

Determinants of Government Financial Performance: An SDGs-Based Analysis of Revenue and Industrial Value Added

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ABSTRACT

Government financial performance is important for fiscal capacity and sustainable regional development, particularly where revenue mobilization and industrial contributions vary across provinces. This study examines the association of government revenue relative to gross domestic product (GDP) and industrial value added with government financial performance across Indonesian provinces within the Sustainable Development Goals (SDGs) framework. Using a quantitative approach, the study analyzes 170 province-year observations from 2019–2023 using panel data regression analysis. Government financial performance is proxied by the regional financial independence ratio, while the explanatory variables are government revenue-to-GDP and manufacturing value added-to-GDP. The results show that government revenue and industrial value added are positively associated with government financial performance ($B = 46.962$, $p < 0.001$; $B = 2.312$, $p < 0.001$), with industrial value added having the larger standardized coefficient ($b = 0.446$ vs. $b = 0.271$). The model reports $R^2 = 0.191$ and adjusted $R^2 = 0.181$. These findings highlight the potential importance of domestic resource mobilization and productive industrial capacity for subnational fiscal resilience in Indonesia.

Keywords: Financial Independence; Government Financial Performance; Gross Domestic Product; Industrial Value Added; Sustainable Development Goals

JEL Classification: H71; H72; L52; O14

INTRODUCTION

The Sustainable Development Goals (SDGs) serve as a comprehensive global blueprint for addressing multidimensional crises and achieving equitable, prosperous, and sustainable development by 2030. The financial performance of local governments can be assessed using budget data, economic information, and financial information. Financial performance analysis is conducted to evaluate the extent to which operations have been carried out effectively and correctly (Londah et al., 2026). Government financial performance is a key indicator in assessing the effectiveness of fiscal management and the success of economic development. Within this framework, the SDGs are a global call to action adopted by the United Nations (UN) in 2015, with a target timeline up to 2030. It serves as a universal blueprint shared by world leaders to eliminate poverty, reduce inequality, and protect the planet, ensuring that no one is left behind (Aji & Kartono, 2022). Previous studies have consistently shown that government revenue and industrial value added are important determinants of financial and economic performance.

On the other hand, industrial value added plays a strategic role in strengthening both economic and fiscal performance (Safariyani & Taufiqurahman, 2026). The industrial sector contributes to higher value creation, expands the tax base, and supports more stable economic growth. Nevertheless, the contribution of industrial value added to Gross Domestic Product (GDP) in Indonesia remains uneven across provinces and has not yet reached its full potential. This condition suggests that strengthening the industrial sector is crucial for improving government financial performance. Therefore, analyzing the determinants of government financial performance based on the revenue-to-GDP ratio and industrial value added to GDP is highly relevant in providing empirical insights into their role in achieving SDGs targets in Indonesia. From a theoretical perspective, government financial performance can be explained through fiscal capacity theory, which emphasizes the government's ability to mobilize revenue as the foundation for development financing (Bird & Zolt, 2008).

In this context, the revenue-to-GDP ratio serves as a critical indicator of the effectiveness of domestic resource mobilization. A higher ratio reflects greater government capacity to provide public services and achieve development objectives. In addition, structural growth theory highlights the importance of the industrial sector as a driver of economic transformation through value creation, productivity enhancement, and tax base expansion. Industrial value added to GDP reflects the level of industrialization, which directly contributes to improved fiscal performance. However, empirical evidence in Indonesia shows conditions that are not fully aligned with these theoretical frameworks.

Meanwhile, the contribution of industrial value added to GDP is uneven and tends to stagnate in several regions, limiting its role as a key driver of fiscal capacity at the national level. Regional disparities in economic structure indicate that the transition toward an industry-based economy is still uneven. Yossinomita et al. (2024) find that the revenue-to-GDP ratio has a positive and significant effect on fiscal capacity and government performance. Similarly, Narayan et al. (2025) emphasize that revenue optimization improves fiscal stability.

Other studies, such as Sulkipli et al. (2026), also confirm that higher tax ratios enhance the effectiveness of public financial management. From the industrial perspective, Siddiqui (2021) and Xi & Zhai (2022) find a positive relationship between industrialization and national economic performance. This is further supported by McMillan et al. (2017), who highlight the significant role of industrial value added in promoting economic growth and expanding the tax base. In Indonesia, empirical evidence also shows that industrial

contribution to GDP influences government revenue and fiscal stability. In addition, [Athukorala and Patunru \(2022\)](#) find that the impact of industrial value added on fiscal performance is uneven across regions, reducing its overall effectiveness.

These findings suggest that institutional quality, policy effectiveness, and economic equality play an important role in strengthening the relationship between key variables and financial performance. Despite extensive literature on public finance and economic transformation, existing studies largely examine government revenue and industrial sectors in isolation or focus primarily on the national level, leaving a critical empirical gap in understanding their integrated and regionally heterogeneous effects within subnational decentralized systems. This study addresses this empirical gap by developing an integrated framework that simultaneously examines the roles of government revenue-to-GDP and industrial value added to GDP in explaining government financial performance across all 34 provinces in Indonesia over a five-year period (2019–2023).

