

THE EFFECT OF CENTRAL GOVERNMENT TRANSFER FUNDS ON REGIONAL FINANCIAL INDEPENDENCE

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ABSTRACT

Effective and efficient governance is one of the primary goals in state administration, particularly in the context of decentralization and regional autonomy. Decentralization serves as a strategic policy that grants local governments the authority to independently manage governmental affairs and local resources. This study aims to analyze the influence of Special Allocation Funds (DAK), General Allocation Funds (DAU), and Revenue Sharing Funds (DBH) on regional financial independence in the City of Baubau. The research is motivated by the crucial role of central government transfer funds in supporting the implementation of regional autonomy and enhancing the fiscal capacity of local governments. This study employs a quantitative approach using multiple linear regression analysis. The data utilized are secondary, consisting of regional revenue budget realization reports for the City of Baubau from 2014 to 2024. Testing was conducted through partial tests (t-test), simultaneous tests (F-test), and coefficient of determination tests (R²). The results indicate that partially, Special Allocation Funds (DAK) and General Allocation Funds (DAU) have no significant influence on regional financial independence, while Revenue Sharing Funds (DBH) have a significant influence. However, simultaneously, DAK, DAU, and DBH do not significantly affect regional financial independence. The Adjusted R-Squared value of 0.313 shows that the three independent variables explain only 31.3% of the variation in regional financial independence, with the remainder influenced by other factors outside the research model.

INTRODUCTION

Indonesia is a country with a diverse population that values diversity over uniformity, given its rich mix of cultures, races, and religions. Indonesia is one of the largest Islamic countries in the world. In other words, Indonesian Muslims have a great need for everything that is halal, including Sharia law in Islamic economics. Therefore, economic interactions within society cannot be separated from the existence of financial institutions that function as channels for distributing funds to the community or customers. As a result, banks continue to play a strategic role, particularly as intermediaries and supporters of the payment system at the local, national, and international levels.

Effective and efficient governance is one of the main objectives in state administration, especially in the context of decentralization and regional autonomy. Decentralization is a strategic policy that gives local governments the authority to independently regulate and manage government affairs and local resources. Since the enactment of Law Number 23 of 2014 concerning Regional Government and Law Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments, the policy of decentralization has become an integral part of the Indonesian government system (Iskandar et al.,2024) . The main objectives of this policy are to improve bureaucratic efficiency, accelerate regional development, and reduce economic disparities between regions (Adhiatmoko, 2020) .

One of the main aspects of decentralization is fiscal decentralization, which gives regions the authority to manage their own budgets and revenue sources. Fiscal decentralization aims to increase regional independence in financing development and providing public services. Under this concept, regions are responsible for optimally exploring their economic potential to finance development and public service needs. However, in its implementation, fiscal decentralization still faces various challenges, one of which is the low level of regional financial independence (Halimi, 2020) .

In the context of regional finance, the main sources of revenue consist of Local Own-Source Revenue (PAD) and transfer funds from the central government. PAD reflects the capacity of the region to optimize local resources through local taxes, local levies, proceeds from the management of regional assets, and other legitimate sources of revenue. Meanwhile, transfer funds from the central

government consist of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH), which aim to support regions in running their administrations and reducing fiscal disparities between regions (Kuswanto, 2021) .

Although transfer funds from the central government are intended to support regional administration, high dependence on these funds can be an obstacle for regions in achieving fiscal independence (Wa Kumala Sari et al., 2025) . Ideally, regions with high PAD show a better level of independence, but in practice, many regions still experience dependence on transfer funds. This dependence has the potential to reduce incentives for regions to develop their local economic potential (Susilo, 2019) .

The fiscal decentralization policy, which is regulated in Article 18 paragraph (2) of the 1945 Constitution and reinforced by Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regions, mandates that regions must be able to manage their own finances and resources. However, to date, the implementation of this policy still faces obstacles, especially in efforts to increase PAD, which is still highly dependent on fund transfers from the central government. This raises questions about the effectiveness of fiscal decentralization in increasing regional fiscal capacity (Setiawan, 2022) .

Regional independence reflects the capacity of local governments to finance their own governmental activities, development, and services to the community, using taxes and levies as their main sources of revenue (Halim, 2022) . Each region has the opportunity to optimize its resource potential so that it can reduce its dependence on external parties (Malau and Simarmata, 2020) .

