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The Effects of Local Own-Source Revenue, General Allocation Fund, Special Allocation Fund, and Revenue-Sharing Fund on Local Government Financial Performance in Six Papua Provinces, Indonesia (2023)

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ABSTRACT
This study examines the statistical associations of Local Own-Source Revenue (PAD), the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue-Sharing Fund (DBH) with the financial performance of regency and municipal governments in six Papua provinces during the 2023 fiscal year. The study used a quantitative, nonexperimental, cross-sectional explanatory design and included all 42 regency and municipal governments in Papua, Central Papua, Highland Papua, South Papua, West Papua, and Southwest Papua. We compiled secondary data from audited local government financial statements, budget-realization reports, and transfer records from official government sources, and analyzed them using multiple linear regression in IBM SPSS Statistics 29. Financial performance was proxied by the PAD effectiveness ratio, while PAD, DAU, DAK, and DBH were expressed as proportions of total regional revenue. PAD ($B = 0.156$, $p = 0.041$) and DBH ($B = 0.479$, $p < 0.001$) were positively and significantly associated with financial performance; DAU showed a positive but insignificant association ($B = 0.015$, $p = 0.747$), whereas DAK showed a negative and significant association ($B = -0.737$, $p < 0.001$). The model was jointly significant ($F = 201.831$, $p < 0.001$; adjusted $R^2 = 0.951$). The high explanatory power must be interpreted cautiously because realized PAD appears in both the PAD predictor and the PAD-effectiveness outcome, creating potential mechanical overlap. The findings therefore indicate strong cross-sectional associations rather than causal effects. They show that transfer instruments cannot be treated as homogeneous: their relationship with financial performance varies according to fiscal autonomy, earmarking, revenue-sharing bases, and local management capacity.

Keywords: General Allocation Fund, Local Government, Financial Performance, Local Own-Source Revenue, Revenue-Sharing Fund.

I. Introduction

Fiscal decentralization constitutes an important component of governance reform in Indonesia by granting broader authority to local governments to manage revenue sources, determine expenditure priorities, and deliver public services. Through fiscal decentralization, local governments are expected to formulate budgetary policies that are more responsive to the characteristics, needs, and economic potential of their respective regions. This framework has been reinforced through Law Number 23 of 2014 concerning Regional Government and Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments. Nevertheless, the implementation of fiscal decentralization in Indonesia continues to face challenges related to disparities in fiscal capacity, dependence on central

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government transfers, and differences in financial management capability across regions. Lewis (2023) explains that the reform of central–local fiscal relations concerns not only changes in transfer formulas but also efforts to strengthen revenue capacity, expenditure quality, and local government accountability. Similarly, Sofilda et al. (2023) demonstrate that the impact of fiscal decentralization on regional development depends substantially on the ability of local governments to convert available fiscal space into productive development programs.

One instrument used to evaluate the success of regional fiscal management is local government financial performance. Financial performance reflects the ability of a local government to generate revenue, allocate budgets, control expenditure, and account for the use of public resources. Under Government Regulation Number 12 of 2019 concerning Regional Financial Management, performance is associated with the outputs or outcomes of programs and activities achieved through the measurable use of budgetary resources. Accordingly, local government financial performance does not merely reflect the size of revenue and expenditure but also the effectiveness of local governments in realizing revenue targets and managing fiscal resources. Strong financial performance can expand fiscal space for development and public services, whereas weak performance may indicate ineffective revenue management and a high level of dependence on the central government. Wiryawan and Otchia (2022) emphasize that an expanded fiscal role for local governments can support development when expenditure and regional resources are managed productively. Conversely, Mubarok et al. (2022) found that a high level of intergovernmental revenue may be negatively associated with financial performance when such transfers are not accompanied by stronger fiscal capacity and higher-quality budget management.

Local Own-Source Revenue, or PAD, is one source of revenue that reflects the fiscal capacity and independence of local governments. PAD is derived from local taxes, local service charges, proceeds from the management of separated regional assets, and other legitimate local revenues. Unlike intergovernmental transfers, whose allocation is influenced by central government policy, PAD is generated through the ability of local governments to identify and optimize local economic potential. An increase in PAD can provide local governments with greater discretion to finance development needs and public services in accordance with regional priorities. Therefore, a high PAD proportion is often regarded as a signal of stronger fiscal capacity and reduced dependence on central government transfers. Sari and Wati (2021) found that PAD positively affected local government financial performance. A similar result was reported by Pradana and Handayani (2023), who showed that increased PAD can strengthen the ability of local governments to finance programs and activities more independently.

Although PAD has a strategic role, the fiscal capacity of local governments in Indonesia remains uneven. The central government provides intergovernmental transfers through the General Allocation Fund, the Special Allocation Fund, and the Revenue-Sharing Fund. The General Allocation Fund, or DAU, is intended to reduce the gap between regional fiscal needs and fiscal capacity and may be used relatively flexibly to finance governmental functions. The Special Allocation Fund, or DAK, is allocated to support specific activities that constitute national priorities or address particular regional needs, and its use is therefore more restricted. Meanwhile, the Revenue-Sharing Fund, or DBH, is allocated on the basis of tax and natural resource revenues according to specified percentages to producing regions and other related regions. These three instruments can strengthen the ability of local governments to provide public services; however, a high proportion of transfers may also create fiscal dependence when it is not accompanied by stronger PAD and effective budget management.

The relationship between intergovernmental transfers and regional performance is complex. Fiscal transfers can reduce vertical imbalances between the central and local governments, but they are not necessarily effective in reducing horizontal disparities across regions. Aritenang and Chandramidi (2023) found that equalization transfers have not been fully effective in reducing regional inequality in Indonesia, although DBH has contributed to growth in certain regions. Mubarok et al. (2022) showed that intergovernmental revenue negatively affected local government financial performance, indicating that increased transfers do not automatically improve fiscal performance. In the context of DBH, Nur et al. (2022)

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found that an increase in DBH may support improved performance, whereas excessive dependence on DBH is associated with lower levels of local government performance. These findings indicate that the effect of intergovernmental transfers is determined not only by the size of the allocation but also by the revenue structure, regional characteristics, institutional capacity, and effectiveness of fund utilization.

Regency and municipal governments across Papua provide a relevant context in which to examine this relationship. The study area covers regencies and municipalities in Papua, Central Papua, Highland Papua, South Papua, West Papua, and Southwest Papua provinces. These regions differ in geographical conditions, population size, accessibility, economic structure, natural resource potential, and institutional capacity. Some regions have strong mining and natural resource bases, whereas others have relatively limited local tax bases and economic activity. This heterogeneity results in substantial differences in the ability to generate PAD and in the number of intergovernmental transfers received. Rahman (2024) shows that decentralization policies and special transfers in Papua and West Papua influence regional economic development, although their impact remains dependent on the ability of local governments to manage the funds effectively. Aritenang and Chandramidi (2023) also demonstrate that spatial factors and the strengthening of core regions may widen development gaps between regions with strong economic bases and their hinterland areas.

The 2023 fiscal data compiled in this study indicate substantial disparities in revenue structures across regency and municipal governments in the Papua region. Mimika Regency recorded relatively high PAD and DBH revenues, supported by mining and natural resource activities. In contrast, several regions, including Waropen, Arfak Mountains, Central Mamberamo, and Nduga, had relatively limited PAD. At the same time, most regency and municipal governments continued to receive DAU and DAK in large proportions. These conditions indicate that only a limited number of regions have strong local revenue and DBH bases, whereas the majority remain dependent on central government transfers to finance governmental administration and development. Such disparities may produce different levels of effectiveness and financial performance, even though all regions operate under the same national fiscal policy framework.

Previous studies have not reached a consistent conclusion regarding the effects of PAD and intergovernmental transfers on local government financial performance. Sari and Wati (2021) found that PAD and DAU positively affected the financial performance of regency and municipal governments in West Sumatra. In contrast, Pradana and Handayani (2023) found that PAD had a positive effect, DAU had no effect, and DAK had a negative effect on local government financial performance in East Java. Mubarok et al. (2022) also showed that intergovernmental revenue had a negative and significant effect on financial performance. Regarding DBH, Nur et al. (2022) found that an increase in DBH could improve performance, whereas dependence on DBH was negatively associated with local government performance. These differences indicate that the effect of each revenue component is likely to be context-specific and influenced by the fiscal characteristics of the regions under study.

Based on this research gap, the study offers both contextual and theoretical contributions. Contextually, it disaggregates intergovernmental transfers into DAU, DAK, and DBH and examines all 42 regency and municipal governments across six Papua provinces after regional expansion using realized 2023 fiscal data. This setting captures unusually heterogeneous fiscal structures, ranging from transfer-dependent highland and remote jurisdictions to natural-resource-producing regions with substantial DBH. Theoretically, the study moves beyond treating transfers as a single homogeneous resource by combining Resource Dependence Theory and signaling logic to explain why revenue sources with different origins, discretion, earmarking, and dependency implications may show different associations with financial performance. In this framework, PAD represents internally controlled fiscal capacity and a signal of revenue-administration capability; DAU represents equalization support that may also deepen dependence; DAK represents earmarked support whose performance implications depend on implementation capacity and local fit; and DBH represents externally transferred but origin-linked fiscal capacity whose benefits depend on productive use and diversification. This mechanism-based distinction is the principal theoretical value added beyond the study's geographic novelty.