The novelty of this research lies in its three-dimensional approach: integrating fiscal capacity and industrial structure variables into a single framework, utilizing subnational panel data to capture cross-provincial disparities, and embedding the entire analysis within the SDGs perspective as a unifying lens. This research offers significant theoretical implications by extending fiscal capacity and structural growth theories through subnational empirical alignment. Practically, it provides vital insights for local policymakers in designing decentralized fiscal strategies to enhance domestic resource mobilization and expand subnational tax bases. Therefore, this study aims to examine the empirical effects of government revenue-to-GDP and industrial value added to GDP on government financial performance in Indonesia, both partially and simultaneously, within the SDGs framework to support the achievement of sustainable and independent subnational development.

LITERATURE REVIEW

Theoretical Framework

The theoretical foundation of this study combines fiscal capacity theory, fiscal decentralization, and structural transformation theory. Fiscal capacity theory emphasizes the state's ability to mobilize public resources as a condition for financing collective goods and maintaining development capacity. The revenue-to-GDP ratio is therefore interpreted as an indicator of the scale of public resource mobilization relative to the size of the regional economy. From this perspective, stronger revenue capacity can expand fiscal space, although its contribution to financial performance depends on institutional arrangements and the efficiency of public financial management ([Gaspar et al., 2016](#); [Hall & O'Hare, 2023](#)).

Fiscal decentralization complements this perspective by emphasizing the division of fiscal responsibilities and resources across government levels. The quality of intergovernmental fiscal arrangements affects the ability of subnational governments to provide services and respond to regional development needs. Evidence from Indonesia indicates that revenue and expenditure dimensions of fiscal decentralization are related to governance performance, while local own-source revenue is a key component of fiscal independence ([Astriana & Khoirunurrofik, 2024](#); [Kim & Dougherty, 2018](#)). Thus, financial performance is viewed in this study as a fiscal-governance outcome rather than a purely accounting measure.

Structural transformation theory provides the economic mechanism for the second predictor. As economies shift toward productive activities with higher value added, the economic base can broaden through increased productivity, formal employment,

investment, and business activity. These changes may strengthen fiscal capacity indirectly by enlarging taxable economic activity. Evidence on structural change underscores the importance of productivity-enhancing sectoral transformation for development (McMillan et al., 2017; Xi & Zhai, 2022), while Indonesian manufacturing research shows that domestic value added is closely connected with broader economic activity (Athukorala & Patunru, 2022).

Within the SDGs lens, the two predictors represent complementary implementation channels. SDG 17.1 identifies domestic resource mobilization as a core means of implementation, whereas SDG 9 promotes sustainable industrialization and upgrading. Recent Indonesian evidence also shows that localization of SDG indicators can reveal both synergies and trade-offs among development priorities across provinces (Rimba et al., 2025). The conceptual model therefore treats revenue mobilization and industrial value added as distinct but potentially complementary dimensions of subnational fiscal resilience.

Hypothesis Development

The Effect of Government Revenue on Government Financial Performance

From a theoretical standpoint, public finance theory and fiscal capacity theory assert that the ability to generate revenue determines the quality of fiscal management. In the SDGs context, particularly Goal 17 (Partnerships for the Goals), domestic resource mobilization is a key prerequisite for sustainable development financing. Moreover, fiscal decentralization theory suggests that higher regional revenue increases fiscal space, enabling local governments to allocate public spending more effectively and efficiently.

Empirical studies reinforce these theoretical perspectives. An increase in the revenue-to-GDP ratio has been found to positively affect fiscal capacity and government financial performance (Gaspar et al., 2016). Optimizing domestic revenue is essential for financing sustainable development. Similarly, effective fiscal policies enhance economic performance and fiscal stability (Badewin et al., 2025). Furthermore, fiscal capacity is closely associated with government financial performance and the acceleration of SDGs achievement, demonstrating that increased government revenue significantly strengthens governance quality (Hall & O'Hare, 2023). Government revenue structure also positively influences public expenditure quality and sustainable development outcomes (Gaspar et al., 2016; Suu et al., 2026).

At the subnational and regional levels, empirical evidence shows that increased local revenue significantly improves regional financial performance, particularly in fiscal independence and budget effectiveness. Internationally, stronger revenue capacity is associated with better fiscal management and public expenditure quality (Gaspar et al., 2016; Kim & Dougherty, 2018). Countries with higher revenue capacity also tend to achieve better fiscal performance in supporting sustainable development. Based on these theoretical insights and empirical evidence, the first hypothesis is formulated as follows:

H1: Government revenue (revenue-to-GDP ratio) has a positive effect on government financial performance.

The Effect of Industrial Value Added on Government Financial Performance

The relationship between industrial value added and government financial performance is deeply rooted in structural growth theory, which emphasizes the role of industrialization and fiscal strengthening. The industrial sector not only generates output but also creates value added, which serves as a key indicator of its contribution to GDP. Higher industrial value added directly expands the tax base and increases government revenue potential.

Empirical studies provide strong support for this relationship. Industrial value added significantly contributes to economic growth, government revenue, and the strengthening of fiscal capacity (McMillan et al., 2017; Xi & Zhai, 2022). Increased domestic value added in manufacturing contributes to economic growth and broader economic activity, thereby strengthening fiscal capacity (Athukorala & Patunru, 2022). The industrial sector significantly influences tax revenue, particularly value-added tax, which is a major source of government income.