Law Number 33 of 2004 concerning Financial Balance states that balance funds come from state budget revenue. These funds are allocated to regions to finance the implementation of decentralization. Djaenuri (2020:100) states that transfer funds or balance funds come from the state budget. These funds are used to support the authority of regional governments. The aim is to improve services and community welfare.

Various previous studies have discussed the effect of transfer funds on regional financial independence. Research conducted by Ginting et al. (2019) in *the Indonesian Treasury Review* shows that although balance funds contribute to regional development, high dependence on these funds can actually hinder regional innovation in exploring other sources of income. Some regions are able to manage transfer funds well to improve economic development, while others experience stagnation and remain dependent on fiscal assistance from the central government.

Fiscal independence remains a major challenge. Based on the 2019 Local Government Financial Report (LKPD), the realization of Baubau City's own-source revenue (PAD) was recorded at IDR 85,976,625,925, while transfer revenue from the central government reached IDR 725,111,585,050. Thus, the regional financial independence ratio was only 11.86%, indicating a very high level of fiscal dependence. This indicates that Baubau City's PAD is still unable to become the main source of revenue in the Baubau City Regional Budget (APBD), and dependence on transfer funds from the central government remains dominant.

Another problem is the limited potential of PAD that can be maximized, considering that Baubau City faces several challenges in improving revenue sectors such as local taxes, local levies, and management of local assets. The limited capacity to tap into this local potential is one of the major obstacles to increasing the fiscal independence of Baubau City. Data from the Baubau City Regional Financial Information System (SIKD) shows that despite an increase in PAD every year, dependence on transfer funds remains very high.

This study focuses on the influence of central government transfer funds on regional financial independence, particularly in Baubau City, which is still highly dependent on transfer funds. Most previous studies have focused more on the provincial or national level, while Baubau City, which has a low independence ratio and high dependence on transfer funds, has not been studied in depth. This study uses the latest financial data from the Baubau City Regional Financial Information System (SIKD) for the period 2019-2022 and explores whether Transfer Funds, Dak, and DAU have an impact on regional financial independence.

Based on this background, the author is interested in conducting research entitled **"The Effect of Transfer Funds from the Central Government on Regional Financial Independence."**

METHOD

This research is quantitative research, based on positivism philosophy. This method is used to examine a specific population or sample by collecting data through research instruments and quantitative analysis to test hypotheses. Samples are usually taken randomly so that the research results can be generalized. This approach emphasizes the cause-and-effect relationship between **independent variables** (causes) and **dependent variables** (effects) and aims to determine the extent of the influence of independent variables on dependent variables (Sugiyono, 2020) .

The research was conducted on the local government of Baubau City. The research was carried out by obtaining financial data at the office of the regional financial and asset management agency (BPKAD) of Baubau City, Jl. Raya Palagimata, Kel. Lipu, Kec. Betoambari. The research period was planned from the preparation of the proposal to the completion of the research, namely from February to April 2025.

RESULTS & DISCUSSION

Local Financial Independence Ratio

To determine the level of regional financial independence, the regional financial independence ratio can be calculated using the following formula:

$$\text{Independence Ratio} = \frac{\text{Local Own-Source Revenue}}{\text{Total transfer income}} \times 100\%$$

Based on the calculation of the regional financial independence ratio, the following results were obtained:

Table 1. Baubau City Regional Financial Independence Ratio for Fiscal Years 2014-2024 (in Rupiah)

Year	Local revenue	Total transfer revenue	%
2014	54,989,798,633.62	531,708,705,459.00	10.34
2015	57,507,651,379.05	653,045,648,039.00	8.81
2016	69,323,259,732.12	677,862,112,929.00	10.23
2017	106,399,876,657.36	690,938,997,212.00	15.40
2018	67,321,910,993.00	673,519,373,831.00	10.00
2019	85,976,625,925.00	725,111,585,050.00	11.86
2020	87,011,274,771.75	656,665,494,949.00	13.25
2021	95,566,805,178.00	675,622,057,371.00	14.14
2022	107,048,315,216.00	703,504,171,740.00	15.22
2023	103,131,261,338.00	757,472,383,200.00	13.62
2024	128,096,078,559.00	766,492,876,307.00	16.71
Average			12.69

Data source: Baubau City BPKAD (data processed in 2025)

