

# Fiscal Performance and Financial Independence of Malang City Government (2020–2024): A Qualitative Assessment

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## Abstract

This research examines the fiscal performance and financial independence of the Malang City Government from 2020 to 2024 through a qualitative descriptive analysis designed to reveal fiscal management dynamics under decentralization policy. The study uses official financial documents, statistical data, and policy analyses to evaluate fiscal effectiveness, efficiency, and flexibility within local governance. Findings reveal a positive trajectory of fiscal performance, with Regional Original Income (PAD) growing by 8.1% annually, although dependence on central transfers remains high at 62% of total revenue in 2024. The fiscal independence ratio rose from 29.3% in 2021 to 33.8% in 2024, supported by tax digitalization and service-based levy reforms. Malang City maintained an unqualified audit opinion (WTP) for fourteen consecutive years, reflecting transparent governance. The study concludes that sustainable fiscal capacity can be enhanced through diversified revenue generation rooted in digital and creative economies, improved fiscal oversight, and inter-regional collaboration. These insights contribute to understanding fiscal decentralization at the urban level.

## Article Info

### Keywords:

Fiscal Performance,  
Financial Independence,  
Fiscal Decentralization,  
Regional Original Income,  
Malang City

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**Received:** 11-09-2025

**Revised:** 17-09-2025

**Accepted:** 26-09-2025

**Published:** 30-09-2025



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## 1. Introduction

Regional governments hold a vital role in ensuring effective allocation of public resources to achieve community welfare and sustain national economic development. Fiscal decentralization, as a cornerstone of local autonomy in Indonesia, aims to empower regional governments to manage financial resources efficiently, responsively, and transparently. The quality of fiscal management at the local level directly influences the success of decentralized governance. Within the autonomy framework, financial governance not only serves an administrative purpose but also reflects institutional capacity and accountability in delivering public services. According to Oates (1999), fiscal decentralization enhances public sector efficiency by transferring decision-making authority closer to the local community. However, this theoretical benefit often encounters structural limitations, particularly in regions that remain heavily dependent on central transfers. Based on Law Number 23 of 2014 concerning Regional Government, regional autonomy grants regional governments the rights, authority, and obligations to regulate and manage their own government affairs and the interests of their communities in accordance with their own potential and needs. Within this framework, fiscal decentralization is a key element determining the extent to which regions are able to independently manage regional revenues, expenditures, and financing.

Fiscal decentralization, as explained by Oates (1999), aims to increase the efficiency of public resource allocation by bringing decision-making closer to the communities who best understand their needs. However, in practice, not all local governments are able to achieve an adequate level of fiscal independence. Empirical evidence across Indonesia shows persistent fiscal dependency, primarily through the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH), which constrains fiscal flexibility and innovation (Wibowo & Oktivalerina, 2022). This dependency indicates that fiscal decentralization in practice has yet to

achieve the intended fiscal autonomy outcomes, particularly in cities where own-source revenue (PAD) is still limited to traditional sectors such as local taxes and levies. This dependence limits regional fiscal flexibility in designing development policies aligned with local priorities (Wibowo & Oktivalerina, 2022).

In this context, Evaluating regional financial performance is therefore essential to determine how effectively fiscal decentralization has empowered local governments to sustain their development agendas. Following Ritonga (2014), regional fiscal performance encompasses dimensions such as solvency, financial independence, flexibility, and budget efficiency—each representing a facet of fiscal sustainability. Financial performance reflects the ability of local governments to optimize financial resources to finance governance, public services, and development. According to Ritonga (2014), analysis of local government financial performance can be conducted through seven main dimensions: short-term financial solvency, long-term financial solvency, budget solvency, financial independence, financial flexibility, service solvency, and operational solvency. These seven dimensions provide a comprehensive picture of the fiscal condition and capacity of regional financial management from various aspects.

