

Impact of Fiscal Transfers and Local Revenue Accountability on Community Welfare in Indonesia

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ABSTRACT

Community welfare is a national goal outlined in the Preamble of the 1945 Constitution. The Human Development Index (HDI) serves as a key indicator for measuring welfare across three dimensions: health, education, and a decent standard of living. This study aims to analyze the impact of fiscal transfers—General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH)—along with Local Own-Source Revenue (PAD) on HDI at the provincial level in Indonesia. The research employs a quantitative approach using panel data from all districts and cities in Indonesia for the period 2019–2023, resulting in 2,540 observations collected through a census method. Data analysis is conducted using Fixed Effect Model (FEM) regression to assess both direct effects and the moderating role of fiscal accountability mechanisms, measured by the Government Agency Performance Accountability System (SAKIP) and internal audit (APIP) scores. The findings reveal that PAD and DAK significantly improve HDI, while DAU has no significant effect. Furthermore, higher levels of fiscal accountability strengthen the effectiveness of fiscal transfers in enhancing community welfare. Conversely, weak financial governance and a lack of transparency hinder the optimal utilization of fiscal resources. This study concludes that strengthening oversight, financial governance, and accountability mechanisms is essential to maximizing the benefits of fiscal decentralization, ensuring more equitable resource distribution, and promoting sustainable improvements in community welfare.

Keywords: Fiscal Accountability, Fiscal Transfers, Human Development Index, Decentralization

INTRODUCTION

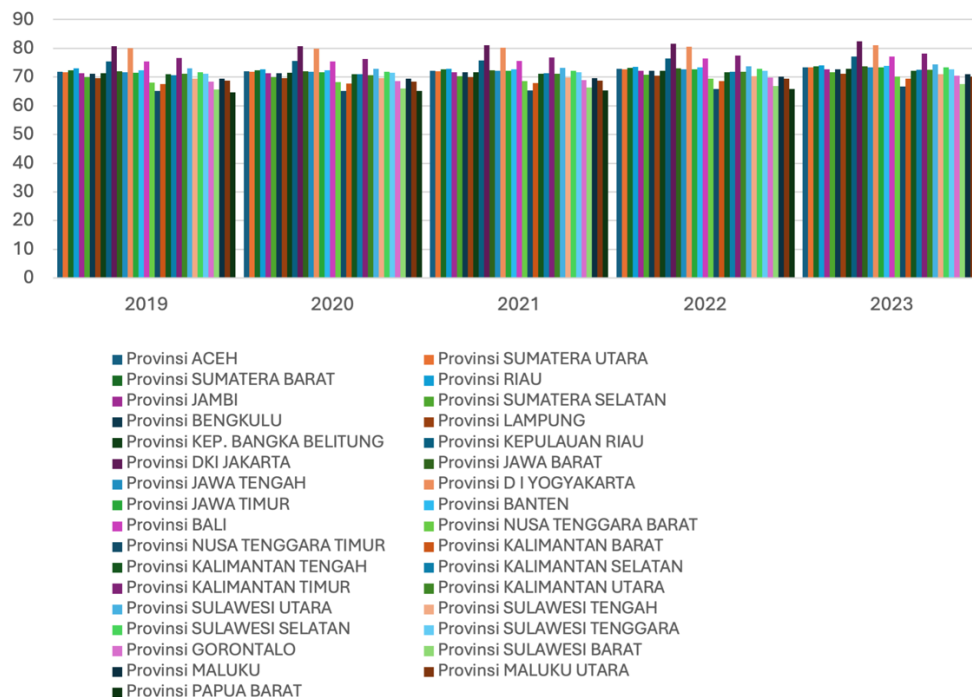
Advancing community welfare is a national goal outlined in the Preamble of the 1945 Constitution of the Republic of Indonesia, which mandates the creation of a government that protects all Indonesians and promotes public welfare. According to Ferryono et al. (2022a), community welfare encompasses equal distribution of funds, poverty alleviation, provision of essential public services, and social protection for all citizens.