Based on these calculations, it can be seen that the financial independence ratio of the Baubau City Government over the last 11 years (2014-2024) shows an average of 12.69%, which means that the independence of the Baubau City Government is very low. This can be seen in 2015, which had the lowest level of financial independence compared to other years, namely 8.81%. The factor causing the low financial independence of the Baubau City Regional Government in 2015 was the low ability to collect PAD, which amounted to IDR 57,507,651,379.05, while transfers from the central government amounted to IDR 653,045,648,039.00. This shows that Baubau City was unable to implement regional autonomy independently, as the growth of Baubau City's PAD in 2015 was relatively low, meaning that potential sources of PAD such as local taxes, local levies, and other revenues had not been managed optimally. Meanwhile, the highest level of financial independence

was in 2014, which was 16.71%, where in 2024 the growth of Baubau City's PAD increased by 122.76% from 2015, which was Rp.128,096,078,559.00. This shows that the potential of PAD sources such as local taxes, local levies, and other legitimate revenues has been managed optimally, but this value still indicates that the financial capacity of the Baubau City Government is very low. Based on the independence ratio calculation, this shows that the financial capacity of the Baubau City Government from 2014 to 2024 is in the instructive category, which is one of the classifications of regional financial independence, namely a condition where the regional government is still very dependent on fund transfers from the central government to finance regional needs in the range of 0-25%. This shows that the role of the Central Government is greater than the independence of the Regional Government. This means that the Baubau City Government is still very dependent on balancing funds from the center.

Descriptive Statistical Test

Descriptive statistical analysis aims to describe the characteristics of the variables studied based on the research sample data. Based on the results of the descriptive statistical test attached in Appendix 2, the following is an explanation of the results of the descriptive statistical analysis.

Table 2. Descriptive Statistics Test

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Standard Deviation
Special Allocation Fund	11	41601960000	222,998,594,824	142195436299.64	4,288,331,563.95
General Allocation Fund	11	465,583,877,000	544316526798	502244260348.82	25842592648.254
Revenue Sharing Fund	11	13202353919	970,674,868.37	368,278,881,743,600	262,298,628,956.27
Regional Financial Independence	11	881	1671	1,269.09	260,361
Valid N (listwise)	11				

Source: data processed with SPSS 26

Special Allocation Fund (DAK) Variable

Statistical analysis shows that the DAK variable (X1) during 2014-2024 reached its lowest value in 2014 at IDR 41,601,960,000 and its maximum value in 2024 at IDR 222,998,594,824. The meanmean of DAK during 2014-2024 was IDR 142,195,436,299 with a standard deviation of IDR 42,883,315,639. If the standard deviation or standard deviation is lower than the average, this indicates that the distribution of **the Special Allocation Fund (DAK)** variable data is relatively good and even.

General Allocation Fund (DAU) variable

Statistical results show that the DAU variable (X2) during 2014-2024 reached its lowest value in 2014 at IDR 465,583,877,000 and its maximum value in 2024 at IDR 544,316,526,798. The mean value of DAU during 2014-2024 was Rp 502,244,260,348 with a standard deviation of Rp 25,842,592,648. If the standard deviation or standard deviation is smaller than the mean, this indicates that the distribution of variable data is relatively even.

Revenue Sharing Fund (DBH) Variable

Statistical analysis shows that **the Revenue Sharing Fund (X3)** variable during 2014-2024 reached its lowest value in 2017 at IDR 13,202,353,919 and its maximum value in 2022 at IDR 97,067,468,837. The mean value of (mean) of DBH during 2014-2024 was Rp 36,827,888,174 with a standard deviation of Rp 26,229,862,895. If the standard deviation or standard deviation is lower than the average, this indicates that the distribution of **the Revenue Sharing Fund (DBH)** variable data is relatively good and evenly distributed.

Regional Financial Independence

The results of descriptive statistical analysis show the dependent variable in this study, namely **the level of regional financial independence**. (Y) has a minimum value in 2015 of 8.81 and a maximum value in 2014 of 16.71, while the average (mean) from 2014 to 2024 is 12.69% with a

standard deviation of 2.60%. Because the standard deviation or standard deviation is lower than the average, the distribution of data on the level of regional financial independence is relatively good.

Classical Assumption Test

Normality Test

The distribution of dependent and independent variables in the regression model is determined to be normal or non-normal using a normality test (Ghozali, 2018). Normality Test In this study, the One-Sample Kolmogorov-Smirnov test was used by reviewing the Exact P-Values significance values. Residuals are considered normally distributed if the significance value is greater than 0.05. Conversely, if the residual value is below 0.05, the residual is considered not normally distributed (abnormal).