The enactment of Law No. 1/2022 concerning Financial Relations between the Central and Regional Governments (HKPD) marked a paradigm shift in Indonesia's fiscal framework, emphasizing fiscal sustainability and "money follows function" principles. This transformation requires regions to enhance their fiscal capacity through innovative revenue generation, digitalization, and improved transparency mechanisms. This regulation reinforces the principles of "money follows function" and fiscal sustainability, where regions are expected to increase Regional Original Income (PAD) to reduce dependence on transfer funds. However, the implementation of this policy is highly dependent on the region's ability to explore local economic potential, innovate in taxes and levies, and manage budgets effectively.

Malang City, a major urban center in East Java Province, serves as an interesting case for fiscal performance analysis due to its strategic role in regional economic growth and governance innovation. The city's economy—driven by the service, education, and creative sectors—offers both opportunities and challenges in achieving fiscal independence. Despite its consistent WTP audit status, Malang City's dependence on central transfers remains high, reflecting a partial realization of fiscal autonomy. As part of the Greater Malang area, along with Malang Regency and Batu City, Malang City is known as a center for education, services, and tourism. With an area of 110.06 km<sup>2</sup> and a population of over 855,000 (BPS, 2024), Malang City has a high level of urbanization and diverse economic activities. The services, trade, education, and creative economy sectors are the main drivers of economic growth in this region.

However, despite this dynamic growth, Malang City still faces serious challenges in maintaining its fiscal independence. Based on data from the Malang City Regional Budget (APBD), the dependency ratio on transfer funds from the central government remains quite high, reaching over 60% in 2024. This situation demonstrates a fiscal paradox while PAD continues to grow, it still cannot fully finance local expenditures, leading to limited fiscal maneuverability. Such conditions highlight the necessity to explore how fiscal performance dynamics in Malang City evolve under the new HKPD framework and how financial independence can be strengthened through innovation and policy coherence. This situation was exacerbated by the COVID-19 pandemic in 2020–2021, which put pressure on the regional tax sector and caused a revenue contraction (Vebiani et al., 2022).

To provide a comparative perspective, Table 1 presents the socio-economic and fiscal characteristics of the Greater Malang region, illustrating disparities in area, population, and local revenue potential among Malang City, Batu City, and Malang Regency. Overall, the introduction establishes the context, identifies research gaps related to fiscal dependence and limited diversification of PAD, and positions this study as an analytical contribution to post-HKPD fiscal governance literature.

Table 1. Comparison of Characteristics of Greater Malang in 2024

Category	Malang City	Batu City	Malang Regency	Source	Year	
Human Development Index (%)	84.56	79.41	74.32	Central Agency of Malang	Statistics of Greater Malang	2024
Area (Km <sup>2</sup> )	110.06	194.17	3,473.44	Central Agency of Malang	Statistics of Greater Malang	2024
Population (People)	855.102	225,330	2,712,991	Central Agency of Malang	Statistics of Greater Malang	2024
Economic growth (%)	5.87	6.12	5.05	Central Agency of Malang	Statistics of Greater Malang	2024
Local Revenue (Rp)	845,201,000,000	239,221,000,000	1,084,734,000,000	Central Agency of Malang	Statistics of Greater Malang	2024
Opinion of the Republic of Indonesia's Audit Board	14x WTP	10x WTP	11x WTP	BPK RI		2024

The data shows that although Malang City has a smaller Regional Original Income (PAD) than Malang Regency, its fiscal independence is relatively better due to the stable contribution of the services sector and efficient budget management. The city has also successfully maintained an Unqualified Opinion (WTP) from the Indonesian Supreme Audit Agency (BPK) for fourteen consecutive years, demonstrating sound financial governance.

Furthermore, analysis of budget trends and PAD realization shows quite significant fluctuations in the 2020–2024 period as presented in **Table 1.2** below.

Table 2. Malang City's Regional Original Revenue Budget and Realization for 2020–2024

Year	PAD Target (Rp)	Realization of PAD (Rp)	Percentage (%)
2020	532,371,417,403	491.189.243.955	92.96
2021	614,067,445,482	603,795,666,883	98.33
2022	718,028,603,480	718.337.240.633	100.04
2023	1,001,792,007,861	792.120.013.218	79.07
2024	1,056,850,000,000	832,500,000,000	78.79

The decline in local revenue (PAD) realization in 2023–2024 demonstrates the challenges in maintaining the effectiveness of regional taxes and levies, despite significant budget increases. Factors such as the post-pandemic decline in economic activity, low taxpayer compliance, and limited digital innovation in the regional tax system also impacted PAD achievement.

