

ABSTRACT

Indonesia's fiscal decentralization that has been going on since 2001 has not fully realized equitable regional fiscal independence, as reflected in the fact that more than 60% of districts/cities are still low fiscal capacity according to PMK No. 65 of 2024, while the transfer of DAU, DAK, and DBH continues to increase but has not been effective in reducing fiscal dependence. This study aims to analyze the influence of the three transfer instruments on regional fiscal independence, test asymmetric institutional moderation, and mapping fiscal capacity in terms of revenue and expenditure.

This study uses a quantitative approach with regression of Two-Way Fixed effects (TWFE) panel data in 508 districts/cities in Indonesia during the period 2018–2024 with clustered robust standard error. The main dependent variable is the ratio of PAD to ADHK GDP as a proxy for tax effort. The main independent variables consisted of the natural logarithmic ratio of DAU, DAK, and DBH to regional spending, as well as the interaction of DAU with Special Autonomy dummies (Aceh and Papua) and Special Autonomy dummies (DIY). Control variables include GDP per capita, population size, and regional age. The analysis is complemented by the Expenditure Decentralization Index (ED2) as an indicator of fiscal independence in terms of spending, simulation of the need to increase PAD, and mapping the KF–ED2 quadrant.

The results of the study showed that DAU was negatively and significantly related to regional fiscal independence which reflected the flypaper effect. DAK has no significant effect on fiscal independence because of its earmarked nature so that it does not have a direct impact on PAD. DBH is also negatively and significantly related to the phenomenon of fiscal resource curse. The interaction of DAU with Special Autonomy and Special Privilege status is positively and significantly related, showing that asymmetric decentralization is able to reduce the negative impact of transfers on fiscal independence. GDP per capita and population are negatively and significantly correlated, while regional age is positively and significantly correlated which reflects institutional maturity. Policy simulations show that 99.69% of regions still need an increase in PAD in the heavy category to achieve minimum independence, while more than 91% of regions have very low spending autonomy.

Keywords: *Fiscal Independence, Fiscal Decentralization, Intergovernmental Fiscal Transfers, Tax effort, Expenditure Decentralization*

JEL Classification: H71, H77, H72, C23, R51