**Table 3. Normality Test
One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		11
Normal Parameters ^{a,b}	Mean	.000000
	Std. Deviation	180.58626776
Most Extreme Differences	Absolute	.122
	Positive	.122
	Negative	-,110
Test Statistic		.122
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: data processed with SPSS 26

Table 4.3 shows the unstandardized residual values with a significance value of 0.200, which is greater than 0.05, meaning that the research data meets the normality test requirements.

Multicollinearity Test

The purpose of the multicollinearity test is to evaluate the regression model to determine whether the independent variables are related to each other. The regression model is considered feasible if the Tolerance value is greater than 0.01 and the VIF is less than 10, and it is not feasible if the Tolerance value is less than 0.01 and the VIF is greater than 10 (Ghozali, 2018).

**Table 4. Multicollinearity Test
Coefficients^a**

Model		Collinearity Statistics	
		Tolerance	VIF
1	Special Allocation Fund	.723	1,383
	General Allocation Fund	,725	1,379
	Revenue Sharing Fund	,987	1,013

a. Dependent Variable: Regional Financial Independence

Source: data processed with SPSS 26

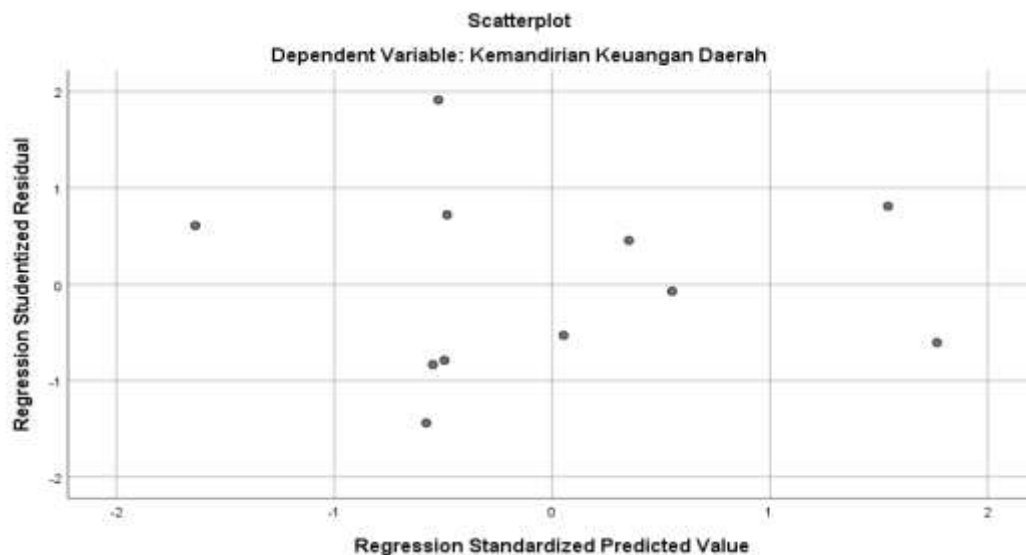
The results of the multicollinearity test show that for the three independent variables, the tolerance value for the DAK variable is 0.723, which is greater than 0.01, DAU is 0.725, which is greater than 0.01, and DBH is 0.987, which is greater than 0.01. Meanwhile, for the VIF values, the DAK variable is 1.383, which is less than 10, DAU is 1.379, which is greater than 10, and DBH is

1.013, which is less than 10. It can be concluded that there is no significant correlation between the independent variables, or that this model is free of multicollinearity.

Heteroscedasticity Test

The heteroscedasticity test aims to determine whether the research model experiences unequal residual variance between observations. The test was conducted using a scatterplot. The decision was made by looking at the pattern of the points: if the points are scattered randomly above and below the 0 line on the Y-axis without forming a specific pattern, then the model does not show symptoms of heteroscedasticity (Ghozali, 2018).

Table 5. Heteroscedasticity test



Source: data processed with SPSS 26

The results of the heteroscedasticity test indicate that the scatterplot points are widely scattered above and below the 0 mark on the Y-axis, suggesting that there is no evidence of heteroscedasticity, thus meeting the classical assumption test requirements.