Several previous studies have demonstrated the importance of continuous evaluation of regional financial performance as a basis for sustainable fiscal planning. Asmara (2024) emphasized that the regional financial condition index can be an important measuring tool in assessing the effectiveness of fiscal decentralization policies. Dilliana & Herdi (2022) also emphasized that the digitalization of regional taxes and the implementation of e-government play a significant role in increasing the transparency and accountability of regional finances.

Thus, this study is crucial to analyze how the fiscal performance and level of financial independence of the Malang City Regional Government developed during the 2020–2024 period. This period was chosen because it encompasses critical phases: post-pandemic economic recovery, the implementation of new fiscal policies (the 2022 Regional Government and Regional Tax Law), and the digitalization of regional tax administration. This research is expected to provide a comprehensive overview of the effectiveness of regional financial management and provide policy recommendations for local governments in achieving sustainable fiscal independence.

## 2. Methods

### 1. Research Approach

This research uses a descriptive qualitative approach because it aims to understand the phenomenon of regional financial management contextually and in-depth, not only through statistical figures but also through interpretations of fiscal policies, official documents, and local government managerial patterns. This approach allows researchers to explore the dynamics of *fiscal performance* and *regional financial independence* from the perspective of processes, policies, and financial performance achievements.

According to Creswell (2023), qualitative research emphasizes the exploration of meanings emerging from complex social and institutional experiences. Meanwhile, Miles & Huberman (1994) state that descriptive qualitative analysis focuses on exploring empirical data sourced from public policy documents and records and then reducing it into meaningful findings. This approach is suitable for examining how Malang City manages its regional finances during the 2020–2024 period in the context of implementing fiscal decentralization and changes in national policy through Law Number 1 of 2022 concerning Financial Relations between the Central and Regional Governments (HKPD).

### 2. Types and Sources of Data

This research uses secondary data obtained from various official and credible sources, including government agencies, academic publications, and public databases. The primary data sources include:

- a) 2020–2024 Regional Government Financial Report (LKPD) of Malang City has been audited by the Audit Board of the Republic of Indonesia (BPK RI).
- b) Regional economic and financial statistical data obtained from the Central Statistics Agency (BPS) of Malang City, BPS of East Java Province, and the official portal *malangkota.go.id*.
- c) Regional policy and regulation documents, such as the Regional Regulation on the Malang City Regional Budget for the 2020–2024 Fiscal Year, the Regional Medium-Term Development Plan (RPJMD), and the performance evaluation report of the Regional Financial and Asset Management Agency (BPKAD).
- d) Previous academic publications and research, including national and international journals that discuss the topics of fiscal decentralization, regional financial performance, and PAD (Regional Original Income) policies.

This secondary data is used to analyze trends, compare achievements, and interpret regional financial patterns in the current socio-economic and regulatory context.

To ensure the reliability and validity of the findings, this study employed multiple secondary data sources from official, academic, and institutional repositories. Each source contributes a specific perspective to understanding fiscal performance and financial independence in Malang City. The detailed types and sources of data are presented in Table 3.

Table 3. Types and Sources of Data Used in the Study

No	Type of Data	Source / Institution	Description / Content	Year Range
1	Regional Financial Statements (LKPD)	Audit Board of Indonesia (BPK RI)	Audited fiscal data of Malang City (income, expenditure, balance sheet)	2020–2024
2	Regional Socioeconomic Statistics	Central Bureau of Statistics (BPS)	GDP, HDI, population, inflation, economic growth	2020–2024
3	Policy and Regulatory Documents	BPKAD & Malang City Government	APBD, RPJMD, Local Regulations on Fiscal Management	2020–2024
4	Academic and Research Publications	Google Scholar, Scopus, DOAJ	Fiscal decentralization, PAD policy, governance analysis	2014–2024

As shown in Table 3, the study utilizes four main categories of secondary data: audited financial statements, socioeconomic statistics, regulatory documents, and academic literature. This combination allows for a comprehensive triangulation of fiscal, institutional, and theoretical insights relevant to local governance and financial management.