The Human Development Index (HDI) is a common indicator for measuring community welfare, focusing on health, education, and living standards (Azevedo et al., 2021; Ferryono et al., 2022b; Hiktaop et al., 2020; Khoirunisa & Sulaeman, 2022). HDI is frequently used in studies to evaluate the quality of human development at various levels, including provincial. In line with this, fiscal transfers from the central government and local revenue must be allocated to public service provision that aligns with HDI goals, as stipulated in Law No. 33 of 2004 and later revised by Law No. 1 of 2022. Since the implementation of decentralization policies in 2001, the government has worked to enhance human resource quality (Hussain & Dey, 2021; Nawawi et al., 2021; Shi & Tang, 2020).

Figure 1 shows the HDI for Indonesian provinces from 2019–2023. It shows a consistent national increase, with the national average rising from 71.04 to 73.77. However, there are notable variations at the provincial level. For instance, NTB saw a significant increase of 4.23 points, from 68.14 in 2019 to 72.37 in 2023, while Yogyakarta experienced a modest increase of 1.10 points,



from 79.99 in 2019 to 81.09 in 2023. DKI Jakarta, benefiting from regional revenue, saw a moderate increase of 2.79 points, from 80.76 in 2019 to 83.55 in 2023. Overall, this upward trend reflects the positive impact of policies supporting human development, particularly in health, education, and well-being, as well as fiscal allocations aimed at enhancing these dimensions.



Source: BPS, 2024

Figure 1. HDI for Indonesian Provinces (2019-2023)

The variation in HDI across Indonesian provinces is partly influenced by how local governments generate their regional revenue (Abdullah et al., 2020). Based on BPS (2024) data, DKI Jakarta Province has seen a notable improvement in local revenue (PAD) from 2019 to 2023, increasing by 7.06 trillion rupiah, from 45.70 trillion rupiah in 2019 to 52.77 trillion rupiah in 2023. This reflects effective regional resource management and strategies to boost local revenue. In contrast, Papua Province experienced a decline in PAD, from 3.01 trillion rupiah in 2019 to 587 billion rupiah in 2023, a decrease of approximately 2.42 trillion rupiah. These contrasting trends highlight the significant challenges faced by provincial governments in maximizing revenue potential to advance community welfare (Flaška et al., 2021; Purnomo Aji et al., 2018; Puspitasari et al., 2023; Sulaeman & Silvia, 2019).

Due to the inability of certain regions to generate sufficient revenue, many areas still rely heavily on transfers from the central government. In 2021, Special Allocation Fund (DAK) and General Allocation Fund (DAU) remained stable, but Revenue Sharing Fund (DBH) increased by 19.72% to Rp44.22 trillion. In 2022, DAK sharply decreased by 47.97%, while DBH rose by 24.54%. By 2023, DAK increased by 9.90% to Rp41.97 trillion, but DBH saw a drastic decrease of 23.97%. Over the past five years, the variations in fund allocations are due to several factors, including the allocation formula for DAU and DAK, which takes regional performance into account, while DBH is influenced by state revenue fluctuations. Changes in national priorities, economic conditions, and local needs also contribute to these variations (Bakri et al., 2024a; Cao et al., 2021; de Paulo & Sobral Camões, 2019). These fiscal transfers are intended to supplement local fiscal capacities and ensure minimum standards of public services across provinces. However, their actual impact on HDI may vary significantly depending on how efficiently and transparently regions manage the transferred funds, highlighting the critical link between fiscal decentralization and human development improvements.

However, despite increasing fiscal transfers and regional revenues, not all provinces experience proportional improvements in HDI. Disparities in fiscal management capacity, governance quality, and accountability mechanisms are suspected to influence how effectively fiscal resources are translated into human development outcomes. This raises the critical research problem: To what extent do fiscal transfers and local revenue contribute to improving HDI across provinces, and how does fiscal accountability moderate this relationship?