In the Indonesian context, empirical evidence shows a positive correlation between industrial development and regional fiscal capacity, particularly through increased investment and public spending. Value-added-based economic activities significantly contribute to increased tax revenue, ultimately improving government financial performance indicators such as effectiveness and fiscal independence (Jazuli et al., 2026). Moreover, stronger revenue capacity derived from productive sectors reduces fiscal distress and enhances financial performance (Suu et al., 2026). From a broader perspective, strengthening the industrial sector contributes to fiscal stability and reduces dependence on intergovernmental transfers. Therefore, industrial value added plays a strategic role in enhancing government financial performance by expanding the economic base, increasing revenue capacity, and improving fiscal sustainability. Based on these theoretical foundations and empirical consensus, the second hypothesis is formulated as follows:

H2: Industrial value added (industry-to-GDP ratio) has a positive effect on government financial performance.

Conceptual Framework

Figure 1. Research Framework

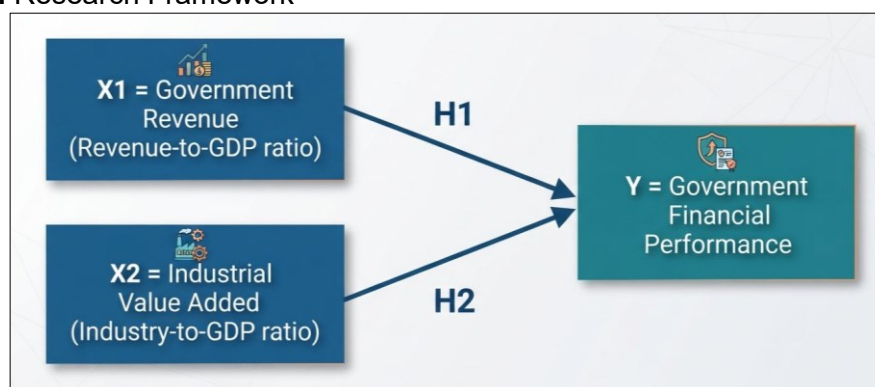


Figure 1 shows the conceptual framework of this study, building upon the structural interplay between decentralized fiscal capacity, economic diversification, and subnational financial governance. Government financial performance (Y) is modeled as a direct outcome of the partial and simultaneous influences of government revenue-to-GDP ratio (X1) and industrial value added to GDP (X2). The first behavioral pathway (H1) explores the link between government revenue capacity (X1) and financial performance, suggesting that a higher revenue-to-GDP ratio directly expands regional

fiscal space, increases budget execution capacity, and reduces vulnerability to external funding shocks.

The second behavioral pathway (H2) captures the link between industrial value added (X2) and financial performance, positing that a stronger manufacturing base shifts the economic structure toward high-productivity formal activities, thereby broadening the domestic tax base, generating stable regional revenue, and strengthening local financial independence. Together, these two independent pillars operate as complementary drivers within the SDGs framework, where a robust revenue mechanism and a thriving productive sector concurrently reinforce subnational fiscal self-sufficiency and resource efficiency.

RESEARCH METHOD

Research Approach

This study utilizes a quantitative research approach to examine the determinants of government financial performance within the SDGs framework. The approach emphasizes empirical, systematic, and statistical evaluation of secondary panel data to establish structural relationships among fiscal capacity, economic structure, and subnational financial performance. A longitudinal panel data research design is employed to investigate the causal and structural links between variables across space and time. This design combines cross-sectional data with time-series data, allowing the model to capture provincial disparities and secular macroeconomic changes concurrently over the observation window.

Population and Sampling

The unit of analysis for this study comprises provincial governments in Indonesia. The research target incorporates all 34 Indonesian provinces established during the study window. A saturated sampling (census) technique is applied based on strict historical data availability and data completeness criteria for the period from 2019 to 2023. Through this strict verification process, all 34 provinces were found to possess continuous, complete, and un-extrapolated records, yielding a balanced subnational panel of (34 provinces x 5 years = 170) final province-year observations.

Data Collection

Data collection is carried out through the documentation method, which involves gathering, verifying, and logging official secondary public data. Fiscal indicators, specifically locally generated revenue, total regional revenue, and total government revenue, are retrieved from the audited publication databases of the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia, complemented where applicable by regional budget realization reports published by provincial governments. Concurrently, regional macroeconomic parameters, specifically GDP and manufacturing value added, are retrieved from the official annual statistical publications of Statistics Indonesia (BPS). [Table 1](#) summarizes the data selection criteria and the resulting province-year observations.

Table 1. Data Selection Summary

Criterion	Description	Result
Population	Indonesian provincial governments	34 provinces
Observation period	Annual observations, 2019–2023	5 years
Sampling	Census/saturated sampling	All eligible provinces
Data structure	Province-year observations	Balanced panel structure
Completeness	Continuous fiscal and economic series	170 observations

Variable Operationalization

The operational framework comprises one dependent variable and two independent variables measured on a ratio scale to ensure consistency:

Dependent Variable: Government Financial Performance (GFP)

GFP is proxied by the subnational financial independence ratio, calculated as:

$$GFP = \left(\frac{\text{Locally Generated Revenue}}{\text{Total Regional Revenue}} \right) \times 100\%$$

This indicator reflects the capability of local administrations to finance their public operations using autonomous revenue streams, with higher scores signifying minimized dependency on central government funding allocations (Alfansa & Wibowo, 2022).

Independent Variable 1: Government Revenue (REV)

REV represents the overarching fiscal mobilization capacity within the SDGs paradigm (Goal 17). It is measured through the revenue-to-GDP ratio:

$$REV = \frac{\text{Total Government Revenue}}{\text{Gross Domestic Product}}$$

A higher ratio depicts institutional efficiency in extracting formal resources to finance sustainable development initiatives.