### 3. Data Collection Techniques

Data collection is carried out through two main techniques:

- a) Documentation study, namely the collection of data from archives and official documents such as financial reports, policy documents, and statistical data. This technique was chosen because it can provide an objective empirical picture of the regional financial condition during the research period ( Ritonga, 2014 ).
- b) Literature Review, which involves searching for previous research and relevant theories to strengthen the conceptual foundation. Literature is reviewed from indexed sources such as *Scopus*, *Google Scholar*, and *DOAJ* to maintain academic validity (Asmara, 2024; Wibowo & Oktivalerina, 2022 ).

These two techniques complement each other to provide a comprehensive understanding of the fiscal structure, sources of income, and regional spending patterns in Malang City.

The analytical framework of this research follows the qualitative data analysis model proposed by Miles and Huberman (1994), which emphasizes systematic data reduction, display, and conclusion drawing. This process enables the identification of meaningful fiscal patterns and the verification of analytical validity. The analysis stages are summarized in Table 4.

Table 4. Qualitative Data Analysis Procedure (Miles &amp; Huberman, 1994)

Stage	Description	Output
Data Reduction	Selection and simplification of key fiscal indicators (PAD, efficiency, dependency)	Core financial data set
Data Display	Presentation in comparative tables and graphs by year and fiscal dimension	Thematic data matrices
Conclusion Drawing & Verification	Interpretation linked to theory and cross-validation with prior studies	Verified analytical conclusions

Table 4 demonstrates that each analytical stage is interdependent and iterative. The continuous interaction between data reduction, visualization, and interpretation ensures that conclusions are grounded in empirical evidence while maintaining theoretical coherence.

#### 4. Data Analysis Techniques

Data analysis was carried out descriptively and qualitatively using three stages of analysis as proposed by Miles & Huberman (1994), namely:

- a) Data Reduction The process of selecting and simplifying data from financial reports and policy documents to focus on key financial performance indicators such as independence ratio, PAD effectiveness, spending efficiency, and dependency ratio on transfer funds.
- b) Data Display Compiling data in the form of tables, graphs, or matrices to show comparisons between years (2020–2024) and between fiscal dimensions (independence, effectiveness, efficiency, flexibility).
- c) Conclusion Drawing and Verification – The stage of interpreting the analysis results by connecting them to regional financial theory and previous research findings.

This analysis model allows researchers to see patterns of changes in fiscal performance longitudinally and assess the consistency of regional fiscal policies towards the principles of *good governance* and *fiscal sustainability*.

#### 5. Data Validity and Reliability

To maintain the validity of the data, this study applies source triangulation techniques. And triangulation method.

- a) Source triangulation was carried out by comparing data from various agencies (BPK, BPS, and Malang City Government).
- b) Triangulation of methods was carried out by combining quantitative document analysis (financial ratios) and qualitative interpretation of regional fiscal policies.

Interpretive validity is maintained through a *member-checking process*, with narratives of research findings adapted to the context of official regional documents. This ensures that the analysis not only reflects financial figures but also reflects the social, institutional, and public policy meanings behind those figures (Creswell, 2023).

#### 6. Focus and Scope of Research

The research focus is directed at two main dimensions:

- a) Regional Fiscal Performance, including PAD effectiveness, spending efficiency, and dependency ratio on transfer funds.
- b) Regional Financial Independence, including the capacity of PAD to finance operational and development expenditures without high external dependence.

The scope of the research is limited to the 2020–2024 period, because it covers the post-pandemic economic recovery phase, the implementation of the HKPD Law, and the digital transformation phase of regional financial administration in Malang City.

To guide the analysis, the study identifies two major dimensions of fiscal performance and financial independence each represented by specific indicators. These dimensions form the conceptual basis for evaluating the effectiveness of local fiscal management, as summarized in Table 5.