Autocorrelation Test

Autocorrelation testing means that there is a correlation between sample members or observation data sorted by time, so that one data point is influenced by the previous data point. This test aims to determine whether or not there is a correlation between the errors that appear in data sorted by time (time series). A good model must be free of autocorrelation. The autocorrelation test uses the Durbin-Watson model. The Durbin-Watson statistical test checks that there is no autocorrelation in the residual values. The Durbin-Watson test criteria are as follows: If the DW number is < -4 , there is positive autocorrelation. If the DW number is between -4 and 4 , there is no autocorrelation. If the DW number is > 4 , there is negative autocorrelation.

**Table 6. Autocorrelation Test
Model Summary^b**

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	.720 ^a	.519	.313	215,835	2,487

a. Predictors: (Constant), Revenue Sharing Funds, General Allocation Funds, Special Allocation Funds

b. Dependent Variable: Regional Financial Independence

Source: data processed with SPSS 26

Based on Table 4.6, the Durbin Watson (DW) value is 2.487. Based on the predetermined criteria, the DW value is between -4 and 4 , so there is no autocorrelation. Therefore, the conclusion is that

the Autocorrelation Test is satisfied.

Multiple Linear Regression Test

The multiple linear regression model test is a test used to estimate or predict the value of the dependent variable (Y) by taking into account the independent variables (Zahidah & Dientri, 2020).

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	65.908		,046	,965
	Special Allocation Fund	1.743E-9	,287	,931	,383
	General Allocation Fund	1.425E-9	,141	,459	,660
	Revenue Sharing Fund	6.508E-9	,656	2,485	,042

a. Dependent Variable: Regional Financial Independence

Source: data processed with SPSS 26

The results of the multiple linear regression analysis can be seen in the following multiple linear regression equation:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3$$

$$Y = 65.908 + 1.743 + 1.425 + 6.508$$

Based on Table 4.4, it can be explained as follows: The constant of **65.908** indicates the level of regional financial independence when the independent variables of **Special Allocation Funds (DAK)**, **General Allocation Funds (DAU)**, and **Revenue Sharing Funds (DBH)** have no effect. This means that if the values of the three independent variables are zero, the level of regional financial independence remains at 65.908. **The Special Allocation Fund (X1)** variable has a regression coefficient of **1.743**, which means that every one unit increase in DAK will increase the level of regional financial independence by 1.743, assuming that the other independent variables remain constant. **The General Allocation Fund (X2)** variable has a regression coefficient of **1.425**, which indicates that every one-unit increase in DAU will decrease the level of regional financial independence by 1.425, assuming other independent variables remain constant. **The Revenue Sharing Fund (X3)** variable has a regression coefficient of **6.508**, which indicates that every one-unit increase in DBH will decrease the level of regional financial independence by 6.508, assuming other independent variables remain constant.

Hypothesis Testing

Partial Test (t)

The partial test is used according to Chandarin (2017) to determine the extent of the influence of independent variables on dependent variables. If the significance value is 0.05, this indicates that although the independent variable has an influence, it is **not** statistically **significant** on the dependent variable.

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	65.908		,046	,965
	Special Allocation Fund	1.743E-9	,287	,931	,383
	General Allocation Fund	1.425E-9	,141	,459	,660
	Revenue Sharing Fund	6.508E-9	,656	2,485	,042

a. Dependent Variable: Regional Financial Independence

Source: data processed with SPSS 26

The results of the t-test were used to assess the effect of the independent variable on the dependent variable with a test criterion at a level of $\alpha = 0.05$ and degrees of freedom $(df) = n - k - 1 = 11 - 3 - 1 = 7$, so that the table value was 1.895. The test results are explained as follows: Special Allocation Funds (DAK) have a significance value of 0.383 (> 0.05) and a t-value of 0.931 (< 2.365), so that DAK has a positive but insignificant effect on the level of regional financial

independence, with a negative direction of influence. General Allocation Funds (DAU) have a significance value of 0.660 (> 0.05) and a t-value of 0.459 (< 2.365), so that DAU has a positive but insignificant effect, with a negative direction on the level of regional financial independence. Revenue Sharing Funds (DBH) have a significance value of 0.042 (< 0.05) and a t-value of 2.485 (> 2.365), so that DBH has a positive and significant effect, with a positive direction of influence on the level of regional financial independence.