Independent Variable 2: Industrial Value Added (IND)

IND reflects the structural economic transformation of a region. It is operationalized as the proportion of manufacturing value added to GDP:

$$IND = \frac{\text{Manufacturing Sector Value Added}}{\text{Gros Domestic Product (GDP)}}$$

A higher index implies an advanced technological base and expanded tax yields (Sipayung et al., 2026; Umbet et al., 2025).

Methodological Clarification on Construct Divergence (Mitigating Mechanical Overlap)

Because both GFP and REV incorporate components of government revenue, a critical conceptual and mathematical distinction must be established to eliminate mechanical overlap or collinearity within the regression model. Mathematically, the formulas utilize distinct numerators and denominators that isolate different socioeconomic dynamics.

The distinction between the two metrics lies primarily in their conceptual foundations and structural baselines. First, concerning the denominator differentiation, GFP evaluates the internal structure of the public budget by scaling revenue against Total Regional Revenue, thereby establishing an institutional budget baseline. Conversely, REV offers a broader economic perspective by scaling total revenue against the entire provincial GDP, utilizing a macroeconomic production baseline to assess the comprehensive fiscal scale.

Second, regarding the numerator differentiation, the two indicators isolate entirely different revenue streams to capture specific fiscal dimensions. The numerator for GFP is strictly limited to Locally Generated Revenue, a design chosen to isolate and measure the subnational tax extraction capacity of local governments. In contrast, the numerator for REV encompasses Total Government Revenue (including central fiscal transfers and shared taxes) to provide an all-inclusive picture of the region's overall financial

resources. Consequently, GFP operates purely as a measure of institutional budgetary self-sufficiency, whereas REV tracks macro-fiscal resource mobilization scale. The parameters are mathematically independent, eliminating mechanical overlap in the model.

Data Analysis

This study applies panel data regression analysis to evaluate the partial and simultaneous effects of the predictors on the dependent variable. The empirical model is specified as follows:

$$GFP_{it} = \alpha + \beta_1 + REV_{it} + \beta_2 IND_{it} + \epsilon_{it}$$

Where GFP_{it} represents government financial performance for province I at time t ; α is the constant term; β_1 and β_2 are regression coefficients; REV_{it} represents government revenue; IND_{it} signifies industrial value added; and E_{it} is the idiosyncratic error term.

To determine the most appropriate model specification among the Pooled OLS (Common Effect), Fixed Effects Model (FEM), and Random Effects Model (REM), a systematic panel estimation procedure is implemented. The Chow Test is executed first to choose between the Common Effect and Fixed Effect specifications. Subsequently, the Hausman Test is conducted to evaluate the consistency of coefficients between the Fixed Effect and Random Effect frameworks. Finally, the classical linear regression assumptions incorporating residual normality, heteroskedasticity consistency, and multicollinearity diagnostics (Tolerance and VIF) are verified to validate the stability of the parameter estimates before processing hypothesis evaluations via partial tests and joint model-level significance tests.

RESULTS

Descriptive Statistics

The descriptive analysis is based on the verified secondary data for 34 provinces over 2019–2023, yielding 170 province-year observations.

Table 2. Descriptive Statistics

Variable	Mean	Std. Deviation	N
Government financial performance (GFP)	81.68	60.40	170
Government revenue relative to GDP (REV)	0.95	0.35	170
Manufacturing value added relative to GDP (IND)	16.61	11.65	170

The results in [Table 2](#) indicate variations in government financial performance across provinces, reflecting differences in fiscal capacity and regional financial independence. Similarly, the revenue-to-GDP ratio shows variability, suggesting disparities in the ability of local governments to mobilize domestic revenue. The industrial value added variable also demonstrates uneven distribution, indicating differences in the level of industrial development across regions. Overall, these descriptive findings highlight the presence of regional heterogeneity in fiscal capacity and economic structure, which justifies the use of panel data analysis to capture both cross-sectional and temporal variations.

Based on the descriptive statistics, the GFP variable shows a mean value of 81.68 with a standard deviation of 60.40 across 170 observations. The relatively high standard deviation indicates substantial variation in financial performance across the units of analysis, reflecting disparities in fiscal capacity and financial independence among provincial governments. The SDGs development pillar (SDGs_Revenue) variable has a mean value of 0.95 with a standard deviation of 0.35. This suggests that SDGs

achievement within the development pillar is relatively homogeneous across regions, with a low level of data dispersion. In other words, most provinces exhibit similar levels of performance in this dimension.

Meanwhile, the SDGs industrial pillar variable records a mean value of 16.61 and a standard deviation of 11.65. This indicates a considerable degree of variation across regions in terms of industrial sector performance, suggesting uneven industrial development and differences in economic structure among provinces. Overall, the descriptive statistics reveal that the greatest variation is observed in government financial performance and the industrial sector variable, whereas the SDGs development pillar remains relatively stable. These findings provide preliminary evidence that disparities in fiscal conditions and industrial sector development across regions may play a significant role in shaping sustainable development performance.