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Accordingly, this study aims to examine the partial and joint statistical associations of Local Own-Source Revenue, the General Allocation Fund, the Special Allocation Fund, and the Revenue-Sharing Fund with the financial performance of regency and municipal governments in the six Papua provinces during 2023. The study contributes to public-sector accounting and fiscal-decentralization research by testing whether revenue sources with different degrees of local control, transfer dependence, earmarking, and resource linkage are associated with financial performance in different directions. Practically, the findings provide an evaluative basis for strengthening PAD, improving transfer utilization, and aligning fiscal management capacity with the distinct characteristics of DAU, DAK, and DBH.

II. Literature Review and Hypothesis Development

2.1. Local Government Financial Performance

Local government financial performance reflects the extent to which a local government successfully generates, manages, allocates, and accounts for financial resources in performing governmental functions and delivering public services. Such performance is determined not only by the size of the budget under management but also by the local government's ability to achieve revenue targets, maintain expenditure efficiency, strengthen fiscal independence, and reduce dependence on external financing sources. Accordingly, financial performance represents both fiscal capacity and the quality of local financial management (Mubarok et al., 2022; Lewis, 2023). Within the framework of fiscal decentralization, local governments are granted broader authority to determine revenue and expenditure priorities in accordance with community needs. This authority is expected to encourage local governments to optimize local economic potential, improve budgeting quality, and strengthen public accountability. However, fiscal decentralization does not necessarily produce uniform performance because each region has different revenue capacity, economic characteristics, geographical conditions, institutional quality, and administrative capabilities. Therefore, reform of central–local fiscal relations concerns not only the distribution of transfers but also the strengthening of revenue capacity, the provision of performance-based incentives, control over budget utilization, and improvements in the quality of local expenditure (Lewis, 2023; Sofilda et al., 2023).

Local government financial performance can be assessed using several financial ratios, including fiscal independence, effectiveness, efficiency, dependence, degree of fiscal decentralization, and expenditure compatibility ratios. The use of financial ratios enables researchers to identify a local government's capacity to generate revenue, achieve budgetary targets, and reduce dependence on intergovernmental transfers. The selection of a particular ratio should be aligned with the concept of performance being examined and the characteristics of the data reported in the Regional Revenue and Expenditure Budget realization statement (Sari & Halmawati, 2021; Pradana & Handayani, 2023). This study measures local government financial performance using the PAD effectiveness ratio, calculated by comparing realized PAD with the predetermined PAD target. This ratio reflects the local government's ability to realize planned revenue. The higher the realized PAD relative to the target, the more effective the local government is in implementing revenue policies and mobilizing local fiscal potential (Sari & Halmawati, 2021; Pradana & Handayani, 2023).

The use of the effectiveness ratio is relevant because PAD targets are generally established based on regional economic potential, the local tax base, objects of service charges, administrative capacity, and local revenue collection policies. Realization that approaches or exceeds the target indicates that the local government is capable of converting fiscal potential into actual revenue. Conversely, a low realization rate may indicate weak revenue planning, inaccurate target setting, low taxpayer compliance, a limited economic base, or suboptimal local revenue administration (Lewis, 2023; Sari & Halmawati, 2021). High financial performance may also provide a signal to the public, the central government, supervisory institutions, and other stakeholders that a local government has adequate capacity to manage public resources. From the perspective of signaling theory, financial information reduces information asymmetry between the government as the manager of public resources and the public as the principal. Successful revenue realization

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can serve as a positive signal of administrative capacity, accountability, and the quality of local fiscal management (Connelly et al., 2011).

2.2. Local Own-Source Revenue

Local Own-Source Revenue refers to revenue obtained by a local government from economic sources located within its own jurisdiction and authority. PAD consists of local taxes, local service charges, proceeds from the management of separated regional assets, and other legitimate local revenues. Unlike transfers from the central government, PAD reflects the internal capacity of a local government to identify, develop, and mobilize local economic potential as a source of public financing (Lewis, 2023; Sari & Halmawati, 2021). PAD occupies a strategic position in the implementation of regional autonomy because it provides local governments with greater fiscal discretion. Revenue derived from local sources can be used to finance programs that are aligned with regional development needs and priorities. Local governments with strong PAD capacity have broader fiscal space to provide public services, develop infrastructure, promote economic activity, and respond to community needs without excessive dependence on central government transfer policies (Lewis, 2023; Sofilda et al., 2023).

The size of PAD also reflects the quality of a region's economic base and its revenue administration capacity. Regions with growing trade, industrial, service, tourism, mining, property, and household consumption activities tend to have broader tax and service charge bases. However, economic potential does not automatically generate high PAD because local governments still require accurate taxpayer and tax-object databases, digital payment systems, effective supervision, leakage control, improved compliance, and revenue intensification and extensification policies (Lewis, 2023; Aritenang & Chandramidi, 2023). From the perspective of fiscal decentralization, PAD reflects the degree of local revenue autonomy. As the proportion of PAD increases, local governments gain greater control over the sources used to finance development. Conversely, a low PAD proportion indicates that a local government is not yet fully capable of financing its responsibilities through local sources. Effective fiscal decentralization therefore requires a balance between expenditure authority and the ability of local governments to generate their own revenue (Lewis, 2023; Sofilda et al., 2023).

This study measures PAD by comparing realized PAD with total regional revenue. This measurement indicates the contribution of locally controlled revenue to the overall revenue structure of a local government. A higher PAD ratio indicates a greater ability to finance governmental functions through local revenue sources. Conversely, a low PAD ratio indicates that the regional revenue structure remains dominated by central government transfers (Sari & Halmawati, 2021; Pradana & Handayani, 2023). Empirical findings generally indicate a positive relationship between PAD and local government financial performance. Sari and Halmawati (2021) found that PAD positively affected the financial performance of regency and municipal governments in West Sumatra. Pradana and Handayani (2023) also found that PAD positively affected the financial performance of regency and municipal governments in East Java. These findings suggest that the capacity to generate local revenue can strengthen fiscal independence and the effectiveness of local financial management (Sari & Halmawati, 2021; Pradana & Handayani, 2023).

2.3. General Allocation Fund

The General Allocation Fund is a central government transfer intended to reduce disparities in financial capacity and public service provision across regions. DAU is designed to close the gap between regional fiscal needs and fiscal capacity. Differences in population size, geographical area, service costs, construction cost indices, and revenue-generating capacity cause regions to have varying fiscal needs and capacities; therefore, DAU functions as an instrument of fiscal equalization (Lewis, 2023; Andhini et al., 2023). The main characteristic of DAU is its relatively general use as a block grant. Local governments have discretion to allocate DAU according to local needs and priorities, although its use remains subject to national policies,

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mandatory expenditure provisions, and public service standards. This characteristic distinguishes DAU from transfers specifically designated for particular sectors, activities, or outputs (Lewis, 2023).

DAU can provide benefits when it is used to strengthen public services, finance productive activities, and improve local government capacity. However, DAU may also create dependence when it becomes the primary source for financing routine expenditure. A high level of dependence on transfers may reduce the incentive for local governments to expand their PAD base because a substantial portion of budgetary needs has already been financed through central government transfers (Mubarok et al., 2022; Pramuka, 2010). Dependence on DAU may also be associated with the flypaper effect, a condition in which local government expenditure responds more strongly to intergovernmental transfers than to locally generated revenue. Under such conditions, increased transfers tend to stimulate expenditure expansion rather than strengthen local revenue capacity. Consequently, the regional financial structure may become less independent because expenditure growth is not accompanied by proportional growth in PAD (Pramuka, 2010; Mubarok et al., 2022).

Within the local government financial structure, a high DAU proportion does not necessarily indicate strong fiscal performance. A large DAU allocation may reflect substantial fiscal needs as well as weak local revenue capacity. Therefore, DAU should not be evaluated solely based on its nominal amount but also on the quality of its utilization, its contribution to public services, and its implications for local fiscal independence (Mubarok et al., 2022; Andhini et al., 2023). This study measures DAU by comparing realized DAU with total regional revenue. This ratio indicates the contribution of general central government transfers to the overall revenue capacity of a local government. A higher DAU ratio indicates a greater role of the central government in financing regional fiscal needs and a stronger indication of local government dependence on external revenue sources (Andhini et al., 2023; Mubarok et al., 2022). Previous studies have produced inconsistent findings regarding the effect of DAU on financial performance. Sari and Halmawati (2021) and Andhini et al. (2023) found that DAU positively affected local government financial performance. In contrast, Pradana and Handayani (2023) found that DAU had no effect on financial performance. Mubarok et al. (2022) even found that aggregate intergovernmental revenue negatively affected financial performance. These differences indicate that the effect of DAU depends on the quality of its allocation and the degree of fiscal dependence in each region (Sari & Halmawati, 2021; Andhini et al., 2023; Pradana & Handayani, 2023; Mubarok et al., 2022).

2.4. Special Allocation Fund

The Special Allocation Fund is a central government transfer allocated to finance specific programs or activities that fall within local government responsibilities and support national priorities. DAK is intended to assist in the provision of infrastructure and facilities, improve the quality of basic services, and address local fiscal limitations in financing specific needs. DAK allocations may be directed toward education, health, roads, drinking water, sanitation, housing, agriculture, and other public service sectors (Lewis, 2023; Andhini et al., 2023). Unlike DAU, DAK is more restricted or earmarked. Local governments do not have full discretion to transfer its use to other activities because DAK must be used in accordance with predetermined sectors, activity menus, locations, output targets, and technical requirements. Such arrangements are intended to ensure that national priorities are implemented and disparities in public service provision across regions are reduced (Lewis, 2023).