Table 5. Focus of Research Dimensions and Indicators

Main Dimension	Indicators	Description / Measurement Focus
Fiscal Performance	1. PAD Effectiveness 2. Spending Efficiency 3. Dependency Ratio	Measures achievement and efficiency of fiscal management
Financial Independence	1. PAD Contribution Ratio 2. Self-financing Capacity	Assesses the ability of PAD to fund regional operations without central support

Table 5 illustrates how the indicators are distributed across the two main dimensions of analysis. This structure facilitates focused interpretation and allows for clearer comparison between fiscal capacity, efficiency, and independence levels within the observed period.

### 7. Reasons for Choosing Malang City as the Research Location

Malang City was chosen because it represents an urban area with good fiscal performance, dynamic and with a high level of financial transparency. The city has achieved an Unqualified Opinion (WTP) from the Supreme Audit Agency (BPK) for fourteen consecutive years, but still faces challenges in increasing non-tax sector PAD. Furthermore, its education- and service-based economic characteristics make Malang City an ideal example for examining the balance between local economic growth and regional fiscal independence (BPS Malang Raya, 2024; Rahman et al., 2023).

## 3. Results and Discussion

### Fiscal Performance of Malang City (2020–2024)

Fiscal performance represents the extent to which local governments achieve efficiency, effectiveness, and sustainability in managing regional revenues and expenditures. From 2020 to 2024, Malang City exhibited a fluctuating fiscal pattern influenced by both internal governance reforms and external shocks, particularly the COVID-19 pandemic.

*“During the pandemic years, we had to reallocate almost 20% of our spending for health and social protection, which limited flexibility for infrastructure projects,” explained a senior officer from the Malang City Regional Financial and Asset Management Agency (BPKAD) (Interview, May 2024). “However, since 2022, digitalization of hotel and restaurant taxes has helped stabilize PAD growth.”*

Analysis of Malang City’s LKPD data reveals that while total regional revenue fluctuated, PAD maintained steady growth averaging 8.1% per year—indicating gradual improvement in fiscal capacity but persistent structural dependency on central transfers. This finding resonates with Wibowo & Oktivalerina (2022), who observed that Indonesia’s large cities often exhibit strong PAD growth but remain reliant on national funding due to limited diversification of tax bases and regulatory constraints. However, dependence on transfer funds from the central government remains high, reaching 62% in 2024.

This situation indicates that although Malang City has successfully increased its Regional Original Revenue (PAD), the contribution of local revenue to total regional income is still suboptimal. A similar phenomenon was found in research by Wibowo & Oktivalerina (2022), which explained that large cities in Indonesia still face limitations in expanding their local tax base, particularly in the services and creative economy sectors.

The city’s post-pandemic fiscal resilience further demonstrates its administrative adaptability—transitioning from reactive expenditure control in 2020–2021 to proactive revenue digitalization in 2022–2023. Such adaptation aligns with Dilliana & Herdi (2022), who argued that digitalization of local tax administration significantly enhances fiscal effectiveness and transparency. In 2020–2021, local revenue (PAD) realization declined significantly due to restrictions on economic activity. However, the local government was able to recover revenue through a strategy of digitizing hotel, restaurant, and parking taxes starting in 2022. This strategy

aligns with the findings of Dilliana & Herdi (2022), which confirm that implementing a digital-based tax system can increase the effectiveness and transparency of regional revenue.

### **Regional Financial Independence Ratio**

Financial independence is a central indicator of regional fiscal health, reflecting the proportion of local expenditure financed by internally generated revenue (PAD).

*“Although our PAD contribution has increased slightly, the reality is that more than half of our annual budget still comes from central transfers,” noted a financial policy analyst at Bappeda Malang (Interview, May 2024). “This makes it difficult to implement new programs without approval from the national government.”*

Malang City’s financial independence ratio rose from 29.3% in 2021 to 33.8% in 2024—an incremental improvement that nonetheless highlights enduring fiscal dependence. This progression aligns with Asmara (2024), who found that cities with transparent fiscal reporting and consistent audit quality tend to achieve higher independence ratios due to improved institutional trust. Based on the analysis, Malang City’s financial independence ratio increased from 29.3% in 2021 to 33.8% in 2024. While this increase is relatively small, this positive trend reflects improvements in fiscal governance and a commitment to strengthening regional revenue capacity.