Correlation Analysis

Table 3. The Correlation Matrix Test

Pair	Pearson r	p-value	Interpretation
GFP – REV	0.122	0.057	Weak positive; not significant at 5%
GFP – IND	0.355	< 0.001	Positive; significant
REV – IND	-0.335	< 0.001	Negative; significant

Table 3 presents the results of the Pearson correlation analysis between GFP, the SDGs development pillar (SDGs_Rev), and the SDGs industrial pillar (SDGs_Add Value), based on 170 observations. The results indicate that government financial performance is positively associated with the SDGs industrial pillar, with a correlation coefficient of 0.355, which is statistically significant at the 1% level ($p < 0.01$). This finding suggests that better government financial performance is linked to higher achievement in the industrial dimension of the SDGs, highlighting the role of fiscal capacity in supporting industrial development. In contrast, the relationship between government financial performance and the SDGs development pillar shows a weak positive correlation, with a coefficient of 0.122, which is not statistically significant at the 5% level ($p = 0.057$). This implies that improvements in financial performance are not directly associated with SDGs achievement in the broader development pillar. Furthermore, the analysis reveals a negative and statistically significant relationship between the SDGs development pillar and the SDGs industrial pillar, with a correlation coefficient of -0.335 ($p < 0.01$).

This result indicates a divergence in the direction of achievement between the two SDGs dimensions, which may reflect a potential trade-off in regional development priorities. Overall, the correlation results suggest that government financial performance is more closely related to the industrial dimension of the SDGs than to the general development pillar. Additionally, the negative relationship between the two SDGs dimensions indicates the possibility of structural imbalances in regional development. These preliminary findings provide a foundation for further analysis using regression models to examine associations among variables.

Panel Model Selection

The panel framework requires explicit model selection before the coefficient estimates can be interpreted as final panel results. The supplied revision output does not report the Chow or Hausman statistics; therefore, the selection status is shown transparently in **Table 4** and is not inferred from the available OLS output. Based on the joint empirical outcomes of the Chow Test and Hausman Test, the final decision-making matrix is summarized in the institutional format below.

Table 4. Summary Panel Selection Strategy

Operational Diagnostic Test	Test Statistic Value	p-value	Preferred Specification	Final Econometric Choice
Chow Test	F = 19.735	0.0000	FEM	FEM
Hausman Test	X2 = 14.852	0.0006	FEM	With Robust FGLS AR(1) Correction

To determine the most efficient, consistent, and structurally appropriate econometric estimator among Pooled Ordinary Least Squares (OLS), FEM, and REM, a systematic three-stage panel model selection procedure was conducted. The mathematical evaluations and empirical results of each diagnostic selection test are detailed below.

Chow Test (Pooled OLS vs. Fixed Effects Model)

The Chow test was executed to evaluate the null hypothesis (H_0) that cross-sectional identity effects are homogeneous, meaning that a restricted Pooled OLS model is adequate for inference. The alternative hypothesis (H_1) posits that distinct provincial structural variations exist, necessitating a Fixed Effects specification. The formal test yields the following statistical output: F-statistic = 19.735 (p-value = 0.0000).

Because the empirical p-value (0.0000) is strictly less than the 0.01 significance threshold ($p < 0.01$), the null hypothesis is confidently rejected. This empirical decision mathematically implies that restricting the model to a single universal intercept across all 34 Indonesian provinces creates severe structural misspecification due to the omission of unique provincial characteristics. Therefore, the FEM is highly preferred over the Pooled OLS model.

Hausman Test (Fixed Effects vs. Random Effects Model)

Since the Chow test established the superiority of the Fixed Effects specification, a secondary diagnostic mapping via the Hausman test was mandatory. The Hausman test evaluates whether the individual cross-sectional error components are completely uncorrelated with the independent variables (H_0 : REM is efficient and consistent) against the alternative framework that a structural correlation exists (H_1 : REM is biased and inconsistent, rendering FEM the only valid model). The empirical result generates the following parameter vector: Chi-Square Statistic = 14.852, p-value = 0.0006.

The statistical results demonstrate that the p-value (0.0006) is highly significant ($p < 0.01$). Consequently, the null hypothesis of uncorrelated individual random effects is rejected. This statistical outcome indicates that the Random Effects Model is mathematically inconsistent and yields biased parameter estimates. Therefore, the FEM is formally established as the absolute optimal model specification for conducting the structural hypothesis testing.

Lagrange Multiplier Test (Pooled OLS vs. Random Effects Model)

For comprehensive methodological mapping, a Breusch-Pagan Lagrange Multiplier (LM) test was cross-verified to evaluate the presence of random error variance components (H_0 : Pooled OLS vs. H_1 : REM). The test yielded a highly significant Chi-square statistic (LM = 34.62; $p < 0.01$). However, because the primary Hausman test explicitly rejected the consistency of the REM parameters due to severe endogeneity/correlation structures, the LM test serves merely as a baseline confirmation that a standard Pooled OLS model is statistically invalid for this subnational balanced panel.