This study aims to examine the impact of fiscal transfers (DAU, DAK, DBH) and Local Own-Source Revenue (PAD) on HDI at the provincial level in Indonesia, while also investigating the moderating role of fiscal accountability, as measured by the Government Agency Performance Accountability System (SAKIP) and internal audit scores (APIP).

Theoretically, this research contributes to the existing literature by integrating fiscal decentralization and governance quality perspectives in explaining regional development outcomes. Practically, the findings offer insights for policymakers to design more effective fiscal transfer policies and strengthen accountability mechanisms to optimize the use of public funds for enhancing community welfare.

LITERATURE STUDY

Previous studies have analyzed the impact of fiscal variables on community welfare, particularly through the HDI. Nawawi et al. (2021) found that PAD, Village Funds, and DAK for health and education positively impact HDI, while government spending on capital, labor, and resources negatively affects it. In Riau Province, fiscal balance funds, especially Physical and Non-Physical DAK, were found to improve human health and education. Meanwhile, DBH, DAU, and Non-Physical DAK significantly influence living standards (Purba et al., 2023). However, Physical DAK has a negative impact on social welfare, mainly due to issues such as delayed reporting (Khoirunisa & Sulaeman, 2022). Research by Sulastri & Efendri (2021) further showed that PAD positively affects HDI, while DAU and DAK have a negative impact due to suboptimal infrastructure spending. Additionally, DBH's impact on HDI was found to be insignificant, primarily due to uneven allocation across regions.

Beyond fiscal allocations, the variation in HDI across regions is also shaped by distinct governance characteristics, particularly accountability mechanisms. Regions with stronger accountability frameworks, as reflected in APIP and SAKIP scores, are better positioned to manage fiscal resources efficiently, leading to better human development outcomes (Barbosa et al., 2019; Dwiyanto, 2015; Habibi, 2020; Oktarina & Mustam, 2018). The role of internal supervision (APIP) and performance-based management (SAKIP) becomes increasingly crucial in ensuring that fiscal resources are translated effectively into community welfare improvements.

However, much of the existing literature still treats fiscal transfers as independent drivers of HDI without adequately considering the moderating role of governance quality. Studies also tend to aggregate fiscal transfers, overlooking the specific contributions of each transfer type to different dimensions of human development. Research gaps further extend to the lack of analysis on how the effectiveness of fiscal transfers varies between high-accountability and low-accountability regions.

Although several investigations have assessed the influence of fiscal capacity on capital expenditures (Maula et al., 2023; Malau et al., 2022), these studies primarily focus on budget allocation efficiency rather than broader human development outcomes. Similarly, while accountability indicators such as APIP scores, SAKIP evaluations, audit opinions, and BPK audit findings have been associated with improvements in financial management and regional economic performance (Ferryono et al., 2022; Bakri et al., 2024), few studies have integrated these governance dimensions into examining the direct impact of fiscal transfers on HDI.

Supporting this view, research by Alfiyah Agus Salim demonstrates that consistent APIP scores lead to improved financial reporting and greater accountability, while Lestary Sukimon and Anwar emphasize the role of human resource competence in the success of SAKIP. Bakri et al. (2024b) also highlight that bureaucratic reform initiatives, grounded in strong accountability mechanisms, promote transparency and enhance public service delivery. The World Bank (2005)

further underscores that effective fiscal transfers, whether conditional or unconditional, are critical to addressing regional development needs.

This study aims to address these gaps by systematically examining how accountability influences the management of regional fiscal transfers and local revenue generation and by analyzing their combined effects on variations in HDI across Indonesian provinces. By focusing on the interaction between fiscal management quality and human development outcomes, this research seeks to offer deeper insights into strategies for enhancing community welfare through better governance and financial oversight.