DAK may improve local government performance when it is used to develop infrastructure and service facilities that generate long-term benefits. The construction of schools, healthcare facilities, roads, clean water networks, and other public service infrastructure can improve public access, economic productivity, and the quality of local government services. Local government expenditure directed toward productive infrastructure can also support investment and the development of regional economic activity (Wiryawan & Otchia, 2022; Andhini et al., 2023). However, the earmarked nature of DAK may create limitations in budget management. Local governments must meet requirements relating to planning, procurement, implementation, reporting, and output achievement. Misalignment between central government programs and local needs, delays in technical guidelines, low implementation readiness, and limited administrative

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capacity may result in suboptimal DAK absorption. Therefore, an increase in DAK allocation does not necessarily lead directly to improved local government financial performance (Lewis, 2023; Pradana & Handayani, 2023).

This study measures DAK by comparing realized DAK with total regional revenue. This ratio indicates the contribution of special central government funding to the overall revenue capacity of a local government. A higher DAK proportion indicates a greater role of centrally determined funding in financing local programs and public services (Andhini et al., 2023; Pradana & Handayani, 2023). Empirical findings indicate that DAK does not always improve local government financial performance. Pradana and Handayani (2023) found that DAK negatively affected the financial performance of local governments in East Java. Andhini et al. (2023) also found that DAK had a negative and significant effect on financial performance. These findings indicate that increased DAK may move in the opposite direction to fiscal independence when dependence on transfers rises or when the use of funds has not strengthened local revenue capacity (Pradana & Handayani, 2023; Andhini et al., 2023).

2.5. Revenue-Sharing Fund

The Revenue-Sharing Fund is a portion of central government revenue allocated to local governments according to a specified percentage. DBH is derived from tax revenue and natural resource revenue and is intended to reduce vertical fiscal imbalances between the central and local governments. It also distributes a share of national revenue to regions based on tax contributions or the utilization of natural resources originating from their territories (Nur et al., 2022; Lewis, 2023). Tax-based DBH is derived from certain national tax revenues distributed to local governments according to an established formula, whereas natural resource-based DBH is derived from the utilization of resources such as oil, natural gas, mineral mining, forestry, geothermal energy, and fisheries. Because tax bases and natural resources are not evenly distributed, DBH allocations also tend to vary substantially across regions (Nur et al., 2022; Aritenang & Chandramidi, 2023).

For natural resource-producing regions, DBH may constitute an important source of revenue for increasing fiscal capacity, financing infrastructure development, improving public services, and supporting economic development. DBH may also be viewed as a form of fiscal compensation for the utilization of resources originating from a region. When allocated productively, additional DBH can strengthen a local government's capacity to achieve development and public service objectives (Nur et al., 2022; Wiryawan & Otchia, 2022). Nevertheless, DBH also entails volatility and dependence risks. Natural resource-based DBH may fluctuate according to commodity prices, production levels, revenue-sharing policies, and realized national revenue. Local governments that depend excessively on DBH may face fiscal pressure when such revenue declines. Therefore, increased DBH should be accompanied by stronger PAD and the use of funds for productive activities capable of generating new revenue sources (Nur et al., 2022).

This study measures DBH by comparing realized DBH with total regional revenue. This ratio indicates the contribution of tax- and natural resource-based revenue to the overall regional revenue structure. A high ratio may indicate a strong regional tax or natural resource base, but it may also indicate substantial dependence on central government revenue-sharing policies (Nur et al., 2022). Nur et al. (2022) identified two characteristics of the relationship between DBH and local government performance. An increase in DBH is associated with improved performance because it expands the local government's capacity to finance public services. However, excessive dependence on DBH is negatively associated with performance. These findings emphasize that the benefits of DBH are determined not only by the amount received but also by the local government's capacity to manage DBH and develop other revenue sources (Nur et al., 2022).

2.6. Theoretical Integration: Resource Dependence and Fiscal Signaling

Resource Dependence Theory and signaling logic are used as complementary rather than interchangeable explanations. Resource Dependence Theory focuses on the extent to which local

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governments rely on externally controlled fiscal resources and the constraints such reliance may place on autonomy and strategic discretion. Signaling logic focuses on what realized fiscal outcomes communicate about administrative capability and resource stewardship. Applied to the four revenue sources, PAD represents the strongest form of internally controlled fiscal capacity and can signal effective revenue administration; DAU reduces vertical fiscal gaps but may increase structural dependence when it substitutes for local revenue development; DAK provides targeted resources but its earmarked design makes performance contingent on planning, procurement, implementation capacity, and fit with local needs; and DBH increases fiscal capacity through tax- and natural-resource-based entitlements, although long-run benefits depend on productive allocation and diversification. Recent GRMILF evidence similarly shows that PAD effectiveness and fiscal independence depend not only on revenue magnitude but also on management quality and transfer dependence (Mahmud & Risendy, 2026), while public-fund studies emphasize planning quality, administrative capacity, and implementation capability as conditions for effective fund use (Kuryadi et al., 2025; Sarina et al., 2026). This integrated logic provides the mechanism used to derive and interpret the hypotheses below.

2.7. Hypothesis Development

a. Effect of Local Own-Source Revenue on Local Government Financial Performance

PAD is the revenue source that most directly reflects a local government's internal capacity. Unlike central government transfers, PAD generation depends on the local government's ability to identify economic potential, establish revenue policies, manage the tax base, collect service charges, and supervise revenue realization. Therefore, increased PAD indicates the success of a local government in transforming local economic potential into a source of public financing (Lewis, 2023; Sari & Halmawati, 2021). The greater the contribution of PAD to total regional revenue, the broader the fiscal space under local government control. Local governments can determine the use of such revenue more flexibly and adjust its allocation to community needs. This flexibility enables local governments to improve public services, develop infrastructure, and implement local economic programs without being entirely dependent on central government transfers (Sofilda et al., 2023; Lewis, 2023). From the perspective of signaling theory, high realized PAD provides a positive signal regarding the quality of revenue administration and the local government's ability to achieve fiscal targets. Local governments capable of increasing PAD are perceived as more effective in managing taxes, service charges, and other revenue sources. Such information can strengthen public confidence and demonstrate that a local government has the capacity to finance its responsibilities more independently (Connelly et al., 2011; Lewis, 2023).

The positive relationship between PAD and financial performance is supported by Sari and Halmawati (2021), who found that PAD positively affected the financial performance of regency and municipal governments in West Sumatra. Pradana and Handayani (2023) also found that PAD positively affected local government financial performance in East Java. These findings indicate that increased locally controlled revenue can strengthen the effectiveness and independence of local financial management (Sari & Halmawati, 2021; Pradana & Handayani, 2023). In the context of regency and municipal governments across Papua, strengthening PAD is important because most regions continue to face limitations in their local revenue bases. Regions capable of increasing PAD are expected to have a greater ability to achieve revenue targets and reduce the dominance of central government transfers in their revenue structures. Accordingly, an increase in PAD is expected to be accompanied by improved local government financial performance (Lewis, 2023; Pradana & Handayani, 2023).

H1: Local Own-Source Revenue has a positive effect on the financial performance of regency and municipal governments across Papua.

b. Effect of the General Allocation Fund on Local Government Financial Performance

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DAU is intended to reduce disparities in financial capacity across regions by providing financing to regions whose fiscal needs exceed their revenue-generating capacity. When managed effectively, DAU can assist local governments in maintaining basic services, financing governmental operations, and reducing disparities in public service provision across regions (Lewis, 2023; Andhini et al., 2023). Nevertheless, a high DAU proportion may also indicate weak regional fiscal capacity. Regions receiving a large proportion of DAU generally have relatively limited PAD compared with their expenditure needs. When DAU becomes the primary revenue source, local governments may lose incentives to develop local tax and service charge bases, thereby increasing fiscal dependence and reducing fiscal independence (Mubarok et al., 2022; Pramuka, 2010). Dependence on DAU can also be explained by the flypaper effect. Central government transfers may have a greater effect on increasing local expenditure than revenue generated by local governments themselves. Consequently, an increase in DAU may be followed by higher routine expenditure without strengthening local revenue capacity. In the long term, this pattern may create a less independent regional financial structure (Pramuka, 2010; Mubarok et al., 2022).

Previous studies have produced mixed findings regarding DAU. Sari and Halmawati (2021) and Andhini et al. (2023) found a positive effect of DAU on financial performance. In contrast, Pradana and Handayani (2023) found that DAU had no effect on financial performance, whereas Mubarok et al. (2022) found that intergovernmental revenue negatively affected financial performance. These differences indicate that the benefits of DAU depend on the quality of its allocation and the local government's ability to avoid excessive dependence (Sari & Halmawati, 2021; Andhini et al., 2023; Pradana & Handayani, 2023; Mubarok et al., 2022). In the Papua region, the high DAU proportions received by most regency and municipal governments reflect substantial gaps between fiscal needs and local revenue capacity. If the dominance of DAU is not accompanied by stronger PAD and improved expenditure quality, dependence on DAU is expected to reduce local government financial performance (Mubarok et al., 2022; Lewis, 2023).