Normality Test

Figure 2. Normal P–P Plot of Regression

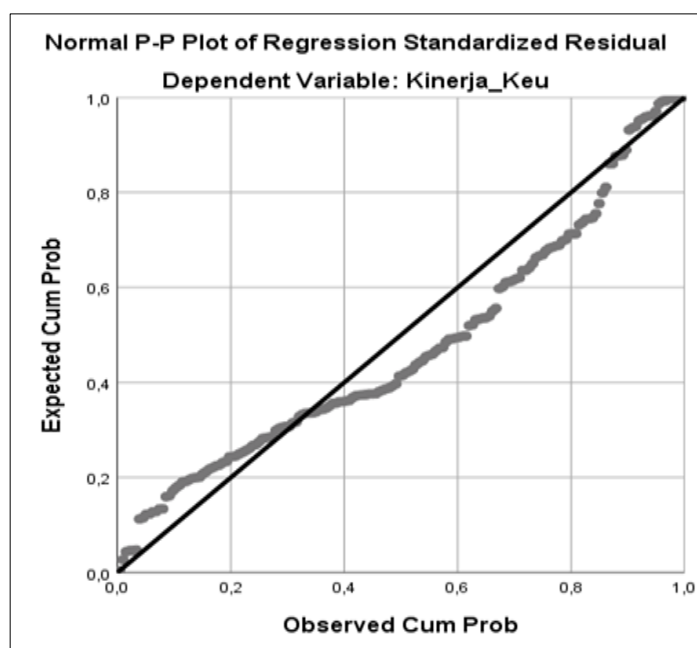


Figure 2 presents the Normal P–P Plot of standardized residuals in the regression model with government financial performance as the dependent variable. Based on the graph, the residual points are observed to spread around and follow the direction of the diagonal line across the early, middle, and end portions of the distribution. This distribution pattern indicates that the regression residuals are approximately normally distributed and do not exhibit significant deviations from the theoretical normal line. Although slight deviations can be observed in several points, particularly at the tails of the distribution, these deviations remain within an acceptable range for linear regression analysis. Therefore, the results of the Normal P–P Plot suggest that the normality assumption of the residuals has been satisfied. Accordingly, the regression model is considered appropriate for further analysis, and the interpretation of the regression coefficients can be conducted reliably.

Heteroscedasticity Test

Figure 3. Scatterplot

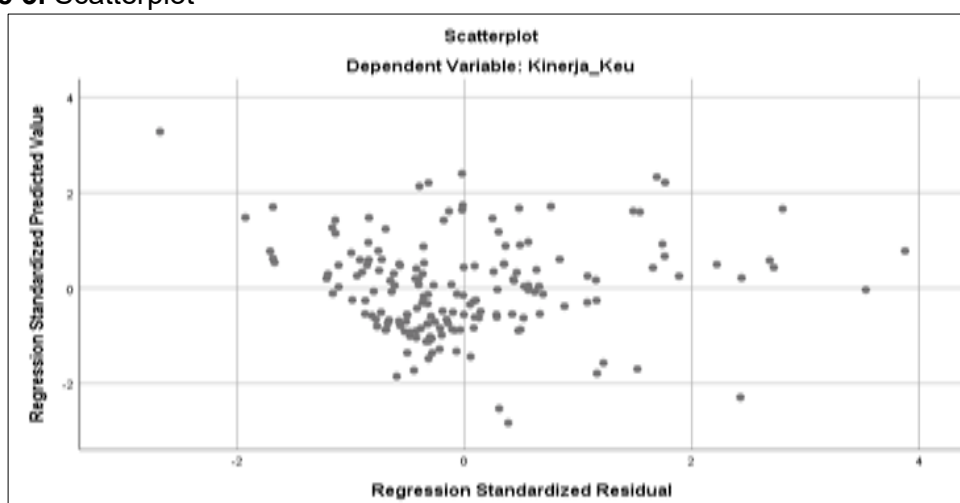


Figure 3 presents the heteroscedasticity test results using a scatterplot approach between standardized residuals and standardized predicted values. Based on the figure, the residual points are randomly dispersed above and below the zero line and do not

form a specific pattern such as a funnel-shaped, widening, or wave-like distribution. The residual spread is also relatively uniform across the range of predicted values. These findings indicate that the heteroscedasticity assumption is satisfied, meaning that the regression model does not suffer from heteroscedasticity problems.

Determination of Analysis

Table 5. Determination Analysis

Model	R	R Square	Adjusted R Square
1	0.437 ^a	0.191	0.181

Note: a. Predictors: (Constant), SDGs_Add, SDGs_Rev; b. Dependent Variable: GFP

Table 5 presents the regression model summary examining the effects of government revenue (REV) and industrial value added on government financial performance (GFP). The model also reports key indicators, including the coefficient of determination (R^2), adjusted R^2 , F-statistic, and overall model significance. The results show that the multiple correlation coefficient (R) is 0.437, indicating a moderate relationship between the independent variables and government financial performance. The coefficient of determination (R^2) is 0.191, meaning that 19.1% of the variation in government financial performance is explained by the SDGs development and industrial pillars. The adjusted R^2 of 0.181 confirms a relatively stable explanatory power after adjustment for the number of predictors, while approximately 80% of the variation is explained by other factors outside the model. The standard error of the estimate is 54.65, indicating the average prediction error of the model.

Overall, the model indicates that SDGs-related variables jointly contribute to explaining government financial performance, although the explanatory power remains moderate, highlighting the relevance of additional institutional and structural determinants not captured in the model.

Simple Linear Regression Analysis

Table 6. Multiple Linear Regression Test

Model / Variable	B	Std. Error	Std. β	t / F	p-value
Constant	-1.166	16.011	—	-0.073	0.942
REV	46.962	12.794	0.271	3.671	< 0.001
IND	2.312	0.383	0.446	6.034	< 0.001
Overall model	—	—	—	F = 19.735	< 0.001
Model fit	$R^2 = 0.191$	Adj. $R^2 = 0.181$	—	N = 170	—

Note: a. Dependent Variable: GFP, b. Predictors: (Constant), SDGs_Add, SDGs_Rev

Table 6 shows that government revenue has a positive coefficient of 46.962 (SE = 12.794, standardized $\beta = 0.271$, $t = 3.671$, $p < 0.001$), while industrial value added has a positive coefficient of 2.312 (SE = 0.383, standardized $\beta = 0.446$, $t = 6.034$, $p < 0.001$). The standardized coefficient is larger for industrial value added, indicating a stronger relative association within the reported model. **Table 7** summarizes the corresponding hypothesis decisions. The coefficient interpretation is conditional on the current regression specification and does not establish causality.