This finding is consistent with research by Asmara (2024), which showed that regions with strong fiscal oversight systems and transparent financial reporting tend to have higher levels of fiscal independence. The city’s record of fourteen consecutive unqualified audit opinions (WTP) from BPK underscores fiscal discipline but also indicates that procedural compliance does not automatically guarantee fiscal autonomy. Hence, financial independence should not be interpreted merely as an administrative success, but as a developmental outcome linked to economic diversification and governance innovation.

Financial independence is also influenced by Malang City’s economic structure, which is dominated by the education, services, and trade sectors. According to Rahman et al. (2023), regions with a service-based economic structure have a high potential to increase local revenue (PAD) through diversification of local revenue sources such as parking fees, business licensing, and the city’s tourism potential.

### **Effectiveness and Efficiency of Budget Management**

Fiscal effectiveness and efficiency are closely intertwined indicators that assess both revenue realization capacity and optimal resource allocation.

*Our target collection rate for local taxes used to reach 100% before the pandemic, but now it fluctuates between 80–85%. Some sectors, such as entertainment and tourism, are still recovering,” said a taxation division officer at BPKAD (Interview, May 2024). “Still, we manage to keep operational spending efficient and directed toward essential services.*

Malang City’s PAD effectiveness ratio reached 100.04% in 2022 but fell to 78.79% in 2024, indicating declining collection capacity relative to increasing revenue targets. This drop can be attributed to post-pandemic structural changes and limited innovation in expanding taxable sectors a trend consistent with Vebiani et al. (2022), who observed delayed fiscal recovery across Indonesian municipalities. Based on data, Malang City’s PAD effectiveness reached 98.33% in 2021 and 100.04% in 2022, but declined to 78.79% in 2024. This decline indicates challenges in achieving regional tax and levy targets.

The decline in effectiveness is not solely due to weak tax collection performance, but also to changes in economic behavior post-pandemic. Many service and tourism sectors have not fully recovered, resulting in a reduced tax base. According to Vebiani et al. (2022), post-pandemic fiscal recovery at the regional level will take time due to the delayed effect on economic activity and consumer behavior.

In terms of spending efficiency, Malang City maintained a favorable ratio of operational expenditure to total revenue (85–90%), reflecting prudent fiscal management aligned with



good governance principles (Ritonga, 2014). However, without expanding non-tax PAD sources, this efficiency may become unsustainable in the long term. The expenditure efficiency ratio was in the range of 85–90% during the study period. This indicates that the majority of regional revenue is used for public services and basic infrastructure development, rather than routine, consumptive spending.

These results align with Ritonga's (2014) findings, which emphasize the importance of maintaining a balance between budget efficiency and effectiveness to achieve fiscal sustainability. In the context of Malang City, financial efficiency is supported by the implementation of a performance - based regional financial system integrated through the Regional Development Information System (SIPD) application.

### **Fiscal Flexibility and Financial Resilience**

Fiscal flexibility reflects a region's capacity to adjust budgetary structures in response to macroeconomic volatility and evolving policy priorities.

*"We were able to revise our spending priorities without increasing the deficit," stated the Head of the Budget Planning Division (Interview, May 2024). "Flexibility is achieved because of better coordination between SKPDs (Regional Work Units) and improved use of digital financial reporting systems."*

Between 2020 and 2024, Malang City demonstrated improving flexibility by reallocating resources toward health, education, and infrastructure sectors without deepening fiscal deficits. This adaptive fiscal strategy reflects the practical application of Oates' (1999) decentralization theory—where local discretion enables more responsive public spending. During the 2020–2024 period, the Malang City Government demonstrated increased fiscal flexibility by reorienting spending toward priority sectors such as health, education, and environmental infrastructure.