H2: The General Allocation Fund has a negative effect on the financial performance of regency and municipal governments across Papua.

c. Effect of the Special Allocation Fund on Local Government Financial Performance

DAK is intended to support specific activities that constitute national priorities while also addressing local public service needs. Through DAK, local governments obtain funding to develop infrastructure and service facilities that may not be financed through PAD or DAU. When programs are implemented appropriately, DAK can improve service quality, community productivity, and regional development capacity (Andhini et al., 2023; Wiryawan & Otchia, 2022). However, DAK is characterized by restricted use. Local governments are required to utilize the funds according to sectors, activities, outputs, and technical requirements established by the central government. These provisions limit local government flexibility in adjusting budgets to changing local needs. DAK management also requires adequate planning documents, procurement processes, implementation capacity, reporting systems, and human resources (Lewis, 2023).

In regions with limited institutional capacity, the complexity of DAK management may result in implementation delays, low absorption, or outcomes that do not correspond to community needs. A high DAK proportion also indicates that a region continues to require central government support to provide particular infrastructure and services. Therefore, increased DAK may not directly improve financial performance based on revenue effectiveness and fiscal independence (Lewis, 2023; Pradana & Handayani, 2023). Empirically, Pradana and Handayani (2023) found that DAK negatively affected local government financial performance. A similar finding was reported by Andhini et al. (2023), who found that DAK had a negative and significant effect on financial performance. These results indicate that increased special transfers may move in the opposite direction to performance when regional dependence rises or when the use of funds has not strengthened local revenue capacity (Pradana & Handayani, 2023; Andhini et al., 2023).

Regency and municipal governments across Papua face geographical constraints, infrastructure limitations, high development costs, and differences in administrative capacity. These conditions may prevent

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DAK from being utilized optimally. A larger DAK proportion that is not accompanied by stronger PAD and higher-quality program implementation is therefore expected to reduce local government financial performance (Aritenang & Chandramidi, 2023; Pradana & Handayani, 2023).

H3: The Special Allocation Fund has a negative effect on the financial performance of regency and municipal governments across Papua.

d. Effect of the Revenue-Sharing Fund on Local Government Financial Performance

DBH is a transfer directly linked to tax revenue and natural resource revenue. For producing regions, DBH provides additional fiscal capacity as a share of national revenue generated by economic activities within their territories. This revenue can be used to finance development, expand public services, and address the consequences of natural resource utilization (Nur et al., 2022). Compared with DAK, DBH provides local governments with relatively greater discretion to adjust budget allocations to regional needs. Additional DBH can expand fiscal space and reduce financing pressure on PAD. When managed effectively, an increase in DBH can strengthen a local government's capacity to finance priority programs, infrastructure, and public services (Nur et al., 2022; Wiryawan & Otchia, 2022). From the perspective of signaling theory, increased DBH accompanied by effective management indicates a local government's ability to utilize its fiscal entitlements to generate development outcomes. For regions with strong natural resource bases, DBH also provides information about the economic contribution of the region to national revenue. However, a positive signal will emerge only when DBH is managed transparently and productively and does not create excessive dependence (Connelly et al., 2011; Nur et al., 2022).

Nur et al. (2022) found that increased DBH was positively associated with improvements in local government performance. Local governments experiencing higher DBH had greater capacity to finance services and improve performance. However, the study also showed that a high level of dependence on DBH was negatively associated with performance. Therefore, DBH should be treated as a means of strengthening fiscal capacity rather than as a substitute for efforts to increase PAD (Nur et al., 2022). This relationship is relevant in the Papua region because the distribution of DBH is strongly influenced by mining and natural resource activities. Regencies receiving high DBH have additional fiscal space that can potentially improve the effectiveness of financial management. Assuming that DBH is allocated appropriately, a higher DBH contribution is expected to improve local government financial performance (Nur et al., 2022; Aritenang & Chandramidi, 2023).

H4: The Revenue-Sharing Fund has a positive effect on the financial performance of regency and municipal governments across Papua.

e. Simultaneous Effect of PAD, DAU, DAK, and DBH on Local Government Financial Performance

Local government financial performance is not determined by a single revenue source but by the overall regional revenue structure. PAD reflects the capacity of a region to generate revenue independently, whereas DAU, DAK, and DBH provide fiscal support from the central government. These four revenue sources have different characteristics, levels of flexibility, objectives, and fiscal risks (Lewis, 2023; Mubarok et al., 2022). PAD provides flexibility and strengthens regional fiscal autonomy. DAU is intended to reduce disparities in financial capacity, DAK finances specific programs and needs, and DBH distributes revenue to regions based on tax and natural resource bases. A balanced combination of PAD and intergovernmental transfers enables local governments to finance their responsibilities while maintaining fiscal stability (Lewis, 2023; Nur et al., 2022).

Conversely, a revenue structure that is excessively dominated by intergovernmental transfers may create fiscal dependence. The effect of transfers on performance depends substantially on the local government's capacity to allocate the budget, maintain expenditure quality, and develop local revenue sources. Therefore, PAD, DAU, DAK, and DBH need to be tested simultaneously to determine the extent to

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which the overall revenue structure explains variations in local government financial performance (Mubarok et al., 2022; Sofilda et al., 2023). Sari and Halmawati (2021) found that PAD, DAU, and regional expenditure jointly affected local government financial performance. Pradana and Handayani (2023) also demonstrated that PAD, DAU, and DAK simultaneously explained variations in financial performance. These findings indicate that local government financial performance results from the interaction between local revenue capacity, intergovernmental transfers, and the quality of fiscal resource management (Sari & Halmawati, 2021; Pradana & Handayani, 2023).

Based on these theoretical and empirical arguments, PAD, DAU, DAK, and DBH are expected to jointly affect the financial performance of regency and municipal governments across Papua. This simultaneous effect indicates that the quality of financial performance is determined not only by the capacity to generate PAD but also by the ability of local governments to manage various forms of fiscal transfers effectively and productively (Lewis, 2023; Mubarok et al., 2022).

H5: Local Own-Source Revenue, the General Allocation Fund, the Special Allocation Fund, and the Revenue-Sharing Fund simultaneously affect the financial performance of regency and municipal governments across Papua.

III. Research Method

This study employed a quantitative, nonexperimental, explanatory cross-sectional design to examine statistical associations between PAD, DAU, DAK, DBH, and local government financial performance in the 2023 fiscal year. The cross-sectional design was selected because the research objective is to compare the revenue structures and financial-performance outcomes of all local governments in the defined six-province area within the same fiscal period, thereby holding the national policy year constant while capturing intergovernmental variation. Because exposure and outcome measures are observed in the same period, temporal ordering cannot be established. Accordingly, regression coefficients are interpreted as conditional associations rather than definitive causal effects, and causal language is avoided throughout the results and conclusion. This study was observational because the researchers did not provide any treatment or manipulate the research variables. The data were analyzed based on the financial conditions realized and reported by each local government. Therefore, the term "effect" in this study refers to a statistical association estimated through a regression model rather than an absolute causal relationship. This interpretation is important because cross-sectional designs have limitations in establishing temporal order and causality among variables (Setia, 2016).

a. Research Setting and Unit of Analysis

The study was conducted on regency and municipal governments across the Papua region, covering Papua, Highland Papua, Central Papua, South Papua, West Papua, and Southwest Papua provinces. This region was selected because it has heterogeneous fiscal structures, both in terms of the ability to generate PAD and the degree of dependence on central government transfers. Differences in economic bases, natural resource potential, geographical conditions, and fiscal capacity result in different revenue characteristics and financial performance across local governments (Aritenang & Chandramidi, 2023; Lewis, 2023). The unit of analysis was an individual regency or municipal government. Accordingly, each row of data represented the financial condition of one local government during the 2023 fiscal year. The use of regency and municipal governments as the units of analysis enabled comparisons of revenue structures and financial performance across regions within the same period. This approach is consistent with the characteristics of cross-sectional research, which analyzes multiple units of observation at a single point or period in time (Setia, 2016).

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b. Population and Sample

The study population comprised all regency and municipal governments located within the six provinces of the Papua region during the 2023 fiscal year. The population consisted of local governments with available data on realized PAD, DAU, DAK, DBH, total regional revenue, and PAD targets, all of which were required to calculate the research variables. Defining the population based on the same administrative area and observation period was intended to produce units of analysis with comparable characteristics (Setia, 2016). This study employed a census or total sampling technique, in which all members of the population that met the data-completeness requirements were included as units of observation. This technique was selected because the number of regency and municipal governments in the population was relatively limited and all units could be accessed through published financial statements. Based on the data verification process, the final sample consisted of 42 regency and municipal governments across the Papua region.