RMETHOD

This study adopts a quantitative approach, applying a panel data analysis technique to investigate the relationship between fiscal variables and community welfare as measured by the Human Development Index (HDI). Specifically, the study employs a Fixed Effect Model (FEM) Regression with a multiple regression analysis (MRA) framework, which is suitable for panel data with potential unobserved heterogeneity across provinces and years. To further assess the moderating effect of governance variables such as SAKIP and APIP, Moderated Regression Analysis (MRA) is also conducted through interaction term testing. Model selection tests, including the Chow Test and the Hausman Test, were performed to ensure the appropriateness of the Fixed Effect Model over the Common Effect Model (CEM) and the Random Effect Model (REM). Logarithmic transformations were applied to fiscal variables to stabilize variance and reduce potential heteroscedasticity issues.

The population of this study includes all districts and cities (kabupaten/kota) in Indonesia, totaling 508 administrative regions. The sampling technique used is census sampling, where the entire population was observed without selecting only a subset, in order to achieve comprehensive coverage. Panel data was collected from the years 2019 to 2023, resulting in 2,540 observations (508 regions × 5 years). A detailed breakdown of each variable can be found in Table 1.

Table 1. Detail of Variables

Variable	Definition	Category	Source
<i>HDI</i>	An indicator used to measure the achievement of human quality of life development in a region	Dependent	Central Bureau of Statistics
<i>DAU</i>	Annual value of the General Allocation Fund (DAU) in rupiah	Independent	Ministry of Finance (BPS)
<i>DAK</i>	Annual value of the Special Allocation Fund (DAK) for environmental expenditures in rupiah	Independent	Ministry of Finance (BPS)
<i>DBH</i>	Annual value of the Revenue Sharing Fund (DBH) in rupiah	Independent	Ministry of Finance (BPS)
<i>PAD</i>	Total revenue generated by local governments from local taxes, regional levies, and the management of regional assets	Independent	Ministry of Finance (BPS)
<i>SAK</i>	Accountability Index (0-100)	Control	Central Bureau of Statistics
<i>APP</i>	Internal Control Index (0-4)	Control	Government Internal Auditor

Source: BPS, Ministry of Finance, and Government Internal Auditor, 2024

To determine the appropriate model, we conducted a Chow test, which revealed a chi-square cross-section probability of 0.00 (<0.05), suggesting that the fixed effect model (FEM) was more suitable. A Hausman test further confirmed this, with a probability of 0.00 for the random effect model, reinforcing the choice of the FEM. This decision was based on the presumed correlation between independent variables and unobserved factors like geographical conditions (Bakri et al., 2022). They argue that fixed effects are ideal for analyzing policies with aggregated data. Thus, we employed this study's regression model:

$$HDI = \beta_0 + \beta_1 \log DAU_{it} + \beta_2 \log DAK_{it} + \beta_3 \log DBH_{it} + \beta_4 \log PAD_{it} + \beta_5 X_{it} + \varepsilon_{it}$$

where HDI is the human development index; LogDAU is the logarithm of DAU; LogDAK is the logarithm of DAK; LogDBH is the logarithm of DBH; LogPAD is the logarithm of revenue generated by local government; and X is control variables consist of SAK and APP. Logarithmic functions are employed in specific variables due to the extensive range of these variables.

RESULT

The descriptive statistics in Table 2 provides a summary of key variables, including the dependent variable and several independent and control variables, used in this study. The Human Development Index has a mean value of 4.24, with a standard deviation of 0.09, reflecting a narrow range of values between 3.42 and 4.48. The General Allocation Fund shows a mean of 27.19 and a standard deviation of 0.37, with values ranging from 26.16 to 28.45, indicating relatively stable distribution. The Special Allocation Fund has a mean of 25.99 and a slightly higher standard deviation of 0.50, spanning from 24.36 to 27.46. The Revenue Sharing Fund has a mean value of 24.67 and a standard deviation of 1.20, with a range from 22.50 to 28.93. The local revenue generation has a broader range with a mean of 25.54 and a standard deviation of 1.19, between 21.67 and 29.47. The Accountability Index averages 2.85 with a standard deviation of 0.47, while the Internal Control Index has a mean of 2.66 and a standard deviation of 0.57, ranging from 1.00 to 4.00. These descriptive statistics provide an overview of the distribution of each variable and contribute to understanding their relationships and variability in the context of the study.