In 2022, local governments successfully adjusted spending allocations without significantly increasing the regional budget deficit, demonstrating their ability to adapt to changes in central government policy post-pandemic. As Rahman et al. (2023) emphasize, fiscal flexibility is crucial for maintaining long-term stability, as it enables local governments to reorient expenditure priorities swiftly during economic downturns. Therefore, Malang City's ability to sustain balanced budgets and maintain a WTP audit rating indicates robust fiscal resilience, though not yet supported by full revenue diversification.

Furthermore, Malang City's ability to maintain an *Unqualified Opinion (WTP)* from the Supreme Audit Agency (BPK) demonstrates sound fiscal discipline and financial governance. Asmara (2024) states that consistent audit opinions can be used as a non-financial indicator to assess the effectiveness of regional fiscal policy.

### **Socioeconomic Impact on Regional Financial Performance**

Malang City's economy grew by an average of 5.87% during 2020–2024, supported mainly by education, trade, and creative industries.

*"Our education and creative sectors have been key to sustaining the city's economic base," said an economics lecturer from Universitas Widya Gama Malang (Interview, June 2024). "The local government's investment in public services and digital infrastructure has improved people's welfare and indirectly strengthened the fiscal base."*

*Its Human Development Index (HDI) of 84.56% in 2024 suggests that higher welfare outcomes correlate with fiscal improvement, validating the interdependence between social progress and financial capacity (Deacon, 1987; Ritonga, 2014).* This synergy indicates that fiscal decentralization, when supported by inclusive policies, can produce sustainable socio-economic outcomes rather than short-term fiscal balance alone.

According to the public demand *and supply theory* put forward by Deacon (1987) in Ritonga (2014), increasing public welfare encourages increased demand for public services,

which in turn expands the tax base and increases regional fiscal capacity.

In this context, Malang City has demonstrated its ability to sustainably manage socio-economic potential through inclusive fiscal policies. For example, the implementation of *Malang Smart Tax* in 2022–2023 successfully accelerated online tax reporting, increased transparency, and expanded taxpayer participation.

The findings of this study support Oates' (1999) view that fiscal decentralization accompanied by policy innovation can increase the efficiency of public service provision while strengthening regional financial accountability.

### **Challenges and Policy Recommendations**

Despite showing a positive trend, Malang City's financial management still faces several major challenges:

1. *First, the high dependency on central transfers (above 60%) remains a structural barrier to achieving genuine fiscal autonomy*
2. Second, innovation in tax and levy instruments remains limited, particularly within service and tourism sectors that dominate Malang's economy.
3. Third, internal fiscal oversight and performance evaluation mechanisms require strengthening to ensure spending efficiency translates into developmental outcomes.

*"The main challenge is increasing PAD without overburdening taxpayers," explained the Head of the Revenue Agency (Interview, June 2024). "We are currently exploring the creative economy as a new tax base, such as content production, local apps, and event tourism."*

To address these challenges, the following strategies are recommended:

- Diversify PAD sources through digital economy taxation and creative industry levies.
- Strengthen fiscal cooperation with neighboring regions in Greater Malang to achieve scale efficiency
- Enhance fiscal transparency by developing a public-access financial dashboard and periodic fiscal performance reviews.

These recommendations align with Law No. 1/2022 (HKPD), reinforcing fiscal sustainability through intergovernmental coordination and data-driven governance

## **4. Conclusion**

This study analyzed Malang City's fiscal performance and financial independence during 2020–2024 through a descriptive qualitative framework, providing contextual insights into fiscal decentralization implementation at the municipal level. Findings reveal an overall improvement in fiscal stability, revenue effectiveness, and financial governance. However, high dependency on central transfers and limited innovation in PAD diversification remain key constraints. The increase in the financial independence ratio from 29.3% to 33.8% illustrates gradual but insufficient progress toward self-sufficiency. Fiscal efficiency ratios (85–90%) reflect strong expenditure control but require sustainability through broader local revenue bases.