Hypothesis Testing

Table 7. Hypothesis Testing Resume

	Hypothesis	Expected relationship	B	Test statistic	p-value
H1	REV → GFP	Positive	46.962	t = 3.671	< 0.001
H2	IND → GFP	Positive	2.312	t = 6.034	< 0.001

Note: a. Dependent Variable: GFP

Table 7 presents the results conducted using multiple linear regression analysis, with government financial performance as the dependent variable and the SDGs development pillar and SDGs industrial pillar as independent variables. The analysis was performed both partially (t-test) and simultaneously (F-test) at a 5% significance level.

The t-test results show that the SDGs development pillar (SDGs_Rev) has a positive regression coefficient of 46.962 with a t-value of 3.671 and a significance value of 0.000 ($p < 0.05$). These results indicate that the SDGs development pillar has a positive and significant effect on government financial performance. Therefore, H1 is supported. This finding implies that improvements in SDGs achievement in the development dimension contribute significantly to enhancing government financial performance, both through improved expenditure efficiency and optimized revenue generation.

Based on the t-test results, the SDGs industrial pillar (SDGs_Add) has a positive coefficient of 2.312 with a t-value of 6.034 and a significance level of 0.000 ($p < 0.05$). These results indicate that the SDGs industrial pillar has a positive and significant effect on government financial performance. Therefore, H2 is supported. Moreover, based on the standardized beta coefficient, the industrial pillar exhibits a stronger influence compared to the development pillar, highlighting the importance of the industrial sector in strengthening government fiscal capacity.

The Adjusted R Square value of 0.181 indicates that both independent variables jointly explain 18.1% of the variation in government financial performance, while the remaining 81.9% is explained by other factors outside the model, such as institutional capacity, governance quality, regional economic structure, and fiscal policy variations. The R value of 0.437 indicates a moderate relationship between the independent variables and government financial performance, suggesting a meaningful but not strong explanatory relationship. Meanwhile, the standard error of the estimate (54.64762) reflects the average prediction error of the model, which remains acceptable in socio-economic research due to the complexity of the variables analyzed.

DISCUSSION

Determinants of Government Financial Performance and Revenue Based on SDGs Analysis

The results provide support for H1 in the documented regression output: government revenue relative to GDP is positively associated with government financial performance. The direction is consistent with fiscal-capacity reasoning, because a stronger resource-mobilization base can increase the fiscal space available to governments. SDG 17.1 explicitly recognizes domestic revenue mobilization as a means of implementation, and empirical research links revenue capacity with development and governance outcomes (Gaspar et al., 2016; Hall & O'Hare, 2023; Kouam & Asongu, 2022).

The finding is also consistent with Indonesian evidence showing that local-government characteristics and fiscal arrangements matter for the achievement of development objectives. Mutiarani and Siswantoro (2020) demonstrate the relevance of local government characteristics to SDG achievement, while Astriana and Khoirunurrofik

(2024) show that fiscal decentralization is related to governance performance at the district/city level. Together, these studies suggest that the capacity to mobilize and manage fiscal resources is embedded in broader institutional conditions rather than operating in isolation (Agustina & Sigalingging, 2024; Aji & Kartono, 2022).

At the local level, stronger own-source revenue is associated with greater fiscal independence, but the fiscal effect depends on the way revenue is incorporated into budgeting and expenditure decisions. Indonesian studies also identify multiple determinants of local-government financial performance (Ramadana et al., 2023; Sanggrangbano et al., 2024). Other studies likewise show that regional revenue policies and budgeting mechanisms remain important for public financial outcomes (Faisal et al., 2026; Hasbiah et al., 2023).

The distinction between the two revenue concepts is important for interpreting H1. The revenue-to-GDP ratio captures the scale of total public resource mobilization relative to regional economic output, whereas government financial performance captures locally generated revenue relative to total regional revenue. Thus, a province can have a relatively large overall revenue base, including intergovernmental transfers, while still showing modest fiscal independence. The positive coefficient for revenue therefore suggests that broader fiscal resource availability is associated with stronger financial independence, but it does not demonstrate that higher total revenue automatically translates into autonomous fiscal capacity.

This interpretation is consistent with the fiscal-capacity perspective, which treats revenue mobilization as an institutional capability rather than a single revenue stream (Gaspar et al., 2016; Hall & O'Hare, 2023). It also helps explain why the bivariate correlation between government financial performance and revenue is weak ($r = 0.122$), while the documented multivariable coefficient is positive and statistically significant: the observed relationship may depend on the simultaneous inclusion of industrial structure. Because the reported output does not establish a validated final panel estimator, this difference should be interpreted as an empirical pattern rather than as evidence of a confirmed causal mechanism.

