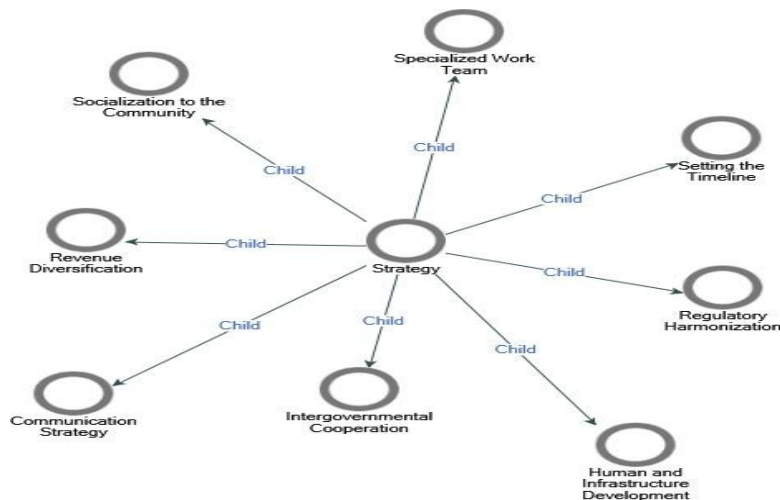


Figure 3. The Strategies

The recommended strategies from various sources include: the formation of a special task force to address issues in tax and levy management; socialization efforts that need to be conducted for the public, especially in remote areas with limited knowledge; creating a

structured timeline for evaluation purposes; regulatory harmony to ensure regional regulations (PERDA) comply with existing laws; diversifying regional income by boosting various economic sectors; communication strategies for taxpayers and among tax officials; cooperation between the central government and local governments; improving tax infrastructure, regional infrastructure to gain public trust, and human development for tax officials.

4. Conclusion and Recommendation

Previous studies highlighted fiscal transfers as instruments to promote equity but lacked a detailed examination of region-specific dynamics within Indonesia. In contrast, this study provides in-depth, localized insights for each regency within Jambi Province, one of Indonesia's regional administrative divisions.

In conclusion, the analysis of Vertical Fiscal Imbalance Coefficient (CVI) values across various regencies and cities in Jambi Province from 2018 to 2023 reveals significant insights into their fiscal independence and dependence on the central government. Batanghari Regency maintained stable CVI values, reflecting a relatively independent fiscal position, likely due to consistent transfer fund flows. In contrast, Tanjung Jabung Barat experienced a decline in its CVI, indicating increased fiscal reliance on central government transfers, which highlights the need for targeted policies to boost locally generated revenue (PAD) in such regions. Muaro Jambi saw significant improvement in its CVI, suggesting successful efforts to enhance fiscal independence, likely driven by better budget management and increased PAD. Tanjung Jabung Timur consistently maintained high CVI values, reflecting low fiscal dependence, possibly due to strong PAD and revenue from natural resources. Meanwhile, Merangin exhibited notable fluctuations in its CVI, signaling fiscal instability, which could be attributed to changes in transfer fund allocations or PAD instability. Jambi City, Kerinci, and Sungai Penuh each displayed different fiscal trends, with Jambi City showing stable CVI values supported by robust PAD, Kerinci exhibiting consistent fiscal dependence, and Sungai Penuh demonstrating strong fiscal independence despite some fluctuations. Overall, these trends emphasize the importance of efficient management of both PAD and transfer funds, with a focus on reducing over-reliance on central government support. Strengthening local revenue sources and improving fiscal management practices are key strategies to enhance fiscal autonomy and ensure sustainable development across the region.

The recommended strategies from various sources include: the formation of a special task force to address issues in tax and levy management; socialization efforts that need to be conducted for the public, especially in remote areas with limited knowledge; creating a structured timeline for evaluation purposes; regulatory harmony to ensure regional regulations (PERDA) comply with existing laws; diversifying regional income by boosting various economic sectors; communication strategies for taxpayers and among tax officials; cooperation between the central government and local governments; improving tax infrastructure, regional infrastructure to gain public trust, and human development for tax officials.

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