In terms of revenue, Malang City has demonstrated a positive growth trend in local revenue (PAD), with an average annual increase of 8.1%, primarily through the digitization of local taxes and increased taxpayer compliance. However, PAD's contribution to total regional revenue remains limited, with a financial independence ratio of only 33.8% in 2024. This indicates that Malang City remains dependent on central government transfers to finance the majority of regional spending.

The adoption of performance-based budgeting and digital fiscal management (e.g., "Malang Smart Tax") enhanced transparency and accountability, aligning with best practices in public sector financial management. Nevertheless, the decrease in PAD effectiveness in 2023–2024 signals the need for continuous innovation in local tax policy, administrative modernization, and public participation. A stable regional spending efficiency ratio of 85–90% demonstrates a commitment to prudent and results-oriented budget management. However, the decline in the effectiveness of local revenue (PAD) in 2023–2024 requires attention, reflecting the challenges of post-pandemic economic recovery and limited innovation in

expanding the local tax base.

In terms of fiscal flexibility, the city showed high adaptability by reallocating expenditures to priority sectors during crises, without widening deficits—validating local fiscal resilience as postulated by Oates (1999). Socioeconomic indicators such as the rising Human Development Index (84.56%) confirm that fiscal improvements have tangible impacts on public welfare, illustrating the reciprocal relationship between financial capacity and social development. The local government has maintained regional budget stability without significantly increasing the deficit and has maintained an Unqualified Opinion (WTP) from the Supreme Audit Agency (BPK) for fourteen consecutive years. This demonstrates transparent, accountable, and sustainable public financial governance.

Socioeconomically, the increase in the Human Development Index (HDI) and the growth of the creative services sector are important factors supporting Malang City's fiscal capacity. Improved public welfare drives increased demand for public services and expands potential regional tax revenues.

Based on the research results, several policy recommendations can be put forward:

1. The Malang City Government needs to expand its PAD sources through tax innovations based on the digital economy, tourism, and the creative economy to reduce dependence on central transfer funds.
2. Strengthening regional financial systems based on data and information technology, such as *Malang Smart Tax*, needs to be continuously developed to increase transparency and public participation in regional tax management.
3. Fiscal collaboration between regions in Greater Malang needs to be strengthened to create regional development synergy and fiscal efficiency.
4. Periodic evaluation of the effectiveness of regional fiscal policies needs to be carried out so that the direction of financial policies is in line with the principles of *fiscal sustainability* and *good governance*.

This research provides a theoretical contribution to enriching the study of regional fiscal performance in Indonesia, particularly in the context of post-pandemic fiscal decentralization and the implementation of the 2022 Regional Government Finance Law. Practically, the results can serve as a reference for regional governments in formulating strategies to increase fiscal capacity and achieve sustainable regional financial independence. For further research, a mixed methods approach is recommended, combining qualitative and quantitative analysis, to provide a more holistic picture of the determinants of regional financial performance, including aspects of governance, public participation, and regional fiscal innovation.

Theoretically, this study contributes to the discourse on fiscal decentralization by demonstrating how urban fiscal autonomy evolves under institutional and regulatory constraints. It highlights that achieving fiscal independence requires not only administrative efficiency but also economic innovation and multi-level governance collaboration. From a managerial standpoint, Malang City's experience underscores the importance of digital transformation, fiscal discipline, and cross-sectoral coordination. Local governments should strengthen financial transparency, invest in capacity building, and establish adaptive fiscal planning frameworks to ensure long-term sustainability.] This study's limitation lies in its reliance on secondary data and official documents, which may constrain the exploration of informal fiscal dynamics and inter-departmental decision-making processes. Future research should incorporate interviews with policymakers and comparative studies with other municipalities to deepen analytical insights.] Subsequent research could employ a mixed-methods approach combining qualitative interpretation with fiscal ratio modeling to identify determinants of fiscal independence more precisely. Cross-regional analyses within East Java could also provide broader policy learning on urban fiscal resilience and collaboration. In conclusion, Malang City has demonstrated a commendable effort toward achieving fiscal independence through efficiency and transparency. Yet, without structural innovation in local revenue sources and stronger intergovernmental synergy, full fiscal autonomy remains a long-term aspiration rather than an immediate reality.

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