Table 2. Statistic Descriptive

Variable	Obs	Mean	Std. Dev.	Min	Max
HDI	2540	4.24	0.09	3.42	4.48
PAD	2540	25.54	1.19	21.67	29.47
DAU	2540	27.19	0.37	26.16	28.45
DAK	2540	25.99	0.50	24.36	27.46
DBH	2540	24.67	1.20	22.50	28.93
SAK	2540	2.85	0.47	0.96	4.00
APP	2540	2.66	0.57	1.00	3.00

Source: Processed by Author, 2025

While the descriptive statistics in Table 2 provide an overview of the central tendencies and variability of each variable, the correlation matrix in Figure 2 helps to identify the strength and direction of the relationships between Human Development Index and other variables. This additional analysis allows for a deeper understanding of how each variable interacts with Human Development Index, highlighting the relative weak correlations with local revenue generation, the General Allocation Fund, the Special Allocation Fund, the Revenue Sharing Fund, the Accountability Index, and the Internal Control Index. Together, these tables provide a comprehensive view of both the distribution and interdependencies of the variables, which will inform the interpretation of the study's findings.

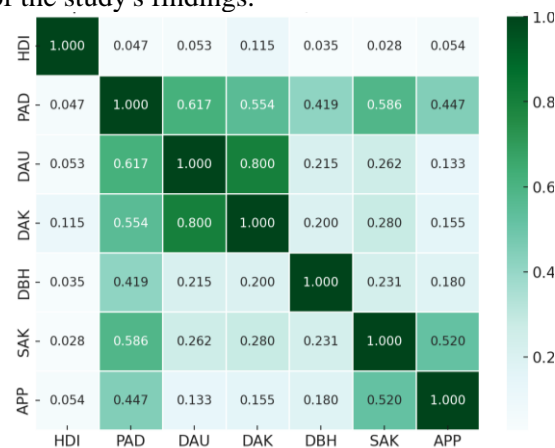


Figure 2. Correlation Matrix

Source: Processed by Author, 2025

The correlation matrix indicates the relationships between Human Development Index and other variables. Human Development Index is weakly correlated with local revenue generation, showing a correlation of 0.047, which suggests a minimal relationship between these two variables. There is a similarly weak, positive correlation between Human Development Index and the General Allocation Fund at 0.053, indicating that changes in the General Allocation Fund are slightly associated with Human Development Index. The correlation between Human Development Index and the Special Allocation Fund is 0.115, which remains low but slightly stronger compared to the General Allocation Fund and local revenue generation.

Furthermore, the Revenue Sharing Fund shows a very weak correlation of 0.035 with Human Development Index, highlighting almost no direct relationship between these variables. The Accountability Index is similarly weakly correlated with Human Development Index at 0.028, while the Internal Control Index shows a weak positive correlation of 0.054. Overall, these correlations suggest that while some variables have a slight positive relationship with Human Development Index, the correlations are relatively weak, implying that other factors might be more significant in influencing Human Development Index.