The inclusion criteria were as follows: (1) the local government was one of the regency or municipal governments legally located in Papua, Highland Papua, Central Papua, South Papua, West Papua, or Southwest Papua in fiscal year 2023; (2) its 2023 audited financial statements and budget-realization information were accessible; and (3) complete values were available for realized PAD, PAD target, total regional revenue, DAU, DAK, and DBH. The six provinces contained 42 regency and municipal governments, and all 42 met these completeness criteria; therefore, no eligible local government was excluded because of missing observations. The final dataset is thus a census of the geographically defined 2023 population rather than a complete-case subsample.

c. Type and Sources of Data

This study used secondary quantitative data. Secondary data refer to data that have previously been collected, examined, and published by other institutions for administrative or reporting purposes and are subsequently reanalyzed to address different research questions. The use of secondary data enables researchers to analyze a broader geographical scope efficiently; however, it still requires careful examination of variable definitions, completeness, consistency, and data quality (Cheng & Phillips, 2014). The research data consisted of realized PAD, PAD targets, total regional revenue, realized DAU, realized DAK, and realized DBH for regency and municipal governments during the 2023 fiscal year. The primary data sources were audit reports on Local Government Financial Statements and Regional Revenue and Expenditure Budget realization reports published by the Audit Board of the Republic of Indonesia. The Audit Board is a state institution responsible for auditing the management and accountability of central and local government finances (Republic of Indonesia, 2006). When intergovernmental transfer data were obtained or verified through the Regional Transfer Data Portal, the source was separately identified as the Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia. This separation was necessary because the Audit Board and the Ministry of Finance are different institutions. Data obtained from more than one source were matched according to local government name, fiscal year, revenue category, and monetary unit to ensure consistency (Cheng & Phillips, 2014).

d. Data Collection Technique

The data were collected using a documentation technique. This technique involved downloading, examining, recording, and extracting financial information from official government reports. Secondary data analysis requires systematic documentation procedures so that the source of each figure can be traced and the analytical results can be replicated by other researchers (Cheng & Phillips, 2014). The documentation procedure followed six stages. First, all 42 local governments in the six-province study area were enumerated. Second, the relevant 2023 BPK audit reports and budget-realization statements were identified and downloaded from official government reporting sources, with transfer records cross-checked through DJPK when needed. Third, realized PAD, PAD targets, total regional revenue, DAU, DAK, and DBH were entered into a standardized worksheet together with source identifiers. Fourth, local-government names, monetary units, and account classifications were standardized. Fifth, every extracted value was rechecked against the original

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source document and cross-source inconsistencies were resolved before analysis. Sixth, ratio variables were calculated only after the verification stage. This procedure provides a traceable audit trail from the reported regression variables back to the official financial documents.

e. Operational Definitions and Measurement of Variables

The independent variables consisted of PAD, DAU, DAK, and DBH, whereas the dependent variable was local government financial performance. All variables were converted into ratios to enable more proportional comparisons among local governments with different budget sizes. The use of ratios also reduces the dominance of nominal values from regions with substantially larger revenue scales than others (Mubarok et al., 2022; Pradana & Handayani, 2023). Local government financial performance was proxied by the PAD effectiveness ratio because the study focuses specifically on revenue-realization effectiveness: the extent to which a local government converts its own-source revenue target into realized revenue. PAD, DAU, DAK, and DBH were expressed as proportions of total regional revenue to make governments of very different budget sizes comparable and to capture revenue-structure dependence rather than nominal scale. This specification is analytically useful for comparing fiscal composition across Papua; however, it also creates an important limitation because realized PAD is a component of both the PAD predictor and the PAD-effectiveness outcome. The shared numerator can mechanically strengthen their statistical association and inflate explanatory power. For this reason, the PAD coefficient and adjusted R^2 are interpreted cautiously, and the study does not claim that the model provides an independent causal estimate of PAD's impact on broad financial performance.

The operationalization of the research variables was formulated as follows:

1) Local government financial performance:
LGFP = (Realized PAD ÷ PAD Target) × 100%
2) Local Own-Source Revenue:
PAD = (Realized PAD ÷ Total Regional Revenue) × 100%
3) General Allocation Fund:
DAU = (Realized DAU ÷ Total Regional Revenue) × 100%
4) Special Allocation Fund:
DAK = (Realized DAK ÷ Total Regional Revenue) × 100%
5) Revenue-Sharing Fund:
DBH = (Realized DBH ÷ Total Regional Revenue) × 100%

f. Data Analysis Technique

The data were analyzed using IBM SPSS Statistics version 29. The first stage involved descriptive statistical analysis, including the number of observations, minimum value, maximum value, mean, and standard deviation. Descriptive statistics were used to provide an overview of the distributions of PAD, DAU, DAK, DBH, and financial performance among regency and municipal governments across the Papua region. The next stage involved testing the assumptions of the regression model. Normality was evaluated based on the model residuals rather than each individual research variable by using a normal probability plot and a residual normality test. Multicollinearity was examined using tolerance values and the variance inflation factor (VIF), whereas heteroskedasticity was assessed using a residual scatterplot and the Glejser test. Transparent reporting of these assumptions is necessary to ensure that the interpretation of coefficients and hypothesis testing is not based on an inappropriate application of regression analysis (Ernst & Albers, 2017). The hypotheses were tested using multiple linear regression analysis because the study involved one dependent variable and four independent variables. The regression equation was formulated as follows:

$$LGFP_i = \alpha + \beta_1 PAD_i + \beta_2 DAU_i + \beta_3 DAK_i + \beta_4 DBH_i + \varepsilon_i$$

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Where:
$LGFP_i$ = financial performance of local government *i*;
α = constant;
β_1–β_4 = regression coefficients;
PAD_i = Local Own-Source Revenue ratio of local government *i*;
DAU_i = General Allocation Fund ratio of local government *i*;
DAK_i = Special Allocation Fund ratio of local government *i*;
DBH_i = Revenue-Sharing Fund ratio of local government *i*; and
ε_i = residual or model error term.

The partial effect of each independent variable was evaluated using the t-test, whereas the overall feasibility and simultaneous effect of the model were evaluated using the F-test. The ability of PAD, DAU, DAK, and DBH to explain variations in financial performance was assessed using the adjusted coefficient of determination, or adjusted R^2. Statistical hypotheses were tested at a 5% significance level, or $\alpha = 0.05$. The regression coefficients were interpreted based on their direction, magnitude, and level of significance, while considering the observational and cross-sectional characteristics of the study (Ernst & Albers, 2017; Setia, 2016).

IV. Results and Discussion

4.1. Research Results

a. Description of the Research Objects

This study analyzes 42 regency and municipal governments distributed across six provinces in the Papua region, namely Papua, West Papua, Southwest Papua, South Papua, Central Papua, and Highland Papua. Each local government constitutes one unit of observation using data from the realization of the Regional Revenue and Expenditure Budget for the 2023 fiscal year. The independent variables consist of Local Own-Source Revenue (PAD), the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue-Sharing Fund (DBH). PAD, DAU, DAK, and DBH are measured according to the contribution of each revenue source to total regional revenue. The dependent variable, local government financial performance, is proxied by the PAD effectiveness ratio, which compares realized PAD with the predetermined PAD target. In general, regency and municipal governments across the Papua region exhibit heterogeneous fiscal structures. Most regions have relatively low PAD contributions, and their revenue structures are dominated by central government transfers. However, several regions with stronger urban, commercial, mining, or natural resource bases have higher PAD or DBH proportions.

1) Fiscal Conditions of Regency and Municipal Governments in Papua Province

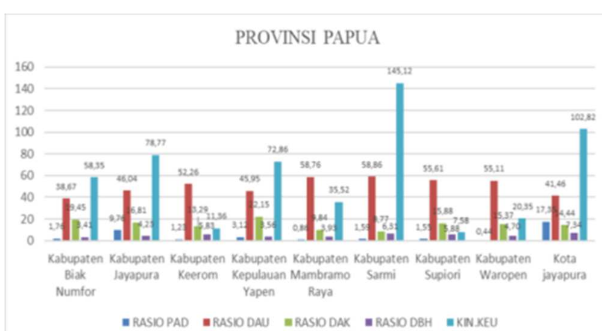

Figure 1. PAD, DAU, DAK, DBH, and Financial Performance Ratios of Regency and Municipal Governments in Papua Province in 2023

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Figure 1 shows that the contribution of PAD to total revenue among regency and municipal governments in Papua Province is generally low. Jayapura Municipality recorded the highest PAD ratio at 17.35%, whereas Waropen Regency recorded the lowest PAD ratio at 0.44%. The position of Jayapura Municipality reflects its relatively stronger urban, trade, and service-sector economic base compared with the other regencies. DAU constitutes the dominant revenue component in nearly all local governments in Papua Province. The proportion of DAU ranges from approximately 40% to 59% of total regional revenue. This condition indicates that most regencies continue to rely on general central government transfers to finance governmental functions and public services. Financial performance, measured using the PAD effectiveness ratio, varies considerably. Sarmi Regency recorded the highest effectiveness ratio at 145.12%, followed by Jayapura Municipality at 102.82%. Meanwhile, Supiori Regency recorded the lowest effectiveness ratio. These differences indicate that a high PAD contribution is not necessarily identical to a high level of PAD target achievement. A region with relatively low PAD may still record high effectiveness when its PAD target is established realistically or when actual revenue exceeds the target.

2) Fiscal Conditions of Regency Governments in West Papua Province

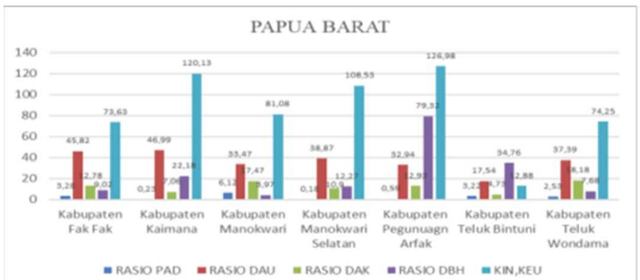

Figure 2. PAD, DAU, DAK, DBH, and Financial Performance Ratios of Regency Governments in West Papua Province in 2023

Figure 2 shows that PAD ratios among regency governments in West Papua Province are also relatively low. Manokwari Regency recorded the highest PAD ratio at 6.12%, whereas South Manokwari Regency recorded the lowest PAD ratio at 0.18%. These descriptive findings indicate that the capacity of most regencies to generate revenue from local sources remains limited. The transfer structure in West Papua differs across regions. DAU constitutes the dominant component in most regencies, whereas Arfak Mountains Regency has a very high DBH proportion of approximately 79.32% of total regional revenue. This high DBH proportion reflects the substantial amount of tax- or natural resource-based revenue relative to other revenue sources. The highest financial performance was recorded by Arfak Mountains Regency at 126.98%, followed by Kaimana Regency at 120.13% and South Manokwari Regency at 108.53%. In contrast, Teluk Bintuni Regency recorded a relatively low effectiveness ratio. These variations indicate that the ability to achieve PAD targets differs substantially even among local governments within the same province.

