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Strategy for Increasing Regional Original Income for Investment in Central Java

Ari Supriadi[1], Defi Nuryadin[1], Desi Fitriani[1],
Department of Government Science, Banten Raya College of Social and Political Sciences (STISIP), Indonesia

Email Correspondence: arisupriadi2@gmail.com

Abstrak
Penelitian ini bertujuan untuk menganalisis strategi peningkatan Pendapatan Asli Daerah (PAD) melalui investasi di Provinsi Jawa Tengah dengan menggunakan metode penelitian kualitatif dan studi literatur. Pendekatan penelitian yang digunakan adalah penelitian kualitatif berbasis studi pustaka, yang mengkaji berbagai peraturan perundang-undangan, buku, jurnal ilmiah, dan literatur terkait PAD, investasi, pertumbuhan ekonomi, serta pembangunan daerah. Analisis data dilakukan menggunakan metode deskriptif kualitatif melalui tahapan reduksi data, penyajian data, dan penarikan kesimpulan. Hasil penelitian menunjukkan bahwa peningkatan PAD dapat dicapai melalui optimalisasi penerimaan pajak daerah, retribusi daerah, pengelolaan aset daerah yang dipisahkan, dan sumber pendapatan sah lainnya. Peningkatan PAD memberikan ruang fiskal yang lebih luas bagi pemerintah daerah untuk membiayai investasi publik—khususnya pembangunan infrastruktur—serta meningkatkan kualitas pelayanan publik dan mengembangkan sektor-sektor produktif. Selain itu, pertumbuhan ekonomi dan pembangunan daerah yang berkelanjutan turut menciptakan iklim investasi yang kondusif, menarik minat investor, dan meningkatkan aktivitas ekonomi daerah. Strategi terpadu yang menggabungkan optimalisasi PAD, pembangunan daerah, dan kebijakan investasi akan menghasilkan efek pengganda (*multiplier effect*) berupa peningkatan pendapatan daerah, perluasan lapangan kerja, peningkatan daya saing daerah, serta terwujudnya kesejahteraan masyarakat yang berkelanjutan.
Kata kunci: Pendapatan Asli Daerah, Investasi, Pertumbuhan Ekonomi, Pembangunan Daerah, Kemandirian Fiskal.

Abstract
This study aims to analyze strategies for increasing regional original revenue (PAD) through investment in Central Java province using qualitative research methods and literature review. The research approach employed is qualitative research with library research, which examines various laws and regulations, books, scientific journals, and literature related to Regional Original Revenue, investment, economic growth, and regional development. Data analysis was conducted using descriptive qualitative methods through data reduction, data presentation, and conclusion drawing. The results indicate that increasing PAD can be achieved through optimizing regional tax revenues, regional levies, the management of separated regional assets, and other legitimate revenue sources.

Increasing PAD provides greater fiscal space for local governments to finance public investment, particularly infrastructure development, improving the quality of public services, and developing productive sectors. Furthermore, sustainable economic growth and regional development contribute to creating a conducive investment climate, attracting investors and increasing regional economic activity. An integrated strategy of optimizing local revenue (PAD), regional development, and investment policies will produce a multiplier effect in the form of increased regional income, expanded employment opportunities, enhanced regional competitiveness, and the realization of sustainable community welfare.
Keywords: Local Original Revenue, Investment, Economic Growth, Regional Development, Fiscal Independence.

Introduction

Central Java Province is one of Indonesia's provinces with significant economic potential. Located in the center of Java Island, Central Java enjoys a strategic location that allows for rapid economic growth. One important indicator of a region's economic growth is an increase in Regional Original Income (PAD) (Widiastuti & Risandewi, 2019; Prasetyo et al., 2022).

The fruits of the reform era that regional governments can reap include the granting of regional autonomy through Law No. 33 of 2004 concerning the Financial Balance between the Central and Regional Governments, and Government Regulation No. 12 of 2019 concerning Regional Financial Management (Nasution, 2011). Both laws were enacted in response to public demands for a more democratic government and marked the beginning of the expansion of decentralization (Fatwa, 2021).

Decentralization implies the transfer of several responsibilities and rights from the central government to regional governments (Christia & Ispriyarso, 2019). Therefore, regional governments are encouraged to be creative in developing their regions to open up opportunities for sources of local revenue (PAD), thus achieving sufficient fiscal independence to undertake sustainable development efforts aimed at the welfare of the people in the region (Pratiwi, 2014).