Simultaneous Test (F)

Simultaneous testing is used to test hypotheses **jointly**, so it is also called overall significance testing (Ghozali, 2018). If the analysis results show a **p-value** < 0.05 , then the regression model is considered **significant** at a 5% significance level. The F test is performed by comparing the **calculated F value** with the **table F value**, with the following criteria: **Ho is accepted** if the calculated F value is $<$ table F value (independent variables **do not** affect the dependent variable), **Ha is accepted** if the calculated F value is $>$ table F value (independent variables **affect** the dependent variable).

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	351,782.927	3	117,260.976	2,517	.142 ^b
Residual	326,093.983	7	46,584.855		
Total	677,876.909	10			

a. Dependent Variable: Regional Financial Independence

b. Predictors: (Constant), Revenue Sharing Funds, General Allocation Funds, Special Allocation Funds

Source: data processed with SPSS 26

The test results show that the **F-count** is 2.517 with a significance value of 0.142. Because the F-count is less than the F-table ($2.517 < 4.35$), it can be concluded that the **regression model is not simultaneously significant**, meaning that the independent variables **do not collectively influence** the level of regional financial independence.

Determination Coefficient Test

The coefficient of determination test is used to assess the extent to which independent variables affect dependent variables. The **R** value shows the overall strength of the influence, while the **R²** value describes how much the **independent variable (X) contributes** to explaining the change in the **dependent variable (Y)**.

Determination Coefficient Test (R²)

Model Summary ^b				
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	.720 ^a	.519	.313	215.835

a. Predictors: (Constant), Revenue Sharing Funds, General Allocation Funds, Special Allocation Funds

b. Dependent Variable: Regional Financial Independence

Source: data processed with SPSS 26

The results of the coefficient of determination test show that the Adjusted R-Squared value is 0.313. This means that the independent variables, namely DAK, DAU, and DBH, are able to explain the regional financial independence variable by 31.3%. Meanwhile, the remaining 68.7% is explained by other factors outside the scope of this study.

The Effect of Special Allocation Funds (DAK) on Regional Financial Independence

Based on the t-test results, the calculated t-value is 0.931 with a significance level of 0.383, which is greater than the significance level of 0.05. This means that DAK does not have a significant effect on regional financial independence in Baubau City. Thus, hypothesis H1 is rejected. The results of the study indicate that the Special Allocation Fund (DAK) does not have a significant effect on regional financial independence in Baubau City. This finding indicates that the allocation of funds that are specific and directed at financing national priority programs, such as infrastructure, health, and

education, has not been able to have a direct impact on increasing Local Own-Source Revenue (PAD) or the fiscal independence of Baubau City.

Theoretically, this can be explained through *Agency Theory*, in which local governments (agents) tend to be passive in exploring local fiscal potential because they feel secure with the existence of special transfer funds from the central government (principal). Due to the nature of DAK, which is very restricted in its use (earmarked grant), local governments do not have the flexibility to direct these funds to activities that can directly encourage an increase in PAD. Conversely, from the perspective of *Stewardship Theory*, local governments should be able to optimally utilize DAK for the benefit of the community. However, limited flexibility in its use has resulted in DAK making a weak contribution to fiscal independence.

The first problem formulation and research objective, which questioned the effect of DAK on regional financial independence, was answered with the conclusion that the effect was not significant. This finding is consistent with the research by Claudia Salindeho (2016) and Wulan Riyadi (2021), who found that DAK is not significant for regional spending or independence. However, this differs from the research by Anggi Pratama Nasution et al. (2018), who found that simultaneously, transfer funds have a significant effect on regional financial independence.

This study is in line with the findings presented by Simanjuntak (2022), who also stated that DAK does not have a significant effect on regional independence because it is not used to finance expenditure needs that can increase PAD. This insignificance could also be due to DAK allocations that do not reflect the actual fiscal needs of the region, or because the implementation of the program does not have a direct impact on increasing the fiscal capacity of the region.

These results indicate that although DAK is intended to finance national priority activities such as education and infrastructure, the use of these funds has not made a real contribution to increasing Local Own-Source Revenue (PAD) or fiscal independence. This is in line with agency theory, which states that local governments as agents have not optimally managed transfer funds for long-term interests. This study is also consistent with the findings of Satria Tradinatama (2023), which states that DAK has no effect on regional taxes and even reduces regional levies.