3) Fiscal Conditions of Regency and Municipal Governments in Southwest Papua Province

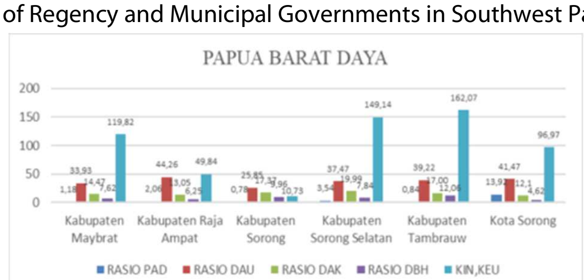

Figure 3. PAD, DAU, DAK, DBH, and Financial Performance Ratios of Regency and Municipal Governments in Southwest Papua Province in 2023

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Figure 3 shows that Sorong Municipality recorded the highest PAD ratio in Southwest Papua Province at 13.92%. Sorong Regency recorded the lowest PAD ratio at 0.78%. This difference indicates that the urban economic base of Sorong Municipality generates stronger local revenue capacity than that of most regencies in the province. DAU remains the dominant revenue source, with the highest proportions recorded by Raja Ampat Regency at 44.26% and Sorong Municipality at 41.47%. The DAK proportion is also relatively substantial in most regencies, demonstrating the importance of special transfers in financing infrastructure and basic public services. The highest financial performance was recorded by Tambrauw Regency at 162.07%, followed by South Sorong Regency at 149.14% and Maybrat Regency at 119.82%. Sorong Regency recorded the lowest effectiveness ratio. This finding again indicates that the PAD effectiveness ratio does not necessarily move in the same direction as the contribution of PAD. Tambrauw Regency, for example, had a low PAD contribution but substantially exceeded its PAD target.

4) Fiscal Conditions of Regency Governments in South Papua Province

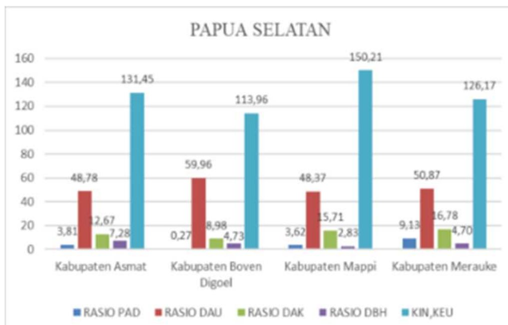

Figure 4. PAD, DAU, DAK, DBH, and Financial Performance Ratios of Regency Governments in South Papua Province in 2023

Figure 4 shows that Merauke Regency recorded the highest PAD ratio at 9.13%, whereas Boven Digoel Regency recorded the lowest ratio at 0.27%. Although Merauke Regency has a relatively stronger local revenue base, its revenue structure remains dominated by DAU. DAU constitutes the largest revenue component in all regencies in South Papua Province. Its proportion ranges from 48.37% in Mappi Regency to 59.96% in Boven Digoel Regency. DAK ranges from approximately 8.98% to 16.78%, whereas the DBH proportion is relatively smaller. All regencies in South Papua Province recorded PAD effectiveness ratios above 100%. Mappi Regency recorded the highest value at 150.21%, followed by Asmat Regency at 131.45%, Merauke Regency at 126.17%, and Boven Digoel Regency at 113.96%. Although these achievements indicate that realized PAD exceeded its target, the dominance of DAU suggests that a high PAD effectiveness ratio does not necessarily reflect a high level of fiscal independence.

5) Fiscal Conditions of Regency Governments in Central Papua Province

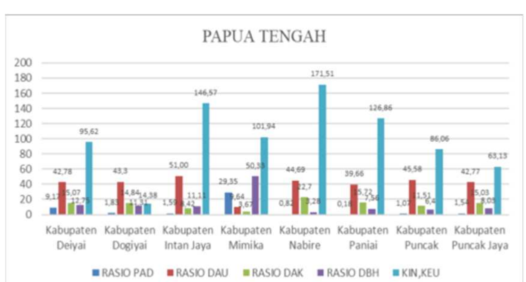

Figure 5. PAD, DAU, DAK, DBH, and Financial Performance Ratios of Regency Governments in Central Papua Province in 2023

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Figure 5 illustrates a relatively high degree of fiscal heterogeneity in Central Papua Province. Mimika Regency recorded the highest PAD ratio at 29.35%, which was also the highest PAD ratio among all regency and municipal governments included in the study. Mimika Regency also had a relatively low DAU proportion and a high DBH proportion. This condition is associated with the strong mining and natural resource activities in the region. In contrast, several regencies, including Dogiyai, Intan Jaya, Nabire, Paniai, Puncak, and Puncak Jaya, had relatively low PAD ratios. The revenue structures of these regions were supported primarily by DAU and DAK. This pattern illustrates a substantial difference between a regency with a strong mining base and regencies with more limited local economic bases. The highest financial performance was recorded by Nabire Regency at 171.51%, followed by Intan Jaya Regency at 146.53% and Paniai Regency at 126.86%. Dogiyai Regency recorded the lowest effectiveness ratio. These findings indicate that Mimika Regency, despite having a high PAD contribution, did not automatically record the highest PAD effectiveness ratio because effectiveness is also determined by the size of the PAD target established by the local government.

6) Fiscal Conditions of Regency Governments in Highland Papua Province

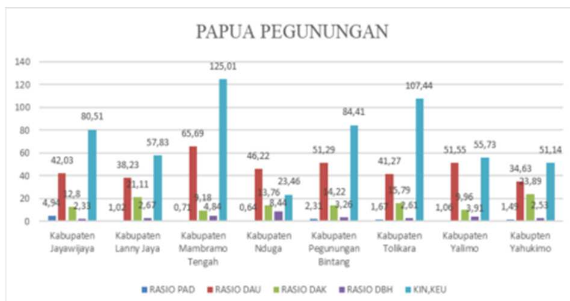

Figure 6. PAD, DAU, DAK, DBH, and Financial Performance Ratios of Regency Governments in Highland Papua Province in 2023

Figure 6 shows that the PAD ratios of all regencies in Highland Papua Province are very low. Jayawijaya Regency recorded the highest PAD ratio at 4.94%, whereas Nduga Regency recorded a ratio of approximately 0.64%. The low PAD contribution indicates that formal economic activity, the local tax base, and regional revenue administration capacity remain limited. DAU dominates the revenue structures of all regencies in Highland Papua. Central Mamberamo Regency recorded the highest DAU proportion at approximately 65.69%, whereas Yahukimo Regency had a relatively high DAK proportion. This condition demonstrates the substantial role of central government transfers in maintaining service capacity and governmental functions in regions facing severe geographical and infrastructure constraints. The highest financial performance was recorded by Central Mamberamo Regency at approximately 125%, followed by Tolikara Regency at 107.44% and Pegunungan Bintang Regency at 84.41%. Nduga Regency recorded a relatively low effectiveness ratio. These differences demonstrate that PAD target achievement varies substantially even though all regencies have low PAD contributions.

b. Descriptive Statistics

Descriptive statistics are used to describe the distributions of PAD, DAU, DAK, DBH, and financial performance among the 42 regency and municipal governments. The statistics presented include the minimum, maximum, mean, and standard deviation.

Table 1. Descriptive Statistics of the Research Variables

Variable	N	Minimum	Maximum	Mean	Standard Deviation
Local Own-Source Revenue (PAD)	42	0.0044	0.2935	0.041545	0.054558
General Allocation Fund (DAU)	42	0.0964	0.6569	0.434821	0.106288

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Special Allocation Fund (DAK)	42	0.0367	0.2389	0.141867	0.045426
Revenue-Sharing Fund (DBH)	42	0.0233	0.7932	0.100867	0.140245
Local Government Financial Performance	42	0.0758	1.7151	0.986795	0.377191
Valid N (Listwise)	42	—	—	—	—

The descriptive statistics show that PAD had a mean value of 0.041545, indicating that locally generated revenue contributed approximately 4.15% of total regional revenue. Its values ranged from 0.0044, or 0.44%, to 0.2935, or 29.35%. The standard deviation of 0.054558, which exceeded the mean, indicates substantial disparities in local revenue-generating capacity among the observed local governments. DAU recorded the highest mean among the revenue components, at 0.434821 or approximately 43.48% of total regional revenue. Its values ranged from 0.0964 to 0.6569. These results indicate that DAU constituted the principal source of revenue for most regency and municipal governments across the Papua region. DAK had a mean value of 0.141867, indicating an average contribution of approximately 14.19% to total regional revenue. Its values ranged from 0.0367 to 0.2389, with a standard deviation of 0.045426. This distribution demonstrates differences in the proportion of special-purpose transfers received by each local government. DBH had a mean value of 0.100867, or approximately 10.09% of total regional revenue. Its minimum value was 0.0233, whereas its maximum value reached 0.7932. The standard deviation of 0.140245 exceeded the mean, indicating that DBH was highly concentrated in a limited number of regions with substantial tax or natural resource bases. Local government financial performance had a mean value of 0.986795, equivalent to an average PAD effectiveness ratio of approximately 98.68%. The minimum value was 0.0758 or 7.58%, whereas the maximum value was 1.7151 or 171.51%. The wide range and standard deviation of 0.377191 indicate substantial differences in the ability of local governments to achieve their predetermined PAD targets.

c. Regression Assumption Tests

1) Residual Normality Test

The normality test was performed on the residuals of the regression model. The results of the Normal P–P Plot of Regression Standardized Residual are presented in Figure 7.