The role of regional governments in implementing regional development must be continuously enhanced, aligned with national development. This is intended to further realize more real and responsible regional autonomy (Djadjuli, 2018). Regional development must be implemented in an integrated and harmonious manner by the central and regional governments, and together realize harmony and balance in national development, as well as a just and prosperous society. One effort to achieve these goals is through improvements and refinements in the regional financial sector (Halimah & Kurniati, 2025).

Increasing Regional Original Revenue (PAD) is crucial for Central Java province. PAD is the primary source of revenue for the local government to finance infrastructure development, public services, education, health, and various other important sectors (Handraini et al., 2024). Investment plays a significant role in increasing PAD. Investment in Central Java province can have a positive impact on increasing PAD. Investment can create new jobs, increase production and community income, and increase tax contributions to the local government (Kamala et al., 2025). However, increasing investment in Central Java province still faces several challenges. One of the main challenges is competition with other provinces in attracting investment. Several provinces in Indonesia have successfully attracted investors with various incentives, good infrastructure, and high political stability. Therefore, Central Java needs to make greater efforts to strengthen its investment attractiveness (Sulistiyanto, 2018).

Another problem is the lack of adequate quality Human Resources (HR). Quality investment requires skilled and trained human resources. The government needs to focus on improving education and training for the community to meet the workforce needs required by investment (Zaki, 2022). Furthermore, infrastructure issues also require attention. Investment requires good infrastructure, such as roads, electricity networks, clean water, and reliable telecommunications. The government needs to develop this infrastructure to support investment growth in Central Java province (Razan et al., 205).

With increased investment in Central Java province, it is hoped that Regional Original Revenue (PAD) will also increase. Increased PAD will provide local governments with more resources to improve public welfare, improve infrastructure, and develop other key sectors. In this context, research or other efforts focused on increasing regional original revenue for investment in Central Java province are crucial. By understanding the background of this problem, the government and relevant stakeholders can take strategic steps to increase investment attractiveness, improve human resource quality, and develop infrastructure that supports investment growth in Central Java province.

Method

This research uses a qualitative approach with a literature review method to deeply understand social phenomena and the conditions of the subject. Literature review is defined as a series of library data collection activities, reading, recording, and processing research materials (Zed, 2008), or a data collection technique that involves reviewing books, notes, and reports related to the problem being solved. This qualitative approach was chosen because it is more suitable for understanding social phenomena from the perspective of participants and examining real-world situations (Sugiyono, 2016), with a focus on development policy implementation strategies in Central Java Province. Subjects were selected using purposive sampling, a sample selection technique based on specific research considerations and objectives, targeting government officials, staff from relevant agencies, and communities involved in development policies.

Data collection techniques are systematic procedures for obtaining the necessary data (Djaman Satori & Aan Komariah, 2011). The methods used include observation to directly observe situations and conditions, face-to-face interviews with or without guidelines to obtain information from informants, and documentation in the form of archives, reports, and images to support the research (Sugiyono, 2016). The data was strengthened by literature studies from relevant journals and government documents, as well as note-taking techniques to record native speaker statements via audio or video. All primary and secondary data were collected to analyze the implementation of development policies in Central Java Province.

Data analysis in this study is defined as the effort to organize, sort, synthesize, and identify data patterns that are important to tell (the analysis process applies the steps of the Miles and Huberman model (in Sugiyono, 2016), which occurs repeatedly and continuously through four stages. This stage begins with data collection through field notes, followed by data reduction to simplify the raw data. The next step is data presentation (data display) in the form of narrative text, matrices, or charts, and ends with drawing conclusions or interpretations to uncover the full meaning of the presented data.

Result and Discussion

Regional Original Revenue (PAD)

Regional Original Revenue (PAD) is one of the primary sources of regional government revenue and plays a crucial role in supporting the implementation of regional autonomy. According to Law Number 23 of 2014 concerning Regional Government, Regional Original Revenue is revenue earned by a region and collected based on regional regulations in accordance with statutory provisions. PAD reflects a region's ability to independently tap its economic potential to finance government administration, development, and public services. Therefore, PAD is an important indicator in assessing a region's level of fiscal independence.

According to Mardiasmo (2013), Regional Original Revenue is all revenue earned by a regional government, including regional taxes, regional levies, the management of regionally owned companies or separated regional assets, and other legitimate regional original revenue. These revenue sources serve as the primary capital for regional governments to finance various development programs without having to rely entirely on transfer funds from the central government. Therefore, PAD management must be carried out effectively, efficiently, transparently, and accountably to maximize its contribution to regional development.