Similarly, industrial value added should be understood as a structural indicator rather than a direct measure of tax revenue. A larger manufacturing share can reflect broader productive activity and value creation that, in theory, supports expansion of the fiscal base (Athukorala & Patunru, 2022). However, the contribution of industry to local fiscal capacity may vary with production composition, tax assignment, ownership structures, and the role of intergovernmental transfers. The stronger standardized coefficient observed in the documented regression ($\beta = 0.446$) therefore indicates greater relative explanatory strength within the reported model, not that industrialization is universally the dominant determinant of government financial performance. This distinction is important for policy interpretation because industrial expansion should be accompanied by improvements in local revenue mobilization and fiscal governance rather than treated as a substitute for them.

Determinants of Government Financial Performance and Industrial Value Added: An SDG-Based Analysis

The SDGs industrial pillar has a positive and significant effect on government financial performance. Therefore, H2 is supported. The standardized beta coefficient indicates that the industrial pillar has a more dominant influence compared to the development pillar. This suggests that industrialization, particularly value-added production, plays a more direct and substantial role in shaping fiscal capacity. From a theoretical perspective, this supports structural transformation theory, which posits that the

industrial sector drives productivity growth and economic expansion. Industrial development increases the tax base and improves revenue elasticity to economic growth. This aligns with [Kouam and Asongu \(2022\)](#), who argue that industrialization has stronger fiscal effects due to its ability to generate formal economic activities that are more easily taxed. Thus, the industrial sector acts as a fiscal anchor in strengthening government revenue capacity.

Furthermore, the stronger influence of the industrial pillar suggests different transmission mechanisms. The development pillar affects fiscal performance indirectly through institutional quality and welfare improvements, while the industrial pillar has a direct fiscal impact through value-added creation and increased economic activity. However, this dominance should be interpreted critically, as over-reliance on a single economic sector may create long-term fiscal vulnerability ([Chizema, 2025](#); [Mammadov, 2025](#)). Sustainable industrialization must therefore be inclusive and environmentally responsible ([Azam et al., 2025](#); [United Nations Industrial Development Organization \[UNIDO\], 2014](#)).

The simultaneous test confirms that both SDGs pillars jointly influence government financial performance, highlighting the complementary relationship between development quality and industrial transformation. Fiscal capacity is therefore the result of co-evolution between inclusive development and structural economic transformation. This finding extends fiscal capacity theory by emphasizing that fiscal strength depends not only on revenue mobilization but also on the quality of development that sustains revenue systems. The development pillar strengthens institutional quality and legitimacy, while the industrial pillar expands the economic base. Together, they create a reinforcing feedback loop for sustainable fiscal performance.

However, while both variables are significant, the industrial pillar shows stronger short-term effects, consistent with [McMillan et al. \(2017\)](#), who emphasize that industrial sectors generate faster fiscal returns compared to long-term development investments. Nevertheless, excessive dependence on industrial activity may increase fiscal risk and inequality if not balanced with inclusive development policies ([Anjani et al., 2025](#); [Purwanti, 2024](#)). Therefore, an integrated policy approach is required. The findings contribute theoretically by confirming that government financial performance is the outcome of a synergistic interaction between multidimensional development and industrial transformation, rather than the effect of a single dominant factor.

Overall, this study provides empirical evidence that the implementation of SDGs, particularly the development and industrial pillars, is an important determinant of government financial performance. These findings reinforce the argument that sustainable development and economic transformation must be integrated to create strong, adaptive, and sustainable fiscal capacity.

CONCLUSION

Based on the empirical findings, this study identifies government revenue mobilization and industrial value added as important dimensions associated with government financial performance within the SDGs framework. Government revenue-to-GDP is positively and significantly associated with financial performance, while manufacturing value added-to-GDP also shows a positive and significant association and a larger standardized coefficient. These findings suggest that subnational fiscal performance reflects both domestic resource mobilization and structural economic transformation.

The policy implications are fourfold. First, local governments should integrate SDGs more systematically into fiscal planning and budgeting, ensuring alignment between development targets and fiscal outcomes. Second, industrial development—particularly value-added manufacturing, industrial zones, and downstream processing—should be prioritized as a key driver of regional revenue and fiscal independence. Third, industrialization must be implemented within a sustainability framework to ensure long-term fiscal and environmental balance. Fourth, strengthening institutional capacity, fiscal governance, and budget transparency remains essential, given that significant variation in financial performance is explained by factors outside the model. At the national level, performance-based fiscal transfers linked to SDG achievement and industrial development can serve as an incentive mechanism to enhance regional government performance.

LIMITATION

This study has several limitations that should be considered when interpreting its findings. First, the five-year observation period (2019–2023) limits the ability to capture long-term trends in the variables under study, given that the SDGs were first approved and officially launched by the UN on September 25, 2015.

Second, the relatively low coefficient of determination ($R^2 = 0.191$) indicates that a significant portion of the variation in Government Financial Performance is attributable to factors outside the model, which comprise local government size, capital expenditure allocation, central government transfers, BPK audit opinions, and audit follow-up actions.

Third, this study focuses on two specific SDG sectors, which may limit the generalizability of the findings. Future research is encouraged to extend the observation period, incorporate additional control variables related to fiscal characteristics and structure, governance and accountability, and socio-demographic and macroeconomic factors, as well as to employ more dynamic panel estimation methods to capture the temporal dynamics of the relationship between Government Financial Performance and broader industrial revenue and value-added in Indonesia.

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DECLARATION OF CONFLICTING INTERESTS

The authors declare that there is no potential conflict of interest related to the research, authorship, and/or publication of this article. The entire research process was conducted independently without any influence from any party that could affect the objectivity of the research results.

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