Table 3. FEM Regression Result

Variable	CEM	REM	FEM
<i>Dependent Variable: Human Development Index</i>			
PAD	0.016*** (0.000)	0.015*** (0.000)	0.016*** (0.000)
DAU	-0.003 (0.754)	-0.002 (0.753)	-0.004 (0.757)
DAK	0.040*** (0.000)	0.040*** (0.000)	0.042*** (0.000)
DBH	0.006*** (0.000)	0.006*** (0.000)	0.007*** (0.000)
SAK	0.008 (0.136)	0.009 (0.137)	0.011 (0.136)
APP	0.005 (0.172)	0.004 (0.171)	0.006 (0.172)
Constant	3.495	3.509	3.495
Observation	2540	2540	2540
Chow Test	FEM		
Hausman Test	FEM		
Year effect	Yes	Yes	Yes
Prov effect	Yes	Yes	Yes

Source: Processed by Author, 2025

In the FEM regression results as shown in Table 3, the independent variables have varying levels of significance in explaining the HDI. The local revenue generation has a positive and significant effect on HDI, with a p-value of 0.000, indicating a strong relationship between the two variables. Similarly, the DAK also has a significant positive effect on HDI, with a p-value of 0.000. This suggests that higher allocations from DAK contribute positively to improving human development in the regions studied. The DBH also shows a significant positive relationship with HDI, with a p-value of 0.000, further emphasizing the importance of intergovernmental transfers in supporting human development outcomes.

Meanwhile, the DAU has no significant effect on HDI, as evidenced by the p-value of 0.757, which is well above the 0.05 threshold for statistical significance. This indicates that variations in DAU do not significantly influence human development in the regions under consideration. Similarly, the Accountability Index (SAK) and the Internal Control Index (APP) show positive relationships with HDI, but their p-values of 0.136 and 0.172, respectively, suggest that these variables do not have a statistically significant impact on HDI at conventional significance levels.

Table 4 presents the results of the Fixed Effects Model (FEM) with bootstrap sampling conducted 500 times, which enhances the robustness of the findings. The focus of this table is on the moderation effect of the General Allocation Fund (DAU) on the Human Development Index (HDI) through the Accountability Index (SAK) and the Internal Control Index (APP). In row (1), the results show that when DAU is moderated by SAK, it has a significant positive effect on HDI, with a p-value of 0.024. This indicates that higher accountability, as measured by SAK, strengthens the positive impact of DAU on human development. In row (2), the moderation of DAU by APP also shows a positive and statistically significant effect on HDI, with a p-value of 0.089, suggesting that internal control, represented by APP, further enhances the effect of DAU on HDI, although the significance is slightly weaker compared to the moderation by SAK.

These results highlight that the relationship between DAU and HDI is influenced by the levels of accountability and internal control in the regions. This finding suggests that DAU alone may not be sufficient to improve human development outcomes unless accompanied by strong institutional frameworks, such as effective accountability and internal control.

Table 4.
Moderating Regression with Bootstrap Result

Variable	(1)	(2)
<i>Dependent Variable: Human Development Index</i>		
PAD	0.015*** (0.003)	0.015*** (0.000)
DAU	0.124*** (0.008)	0.123*** (0.000)
DAK	0.037*** (0.009)	0.036*** (0.000)
DBH	0.006*** (0.001)	0.006*** (0.000)
SAK	0.787** (0.025)	0.786** (0.012)
APP	0.368 (0.237)	0.366* (0.085)
DAUxSAK	0.029** (0.024)	
DAUxAPP		0.013* (0.089)
Constant	3.495	3.509
Observation	2540	2540
Year effect	Yes	Yes
Prov effect	Yes	Yes

Source: Processed by Author, 2025

DISCUSSIONS

The transfer of fiscal resources through various funds such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue Sharing Fund (DBH) plays a critical role in enhancing regional economic development (Bakri et al., 2024). These transfers directly contribute to improving regional financial capacities, enabling local governments to provide better public services and infrastructure. Research indicates that fiscal decentralization, marked by the distribution of fiscal resources to local governments, positively influences economic growth. This finding is backed by various studies showing that increased funding, particularly in sectors like education and infrastructure, significantly boosts the Gross Regional Domestic Product (PDRB) and fosters regional economic advancement, which is largely directed toward educational improvements, holds the highest coefficient in contributing to regional economic growth, underlining the importance of investing in human capital as a means to elevate the Human Development Index (HDI).