The components of Regional Original Revenue (PAD) consist of four main groups. First, regional taxes, which encompass various types of taxes within the authority of the regional government, such as motor vehicle tax, restaurant tax, hotel tax, and land and building tax in specific sectors. Second, regional levies, which are levies on services provided by the regional government to the public. Third, the proceeds from the management of separated regional assets, such as dividends from Regionally-Owned Enterprises (BUMD). Fourth, other legitimate regional original revenues, such as the proceeds from the sale of undivided regional assets, interest income, current account fees, and other receipts regulated by law (Khoryani & Dharmawan, 2025).

Increasing Regional Original Revenue (PAD) depends not only on the level of tax or levy rates but also on the quality of public services provided by the regional government. Mardiasmo (2013) emphasized that increasing PAD should be achieved through efforts to improve the quality of services so that the public has a higher awareness and willingness to fulfill their tax obligations. Fast, easy, and transparent services supported by the use of information technology will increase the level of taxpayer and levy compliance. Furthermore, regional governments also need to intensify and expand their local revenue (PAD) sources to optimally utilize potential revenue.

In the context of implementing regional autonomy, PAD plays a strategic role as a development financing instrument derived from the region's own potential. The greater the PAD's contribution to total regional revenue, the higher the regional government's fiscal independence in determining development directions according to the needs of the local community (Hanifah et al., 2025). Conversely, if the proportion of PAD remains low compared to transfer funds from the central government, the region's fiscal dependence will also increase. This situation can limit the flexibility of regional governments in formulating development policies, as the majority of funding still comes from the central government.

A region's ability to increase PAD also reflects its success in managing local economic potential. Regions with sound tax administration systems, optimal asset management, and productive Regionally-Owned Enterprises are generally able to generate greater PAD. Furthermore, the development of the tourism, trade, industry, and investment sectors can also be driving factors for increasing PAD. Therefore, regional governments need to continue to innovate in exploring new revenue sources that comply with laws and regulations and adhere to the principle of fairness for the community.

Increasing Regional Original Revenue (PAD) will ultimately provide tangible benefits to the community through improved development and public service quality. High PAD enables local governments to provide better infrastructure, improve the quality of education and health services, expand government administration services, and support various community empowerment programs. Therefore, the success of local governments in increasing PAD not only reflects the region's fiscal capacity but is also a crucial factor in realizing sustainable development, improving community welfare, and strengthening the effective implementation of regional autonomy.

Investment Theory

Investment is the activity of placing funds or assets in a specific instrument with the aim of obtaining future economic benefits or profits. According to Sutha (2000), investment is the placement of funds with the expectation of maintaining value, increasing value, or providing a positive rate of return. Consistent with this opinion, Webster (1999) defines investment as the investment of money with the expectation of future returns and added value. From these two definitions, it can be understood that investment aims not only to protect the value of assets from decline due to inflation but also to improve investor welfare through growth in asset value and the resulting income.

According to Lypsey, investment is an expenditure to acquire capital goods that are not consumed currently but are used to generate economic benefits in the future (Priskilla et al., 2024). Based on their time horizon, investments are divided into three types: short-term, medium-term, and long-term. Short-term investments are generally made for periods of less than one year and aim to generate profits within a relatively short period. Medium-term investments have a time horizon of one to five years, while long-term investments are made for more than five years and are oriented towards asset value growth and sustainable profits. This division demonstrates that each type of investment has different characteristics, risk levels, and profit potential, depending on the investor's objectives.

Furthermore, Lypsey explains that investment is a commitment of funds over a specific period to obtain expected future returns as compensation for the invested funds. This compensation is influenced by several factors, including the time value of money, the expected inflation rate, and uncertainty or risks that may arise in the future (Hidayat & Rusliyanti, 2022). Therefore, every investment decision always involves a balance between the expected return and the level of risk involved. The higher the potential return on an investment, the higher the associated risk.

According to Putri & Santoso (2024), investment is the commitment of funds over a specific period to generate expected returns as compensation for the use of those funds. Meanwhile, Husnan, in Anoraga and Pakarti (2006), defines investment as the use of money for the purpose of generating income. In the corporate context, investment is defined as the investment of capital in various productive assets expected to increase production capacity, operational efficiency, and company profits. Through investment, companies can expand their businesses, develop technology, improve the quality of human resources, and strengthen their competitiveness amidst increasingly competitive business conditions.