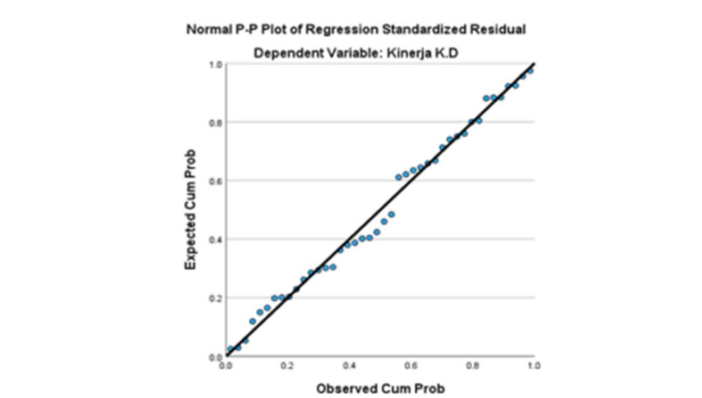

Figure 7. Normal P–P Plot of the Regression Model Residuals

Figure 7 shows that the residual points are located around the diagonal line and generally follow its direction. This pattern indicates that the residual distribution approximates a normal distribution. This result is supported by the *One-Sample Kolmogorov–Smirnov* test, which produced a significance value of 0.200. Because this value is greater than 0.05, the residual normality assumption is considered satisfied.

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2) Multicollinearity Test

The results of the multicollinearity test are presented in Table 2.

Table 2. Multicollinearity Test Results

Variable	Tolerance	VIF	Conclusion
PAD	0.735	1.360	No multicollinearity
DAU	0.527	1.899	No multicollinearity
DAK	0.719	1.391	No multicollinearity
DBH	0.554	1.807	No multicollinearity

All independent variables have tolerance values greater than 0.10 and VIF values lower than 10. Therefore, there is no excessively high linear correlation among the independent variables. The regression model is considered to satisfy the assumption of no multicollinearity.

3) Heteroskedasticity Test

Heteroskedasticity was tested using a residual scatterplot and the Glejser test. The residual scatterplot is presented in Figure 8.

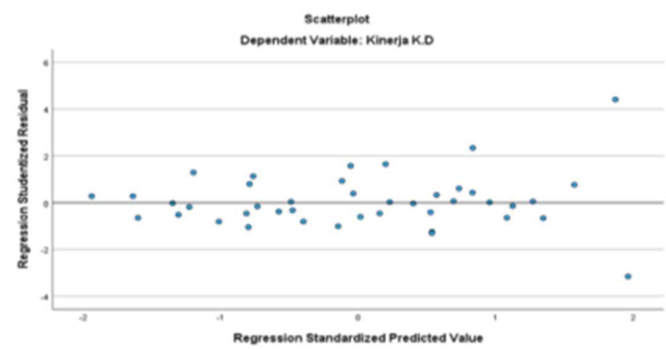

Figure 8. Scatterplot of the Regression Model Residuals

Figure 8 shows that the residual points are distributed above and below the zero line and do not form a funnel, widening, wave-like, or other systematic pattern. Although several points are relatively distant from the others, the overall residual distribution is random. Therefore, there is no strong visual indication of heteroskedasticity. This result is reinforced by the Glejser test, as presented in Table 3.

Table 3. Glejser Test Results

Variable	Significance	Conclusion
PAD	0.356	No indication of heteroskedasticity
DAU	0.575	No indication of heteroskedasticity
DAK	0.428	No indication of heteroskedasticity
DBH	0.948	No indication of heteroskedasticity

All significance values are greater than 0.05. Therefore, the regression model does not indicate heteroskedasticity based on the Glejser test.

d. Multiple Linear Regression Results

The results of the multiple linear regression analysis are presented in Table 4.

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Table 4. Multiple Linear Regression Results

Variable	Coefficient B	t	Significance	Interpretation
Constant	1.030	–	0.001	–
PAD	0.156	2.120	0.041	Positive and significant
DAU	0.015	0.325	0.747	Positive and not significant
DAK	−0.737	−9.797	<0.001	Negative and significant
DBH	0.479	11.789	<0.001	Positive and significant

Based on Table 4, the regression equation is formulated as follows:

$$LGFP = 1.030 + 0.156PAD + 0.015DAU - 0.737DAK + 0.479DBH + \varepsilon$$

1) The PAD coefficient of 0.156 indicates that a one-percentage-point increase in the PAD ratio is associated with a 0.156-percentage-point increase in financial performance, assuming that DAU, DAK, and DBH remain constant.
2) The DAU coefficient of 0.015 indicates a positive relationship. However, the significance value of 0.747 indicates that the relationship is not statistically significant. Therefore, changes in the DAU proportion have not been proven to be followed by changes in financial performance.
3) The DAK coefficient of −0.737 indicates that a one-percentage-point increase in the DAK ratio is associated with a 0.737-percentage-point decrease in financial performance, assuming that the other variables remain constant. This relationship is statistically significant.
4) The DBH coefficient of 0.479 indicates that a one-percentage-point increase in the DBH ratio is associated with a 0.479-percentage-point increase in financial performance, assuming that the other variables remain constant. This relationship is statistically significant.

e. Hypothesis Testing

Table 5. Summary of Hypothesis-Testing Results

Hypothesis	Hypothesis statement	Empirical result	Decision
H1	PAD has a positive effect on financial performance	Positive and significant	Supported
H2	DAU has a negative effect on financial performance	Positive and not significant	Not supported
H3	DAK has a negative effect on financial performance	Negative and significant	Supported
H4	DBH has a positive effect on financial performance	Positive and significant	Supported
H5	PAD, DAU, DAK, and DBH simultaneously affect financial performance	Significant	Supported

The F-test produced an F-statistic of 201.831 with a significance value below 0.001. This result indicates that PAD, DAU, DAK, and DBH are simultaneously and significantly associated with local government financial performance. The R^2 value of 0.956 and adjusted R^2 value of 0.951 indicate that, statistically, 95.1% of the variation in financial performance within the sample can be explained by PAD, DAU, DAK, and DBH. The remaining 4.9% is associated with other factors not included in the model. The very high coefficient of determination (adjusted $R^2 = 0.951$) should be interpreted with particular caution. Realized PAD is used both in the PAD-to-total-revenue predictor and in the realized-PAD-to-target effectiveness outcome, creating a shared mathematical component that can increase covariance and model fit independently of a substantive fiscal mechanism. A fully independent robustness regression using expenditure efficiency, fiscal

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independence, revenue growth, expenditure quality, or service-performance outcomes would require additional variables that are not contained in the dataset compiled for this study. Rather than manufacture unverified robustness results, the present analysis treats this overlap as a material design limitation, triangulates interpretation with the descriptive interregional patterns and regression diagnostics, and restricts claims to cross-sectional association. Future replication should pre-specify at least one performance proxy that does not contain realized PAD and compare coefficient signs, significance, and explanatory power across specifications.

4.2. Discussion

a. Effect of Local Own-Source Revenue on Local Government Financial Performance

The results show that PAD shows a positive and statistically significant association with local government financial performance, with a coefficient of 0.156, a t-value of 2.120, and a significance value of 0.041. This result supports H1 and indicates that a higher PAD contribution is associated with greater effectiveness in achieving PAD targets. PAD reflects the ability of a local government to transform local economic potential into actual revenue. Regions with stronger tax bases, service charges, trade, services, mining, or other economic activities have greater opportunities to generate local revenue. Strengthening PAD also provides local governments with more flexible fiscal space because its utilization is under the control of the local government (Lewis, 2023; Sofilda et al., 2023).

The descriptive findings show that Mimika Regency, Jayapura Municipality, and Sorong Municipality have relatively higher PAD contributions than most other regions. This condition is associated with more developed economic, trade, service, and natural resource activities. Local governments with stronger economic bases tend to have broader tax objects and stronger revenue administration. The results are consistent with Sari and Halmawati (2021) and Pradana and Handayani (2023), who found that PAD positively affected local government financial performance. These findings indicate that a stronger capacity to generate local revenue can enhance fiscal capacity and the effectiveness of local financial management. However, this result should be interpreted cautiously because both PAD and financial performance use realized PAD as part of their measurement formulas. This mathematical linkage may strengthen the statistical relationship. Therefore, the results demonstrate a strong association within the sample but cannot be treated as absolute evidence of causality.

b. Effect of the General Allocation Fund on Local Government Financial Performance

DAU has a positive coefficient of 0.015, a t-value of 0.325, and a significance value of 0.747. Because the significance value is greater than 0.05, DAU does not show a statistically significant association with financial performance. H2, which predicts a negative effect of DAU, is therefore not supported. Figures 1 to 6 show that DAU constitutes the main revenue component in most regency and municipal governments. The dominance of DAU is particularly evident in South Papua and Highland Papua. However, a high DAU proportion is not always accompanied by high financial performance. Some regions have both high DAU and high PAD effectiveness, whereas others have high DAU but low PAD effectiveness. DAU is principally intended to reduce the gap between regional fiscal needs and fiscal capacity. It can be used to finance basic services, personnel expenditure, and governmental activities. Because its use is not specifically directed toward increasing PAD, its effect on revenue effectiveness may be indirect and may require a longer period to materialize (Lewis, 2023).