The implication is that dependence on DAK can actually create a *fiscal illusion*, where regions appear to have high revenues but are actually unable to finance development needs independently. Therefore, local governments need to direct the use of DAK not only to meet national targets but also as a catalyst that can stimulate local economic activity, which will ultimately strengthen the PAD base.

The Effect of General Allocation Funds (DAU) on Regional Financial Independence

The t-test results show a t-value of 0.459 and a significance level of 0.660, well above the 0.05 threshold. Thus, DAU (Special Allocation Fund) does not have a significant effect on regional financial independence, and hypothesis H2 is rejected.

High dependence on DAU actually creates passive fiscal behavior, whereby local governments do not make maximum efforts to explore the potential of PAD. This is in line with the Flypaper Effect theory, which states that transfer funds from the central government tend to be used more for routine spending than to encourage an increase in Local Own-Source Revenue (PAD). These results are in line with the research by Sari & Widodo (2021), which found that DAU does not have a significant effect on financial independence because its use is mostly directed at personnel expenditures. Thus, there is no real incentive for regions to increase their own sources of revenue.

DAU (General Allocation Funds) are *block grants* intended to equalize fiscal capacity, but in Baubau City, these funds still appear to be used for routine spending rather than to increase independence. This reinforces agency theory, in which local governments as agents are too dependent on the central government, resulting in low motivation to increase PAD.

Theoretically, from the perspective of *Agency Theory*, this condition illustrates a misalignment of interests between the central government as the principal and local governments as agents. The central government hopes that DAU can be an instrument of equity and development, but local governments tend to use DAU to cover routine spending deficits. From the perspective of *Stewardship Theory*, local governments should act as stewards by utilizing DAU to strengthen regional fiscal capacity, but this has not been optimally achieved.

These results answer the second problem formulation and research objective, namely that DAU does not have a significant effect on regional financial independence. These findings are in line with the research by Hanum Indrianingrum (2023) and Wulan Riyadi (2021), which states that DAU does not have a significant effect on fiscal independence. However, this differs from the research by

(Musfirah, 2021) Musfirah & Sugiyanto (2021), which found a significant negative effect, indicating that high DAU can weaken regional fiscal independence. These results are in line with the research by Musfirah and Sugiyanto (2021) and Wulan Riyadi (2021), which found that DAU (General Allocation Fund) does not have a significant effect on regional fiscal independence. The implication is that if Baubau City continues to rely on DAU, the relationship with the central government will remain instructive (Rahayu, 2015), where the central government is more dominant in fiscal decision-making. This condition is dangerous for the sustainability of regional autonomy because it reduces the incentive for local governments to explore the potential of PAD. Therefore, strategies to increase PAD through innovation in local taxes, levies, and the development of BUMD are more important than simply waiting for DAU transfers.

The Effect of Revenue Sharing Funds (DBH) on Regional Financial Independence

The t-test results show a t-count of 2.485 with a significance value of 0.042, which means that DBH (Revenue Sharing Funds) has a significant effect on regional financial independence. Because the t-count is greater than the t-table and the significance value is less than 0.05, hypothesis H3 is accepted.

These results indicate that revenue sharing funds (DBH), particularly from the tax and natural resource sectors, contribute significantly to independent regional financing. Revenue sharing funds (DBH) boost local fiscal capacity, in line with stewardship theory, whereby local governments are responsible for maximizing these funds for the public interest. This supports the theory of Fiscal Decentralization, whereby revenue sharing funds provide regions with the opportunity to manage part of the state's revenue in their respective regions. DBH also has greater flexibility of use compared to DAK, so that it can be utilized to support an increase in PAD.

Theoretically, these results support *Stewardship Theory*, whereby local governments are able to use DBH to increase fiscal capacity and support public services in line with the interests of the community as the principal. Within the framework of fiscal decentralization, DBH is also considered more equitable because regions receive a share of the revenue from resources in their regions.

These results answer the third research question, namely that DBH has a significant effect on fiscal independence. This finding is in line with the research by Satria Tradinatama & Akhmad Solikin (2023), which found that DBH increases local tax revenue, as well as the research by Deisy Debora et al. (2023), which shows that transfers to regions (including DBH) have a significant effect on fiscal independence. This finding is reinforced by the results of research by Yuliana (2020), which states that DBH is able to increase fiscal independence because it provides direct incentives to regions in managing their economic potential.