Moreover, the management of these transfers can be enhanced through strong accountability measures. The role of accountability in managing fiscal transfers is crucial, as it ensures that funds are used efficiently to support local economic development. A well-managed accountability framework, such as the Government Agency Performance Accountability System (SAKIP), significantly contributes to improving governance and promoting better economic outcomes. As emphasized in recent studies, regions with higher accountability, such as those with robust internal audit systems (APIP), demonstrate a more substantial impact on their economies. When fiscal transfers are optimized through efficient management, they lead to the creation of jobs, higher per capita income, and ultimately, improvements in HDI .

Additionally, the link between fiscal transfers and HDI enhancement is contingent on the proper implementation and oversight of these funds. While fiscal transfers are vital, the effectiveness of these resources hinges on reducing corruption and ensuring transparency in their allocation. The study found that audit findings, which reflect discrepancies in financial management, have a negative impact on economic growth, indicating that corruption hinders the effective use of these funds. By strengthening governance structures and improving accountability measures, regions can maximize the potential benefits of fiscal transfers, thus driving regional development and elevating the living standards of their populations .

Accountability efforts aim to bring about fundamental changes to the governance system. The social dynamics necessary for organizational growth require continuous assessments to ensure that the services provided align with the principles of good governance, particularly in terms of institutional structure, business processes, and human resource management. Effective accountability plays a critical role in establishing a robust bureaucratic system. Strong support from government leaders is crucial for the successful implementation of accountability initiatives, which can enhance bureaucratic performance both at the central and regional levels (Nairobi, 2021). A well-implemented accountability framework can foster economic growth, as indicated by the positive correlation between accountability measures and GDP observed in this study.

Complex bureaucratic practices often facilitate widespread corruption within institutions. When corruption infiltrates infrastructure projects or business-oriented programs, it can slow down economic progress. Furthermore, if corruption affects financial institutions or fiscal collection and distribution systems, it can severely diminish state revenues, negatively impacting the macroeconomy. This suggests that when regional finances are not optimally utilized due to corrupt practices, economic development is hindered. These findings are consistent with research by Rustan and Kusumaningrum (2016), which shows that effective accountability systems positively influence regional economic growth.

CONCLUSION

The study concludes that fiscal transfers, including DAU, DAK, and DBH, play a significant role in enhancing regional economic development and improving HDI across Indonesian provinces. While PAD demonstrates a strong positive impact on HDI, the effect of DAU remains insignificant. The study also highlights the crucial role of accountability and internal control systems in optimizing the management of these fiscal resources. When regions implement robust accountability measures, particularly through SAKIP and APIP, the positive effects of fiscal transfers on HDI are strengthened. However, the study also underscores the negative impact of corruption and inefficiencies in fiscal management, which can hinder the effectiveness of these funds, emphasizing the need for stronger governance and transparent financial management to fully leverage fiscal transfers for regional development and improved community welfare.

This research answers the questions raised in the introduction by confirming that while fiscal transfers contribute positively to HDI, their effectiveness greatly depends on the quality of fiscal governance and accountability at the regional level. The findings emphasize that PAD and DAK are critical drivers of human development, whereas DAU's limited impact suggests that unconditional fiscal transfers alone are insufficient without strong governance frameworks. From a policy perspective, the results advocate for enhancing fiscal accountability systems, such as SAKIP and APIP, across all provinces to maximize the developmental benefits of fiscal decentralization. Efforts to combat corruption, improve financial transparency, and strengthen

institutional oversight should be prioritized to ensure fiscal resources are effectively utilized to promote community welfare.

A limitation of this research is the focus on a five-year period, which may not fully capture long-term trends or the broader impact of fiscal transfers on regional development. Future studies are encouraged to explore longer time spans and examine additional governance factors, such as political stability and administrative capacity, to provide a more comprehensive understanding of the long-term dynamics between fiscal policy and human development outcomes.

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