These capital goods can include machinery, production equipment, buildings, infrastructure, and other assets used to produce goods and services. From a macroeconomic perspective, investment plays a crucial role as a key component of Gross Domestic Product (GDP) and drives a country's economic growth. Increased investment will expand production capacity, create jobs, boost productivity, and ultimately drive higher incomes and overall economic well-being. Therefore, investment is a strategic factor that not only benefits investors but also makes a significant contribution to regional and national economic development.

Theory of Regional Original Revenue (PAD) Increase Strategy for Investment

The strategy of increasing Regional Original Revenue (PAD) for investment is a crucial part of achieving regional fiscal independence and accelerating economic development. According to Law Number 33 of 2004 concerning Fiscal Balance between the Central Government and Regional Governments, Regional Original Revenue (PAD) is revenue earned by regions collected based on regional regulations in accordance with statutory provisions.

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PAD sources include regional taxes, regional levies, proceeds from the management of separated regional assets, and other legitimate regional original revenues. Increasing PAD provides greater fiscal space for regional governments to finance various development and investment programs aimed at improving public welfare. The greater a region's ability to collect PAD, the greater its capacity to provide infrastructure, public services, and supporting facilities that can attract investors.

According to Tarigan (2005), regional economic growth is the increase in income that occurs in a region as a result of increased added value generated from economic activity. This growth reflects increased returns to production factors such as land, capital, labor, and technology used in the development process. A consistently growing regional economy is an indicator of increasing community prosperity and demonstrates a conducive business climate. Regions with high economic growth are generally more attractive to investors because they offer broader market opportunities, adequate infrastructure, and greater profit prospects. Thus, economic growth has a reciprocal relationship with investment, where investment drives economic growth, and strong economic growth attracts new investment.

From a development theory perspective, development strategies focus not only on increasing economic activity but also encompass sustainable changes in economic structures and social order. Regional development is understood as the effort to formulate and implement economic policies and development programs, taking into account the potential and characteristics of each region. The regional development approach integrates economic, social, environmental, and institutional aspects to optimally and sustainably create community welfare. Therefore, regional governments need to formulate policies that create a conducive investment climate through simplifying licensing processes, providing infrastructure, improving the quality of human resources, and providing legal certainty for businesses. These policies not only enhance regional competitiveness but also strengthen the government's ability to increase regional revenue (PAD).

Based on this concept, the strategy to increase Regional Original Income (ROI) through investment can be implemented through three main factors: optimizing regional taxes, increasing regional economic growth, and accelerating regional development. Optimizing regional taxes is done by increasing the effectiveness of tax collection without excessively burdening the public or the business world, thereby increasing regional revenue and maintaining a healthy investment climate. Sustainable economic growth will expand business activities, increase tax and levy revenues, and enhance the fiscal capacity of regional governments. Meanwhile, regional development through the provision of infrastructure, development of industrial areas, improving the quality of public services, and equitable development will increase investment attractiveness. With increased investment, regional economic activity will further expand, providing a multiplier effect on increasing Regional Original Income, job creation, economic growth, and sustainable community welfare.

Conclusion

Law Number 23 of 2014 concerning Regional Government regulates regional original revenue (PAD) obtained and collected by regional governments based on regional regulations in accordance with statutory regulations. This regional original revenue includes regional taxes, regional levies, regional company revenues, results from the management of separated regional assets, and other legitimate regional original revenues. The purpose of PAD is to provide authority to regions in seeking funding sources in the implementation of regional autonomy as a manifestation of the principle of decentralization. The importance of regional original revenue can be seen from the perspective of regional finances to reduce dependence on the central government. The composition of regional original revenue in regional revenues is an important indicator in assessing regional financial capacity. The greater the composition of regional original revenue, the greater the ability of regional governments to take on greater responsibilities in development. Conversely, if the composition of regional original revenue to regional revenues is smaller, the dependence on the central government will be greater. Increased regional original revenue receipts also have a positive impact on the community, especially in the smooth running of development. In Central Java Province, there are four variables that influence regional original revenue, namely regional taxes, regional levies, results from the management of separated assets, and other legitimate regional original revenues. The law states that regional original revenue is income earned by a region and collected based on regional regulations in accordance with statutory provisions. By implementing the strategies pursued by the Central Java government, it is hoped that regional original revenue can be optimized, which in turn will support development and the welfare of the people of Central Java Province.

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