The implication is that DBH can be a strategic instrument for Baubau City to strengthen its fiscal independence. However, complete dependence on DBH is also not ideal, given that DBH sources are highly dependent on central government revenue. Therefore, local governments must direct DBH towards productive investments, such as economic infrastructure development and empowerment of leading sectors, so that DBH does not merely become disposable income, but rather a driver of long-term PAD growth.

The Effect of DAK, DAU, and DBH on Regional Financial Independence (Simultaneous)

The F test results show that the calculated $F = 2.517$, the table $F = 4.35$, and the significance = 0.142. Because the calculated F is smaller than the table F and the significance value is greater than 0.05, the regression model is not simultaneously significant, so hypothesis H4 is rejected.

This conclusion indicates that, collectively, the three types of transfer funds (DAK, DAU, and DBH) do not have a significant effect on the financial independence of Baubau City. This reinforces the notion that increasing local revenue (PAD) and fiscal independence does not only depend on the amount of transfer funds, but also on the region's ability to manage, allocate, and utilize local potential.

Theoretically, this reinforces the *Agency Theory* view that high fiscal dependence on the central government can weaken the motivation of local governments to be independent. Meanwhile, from the *Stewardship Theory* perspective, transfer funds should serve as a stimulus for local governments to increase their own fiscal capacity. However, reality shows that in Baubau City, dependence on transfers is still very high, so that financial independence has not been achieved.

These results answer the fourth research question and objective, namely the simultaneous effect of the three variables on fiscal independence, with the conclusion that the effect is not

significant. This finding differs from the research by Anggi Pratama Nasution et al. (2018), which found a significant simultaneous effect, but supports the research by Deisy Debora et al. (2023), which states that transfers to regions can have a negative impact on fiscal independence.

The implication is that the Baubau City government cannot rely on central government transfers as the main driver of fiscal independence. Optimization of local revenue through local taxes, levies, and the development of regionally-owned enterprises needs to be strengthened. In addition, budget management reform is needed so that the use of transfer funds is more directed towards productive programs that encourage local economic growth. Thus, transfers from the central government serve as a support, not as the main source of regional financing.

CONCLUSION

Based on the results of data analysis and discussion, it can be concluded that the Special Allocation Fund (DAK) does not have a significant effect on regional financial independence. This shows that the use of DAK, which is specific and binding, has not been able to encourage an increase in regional financial capacity independently.

The General Allocation Fund (DAU) does not have a significant effect on the financial independence of the Baubau region. These results indicate that an increase in DAU does not necessarily increase the region's ability to independently finance government activities. Thus, DAU has not been able to optimally promote fiscal independence in the Baubau region.

Meanwhile, Revenue Sharing Funds (DBH) have been proven to have a significant effect on regional financial independence. This means that the greater the DBH received, the greater the opportunity for the region to strengthen its own fiscal resources.

However, simultaneously, the three variables (DAK, DAU, and DBH) did not have a significant effect on regional financial independence. This shows that the combination of these central transfer funds is not sufficient to encourage fiscal independence, and there are still other factors outside the model that influence regional financial conditions.

This study has several limitations that need to be considered for further research. First, this study only focuses on the Baubau City Regional Government, so the results cannot be generalized to other regions with different fiscal characteristics, budget policies, and economic conditions.

In addition, the amount of data used in this study is relatively limited, covering only an eleven-year period from 2014 to 2024. This limitation in the sample size may affect the statistical power of the regression test results, particularly in simultaneous testing with more than two independent variables.

The independent variables used are also limited to three types of transfer funds from the central government, namely the Special Allocation Fund (DAK), the General Allocation Fund (DAU), and the Revenue Sharing Fund (DBH). In practice, however, there are other transfer income components that can also affect regional financial independence, such as the Regional Incentive Fund (DID), Village Fund, and variables related to capital expenditure and regional asset management.

Another limitation lies in the approach used, which is entirely quantitative. This approach has not been able to comprehensively capture qualitative factors such as the quality of governance, the capacity of the apparatus, and the local government's fiscal policy strategies in managing transfer funds effectively. In addition, the measurement of fiscal independence in this study only uses the ratio of PAD to total regional revenue, which does not comprehensively reflect the performance of fiscal independence in terms of efficiency, effectiveness, and revenue innovation.

Considering these limitations, it is hoped that future research can be conducted with a broader geographical scope, a longer time period, and the inclusion of additional variables and mixed methods approaches so that the research results are richer and more in-depth.

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