This result is consistent with Pradana and Handayani (2023), who found that DAU did not affect financial performance. However, the finding differs from those of Sari and Halmawati (2021) and Andhini et al. (2023), who found a positive effect of DAU. These differences may be attributable to variations in expenditure structures, fiscal capacity, economic characteristics, and the quality of DAU management across the study areas.The insignificant effect of DAU indicates that the size of general transfers alone is insufficient to guarantee improved PAD effectiveness. Improved performance is more strongly determined by the ability of

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local governments to allocate DAU to productive activities, improve public services, develop their economic bases, and strengthen revenue administration.

c. Effect of the Special Allocation Fund on Local Government Financial Performance

The results show that DAK shows a negative and statistically significant association with financial performance, with a coefficient of –0.737, a t-value of –9.797, and a significance value below 0.001. Therefore, H3 is supported. DAK is a transfer whose use is directed toward predetermined sectors, programs, and outputs. Its earmarked characteristics limit the flexibility of local governments in adjusting the use of funds to other fiscal needs. The management of DAK also requires adequate document preparation, procurement implementation, administrative capacity, reporting, and achievement of output targets (Lewis, 2023). Across the Papua region, geographical constraints, high construction costs, limited accessibility, and differences in administrative capacity may increase the complexity of DAK management. Regions receiving a high DAK proportion may not be able to immediately transform this support into stronger local revenue capacity.

This result is consistent with Pradana and Handayani (2023) and Andhini et al. (2023), who found that DAK had a negative effect on financial performance. A high DAK proportion may reflect substantial special needs and the limited capacity of a region to finance infrastructure and public services through its own revenue. However, the negative relationship does not mean that DAK directly worsens financial performance. Regions with limited fiscal capacity, infrastructure, and public services tend to receive larger DAK allocations. Therefore, the negative relationship may also reflect the initial characteristics or high fiscal needs of recipient regions rather than merely the consequences of DAK utilization. Local governments need to improve planning quality, procurement timeliness, technical readiness, implementation monitoring, and evaluation of DAK benefits. Programs financed through DAK should not merely achieve physical output targets but should also support economic activities capable of expanding the PAD base in the medium and long term.

d. Effect of the Revenue-Sharing Fund on Local Government Financial Performance

DBH shows a positive and statistically significant association with financial performance, with a coefficient of 0.479, a t-value of 11.789, and a significance value below 0.001. Therefore, H4 is supported. DBH provides additional fiscal capacity derived from tax or natural resource revenue. Figure 2 shows that Arfak Mountains Regency has a very high DBH proportion, whereas Figure 5 illustrates the substantial role of DBH in Mimika Regency. Regions with mining activities or strong natural resource bases have greater opportunities to receive higher DBH allocations. Additional DBH can strengthen the ability of local governments to finance public services, infrastructure, and economic activities. When managed effectively, this revenue can also be used to improve local tax administration and develop productive assets that support PAD. This finding is consistent with Ardila et al. (2022), who found that increased DBH was associated with improved local government performance. However, the study also emphasized that excessive dependence on DBH may have adverse effects. Therefore, the benefits of DBH are determined not only by the amount received but also by the quality of its utilization. Local governments need to direct DBH toward economic diversification, productive infrastructure development, human resource development, and the creation of new PAD sources. Such policies are important because natural resource-based DBH may fluctuate according to commodity prices, production volumes, and revenue-sharing policies.

e. Simultaneous Effect of PAD, DAU, DAK, and DBH on Local Government Financial Performance

The simultaneous test results show that PAD, DAU, DAK, and DBH are jointly and significantly associated with financial performance. The F-statistic of 201.831 and significance value below 0.001 indicate that the composition of regional revenue is closely associated with variations in PAD effectiveness. Therefore, H5 is supported. The findings demonstrate that each revenue source has different characteristics. PAD reflects local revenue capacity, DAU performs an equalization function, DAK finances specific needs, and DBH distributes revenue based on tax and natural resource bases. These differences result in non-uniform directions and strengths of the relationships between each variable and financial performance. PAD and DBH have positive and significant relationships with financial performance, DAU does not have a significant relationship, whereas DAK has a negative and significant relationship. These results confirm that intergovernmental transfers cannot be treated as a homogeneous category of revenue. Flexibility of use, transfer objectives, allocation formulas, administrative capacity, and the characteristics of recipient regions also determine the relationship between transfers and financial performance.

The adjusted R^2 value of 0.951 indicates that the model has very high explanatory power. However, this result should be interpreted cautiously because realized PAD is used in the measurement of both PAD and financial performance. Future studies should examine the robustness of these findings using alternative performance indicators, such as efficiency ratios, revenue growth, fiscal independence, expenditure quality, or public service indicators. Theoretically, the results refine a uniform transfer-performance view by showing that revenue origin and governance characteristics matter. Resource Dependence Theory suggests that reliance on external transfers can reduce fiscal autonomy, but the present findings indicate that the consequences depend on the type of external resource: DAU is an equalization transfer with no significant direct association with PAD effectiveness, DAK is earmarked and negatively associated with the outcome in this cross-section, whereas DBH is origin-linked and positively associated with performance in resource-producing jurisdictions. Signaling logic complements this explanation because PAD realization communicates local revenue-administration capability, while effective DBH utilization can signal the capacity to convert fiscal entitlements into locally useful resources. Thus, the study's theoretical implication is not that transfers are intrinsically beneficial or harmful, but that discretion, earmarking, dependency, allocation basis, and managerial capacity jointly shape their observed relationship with financial performance.

f. Theoretical Implications

The findings support a differentiated fiscal-resource perspective. PAD is associated with performance as an internally generated source under direct local control, whereas transfer instruments display different patterns according to their institutional design. The nonsignificant DAU result suggests that equalization resources may sustain service capacity without automatically improving own-source revenue effectiveness; the negative DAK association is consistent with earmarking, high-need allocation, and implementation constraints; and the positive DBH association indicates that origin-linked transfers can expand fiscal space where tax or natural-resource bases are strong. In Resource Dependence terms, external resources vary in the constraints and opportunities they create; in signaling terms, the quality of revenue realization and resource utilization shapes what fiscal outcomes reveal about local administrative capability. These findings therefore caution against modeling intergovernmental transfers as a single undifferentiated construct.

V. Conclusion

This study finds that revenue structure is strongly associated with the PAD-effectiveness performance of 42 regency and municipal governments across six Papua provinces in 2023. PAD shows a positive and statistically significant association, DAU a positive but statistically insignificant association, DAK a negative and significant association, and DBH a positive and significant association. The four revenue components are jointly associated with financial performance, with an adjusted R^2 of 0.951. These results should not be read as causal estimates because the design is cross-sectional and because realized PAD appears in both the PAD predictor and the performance proxy. The principal substantive conclusion is therefore that intergovernmental transfers are not homogeneous: their observed associations differ according to fiscal purpose, discretion, allocation basis, dependence, and the capacity of local governments to translate fiscal resources into effective revenue management.

DBH shows a positive and statistically significant association with financial performance. Additional revenue derived from taxes and natural resources can strengthen the fiscal capacity of local governments. Nevertheless, DBH should be directed toward developing productive assets and promoting economic diversification to reduce dependency risks. Simultaneously, PAD, DAU, DAK, and DBH are significantly associated with local government financial performance, with an adjusted R^2 value of 0.951. The principal finding of this study is that the effects of intergovernmental transfers are not uniform because they are

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determined by their objectives, budgetary flexibility, allocation basis, and the capacity of local governments to manage them.

Local governments need to increase PAD by updating local tax and service charge databases, digitalizing payment systems, improving taxpayer compliance, controlling revenue leakage, and developing local economic potential. The use of DAU should be directed toward expenditure that increases productivity and public service quality rather than merely financing routine expenditure. The management of DAK should be strengthened through more rigorous planning, improved technical document readiness, timely implementation, and evaluation of program benefits. DBH should be used to strengthen economic diversification, develop productive infrastructure, and create new revenue sources. These measures are necessary to prevent local governments from becoming overly dependent on volatile natural resource revenues. This study uses only one observation period, namely 2023, and therefore cannot explain changes in local government financial performance over time. Future studies are encouraged to use panel data covering several years. The use of realized PAD as a component in the measurement of both PAD and financial performance may also create a mathematical relationship. Future studies may employ alternative financial performance proxies, such as expenditure efficiency ratios, revenue growth, fiscal independence indices, or public service performance indicators. Future research may also include control variables such as capital expenditure, personnel expenditure, population size, gross regional domestic product, poverty rates, audit opinions, regional area, and the quality of local government governance.

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