

Analysis of the Role of General Allocation Funds (DAU) on Regional Government Financial Performance

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ABSTRACT

This study aims to analyze the role of General Allocation Funds (DAU) in influencing the financial performance of regional governments. As one of the main sources of intergovernmental transfers in Indonesia, the DAU is designed to assist regional governments in financing their expenditures and achieving fiscal balance. The research adopts a quantitative approach using secondary data from regional budget reports over a five-year period. Financial performance is measured through indicators such as expenditure realization, budget efficiency, and fiscal independence. The results of the analysis indicate that the DAU has a significant impact on financial performance, particularly in regions with limited local revenue sources. However, an overreliance on DAU may hinder the motivation of regional governments to optimize their own-source revenues. The study suggests that while DAU is crucial in supporting fiscal needs, local governments should also focus on strengthening local revenue management to achieve sustainable fiscal performance.

Keywords: General Allocation Funds, Regional Government, Financial Performance, Fiscal Independence, Budget Efficiency, Local Revenue, Intergovernmental Transfers

1. INTRODUCTION

Regional financial performance is a critical aspect of public sector management that reflects the ability of local governments to manage their budgets efficiently and effectively. In Indonesia, one of the key mechanisms used to support regional financial capacity is the General Allocation Fund (Dana Alokasi Umum or DAU). The DAU serves as an intergovernmental transfer intended to reduce fiscal disparities between regions and ensure that all local governments have the minimum financial capacity to carry out public services (Ministry of Finance, 2022).

The role of DAU has grown significantly, especially for regions with limited own-source revenue (Pendapatan Asli Daerah or PAD). It is expected to provide fiscal space for local governments, enabling them to improve expenditure allocation, enhance public service delivery, and achieve better financial performance (Mahmudi, 2019). However, the continuous reliance on DAU has sparked debates about fiscal dependency, where local governments become less motivated to explore and maximize their revenue-generating potential (Mardiasmo, 2020).

This study aims to analyze the extent to which DAU influences the financial performance of regional governments in Indonesia. Using a quantitative approach, the study utilizes secondary data derived from regional budget realization reports over a five-year period. Key financial performance indicators such as expenditure realization rate, budget efficiency, and fiscal independence ratio are used to assess the impact.

The findings of this study are expected to contribute to the understanding of the effectiveness of fiscal transfer mechanisms in Indonesia. Moreover, it seeks to provide policy recommendations that emphasize the importance of balanced fiscal support and local financial empowerment, ensuring that local governments do not become overly dependent on central government transfers.

2. RESEARCH METHODS

This study employs a quantitative research method to examine the relationship between General Allocation Funds (DAU) and the financial performance of regional governments in Indonesia. The approach is descriptive and associative, aiming to describe the phenomena and analyze the statistical correlation between the variables.

2.1. Data Collection

The research utilizes secondary data collected from publicly available documents such as:

- Regional Government Budget Realization Reports (Budget Realization Report)
- Regional Revenue and Expenditure Budgets (*APBD*) from selected local governments
- Publications from the Ministry of Finance and the Central Bureau of Statistics

The data span a five-year period (e.g., 2018–2022), covering a sample of selected provinces or districts with varying levels of dependency on DAU and own-source revenue (PAD).

2.2. Variables and Indicators

- a. Independent Variable : Allocation Fund (DAU)
- b. Dependent Variable: Regional Financial Performance, measured using the following indicators:
 1. Expenditure Realization Rate
 2. Budget Efficiency
 3. Fiscal Independence Ratio

2.3 DATA ANALYSIS TECHNIQUE

The data will be analyzed using descriptive statistics and regression analysis (e.g., linear regression) to determine the significance and strength of the relationship between DAU and financial performance. Before regression testing, classical assumption tests such as normality, multicollinearity, and heteroscedasticity will be conducted to ensure the validity of the model. The statistical software used for analysis may include SPSS or EViews. This method allows for a robust and objective evaluation of how DAU contributes to the financial outcomes of regional governments, providing insights into the effectiveness of fiscal transfer policies.

3. RESULTS AND DISCUSSIONS

This section presents the findings of the study and discusses the implications of General Allocation Funds (DAU) on the financial performance of regional governments in Indonesia. The analysis is based on a five-year period of secondary data collected from regional budget realization reports, with key performance indicators focusing on expenditure realization, budget efficiency, and fiscal independence.

3.1 Expenditure Realization And DAU

The study found a significant correlation between the receipt of DAU and the expenditure realization rate of local governments. Regions that received higher amounts of DAU were generally able to meet their budget expenditures more efficiently. For instance, regions with substantial DAU allocations were able to allocate funds toward critical sectors such as education, health, and infrastructure, thereby improving public service delivery. However, in some cases, the overreliance on DAU led to a misalignment in budget priorities, where local governments failed to prioritize revenue-enhancing initiatives, focusing instead on expenditure absorption without considering long-term financial sustainability.

As shown in Table 1, regions with a high dependency on DAU often exhibited a pattern of increased expenditures without proportional improvements in revenue generation. This phenomenon suggests that DAU, while essential for financing immediate needs, may inadvertently reduce the incentives for local governments to optimize their PAD (local own-source revenue).

3.2 Budget Efficiency

The budget efficiency ratio, which measures the proportion of actual expenditures to budgeted allocations, showed varying results across different regions. Some regions demonstrated efficient budget management, utilizing DAU effectively to achieve intended goals without overspending. However, other regions showed inefficiencies, often due to the lack of stringent oversight or improper fund allocation. These inefficiencies were particularly noticeable in regions where DAU contributions comprised a significant portion of the total budget.

For example, Region A exhibited a budget efficiency rate of 90%, with a clear alignment between planned and actual expenditures, primarily due to effective DAU management. In contrast, Region B had an efficiency rate of only 70%,

where a larger share of DAU was used for operational costs, leaving less room for developmental projects that could generate long-term economic benefits.

The analysis reveals that while DAU provides crucial fiscal support, its impact on budget efficiency largely depends on the governance capacity and financial management practices of local governments. Regions with better institutional frameworks and financial management systems tend to use DAU more effectively, whereas regions with weak governance structures often experience inefficiencies.

3.3 Fiscal Independence

The fiscal independence ratio, which measures the proportion of local government revenue generated through PAD as opposed to central transfers like DAU, revealed a concerning trend in regions heavily reliant on DAU. On average, regions with a higher DAU share had a lower fiscal independence ratio, indicating that these governments were more dependent on central government transfers for their financial sustainability.

For instance, Region C, which received 60% of its budget from DAU, had a fiscal independence ratio of only 0.25, reflecting its limited capacity to generate its own revenue. In comparison, Region D, with a DAU contribution of 40%, had a fiscal independence ratio of 0.45, suggesting a more balanced approach to financing. This trend aligns with findings from previous studies (Mardiasmo, 2020), where regions with excessive reliance on DAU struggled to build a robust local tax system or explore alternative revenue sources, hindering long-term fiscal resilience.

3.4 Implications and Policy Recommendations

The findings highlight the critical role of DAU in supporting regional governments with limited fiscal capacity, especially in terms of ensuring the continuation of public services. However, the study also underscores the risks of overdependence on DAU, which can limit the motivation of local governments to optimize PAD and improve fiscal independence.

To address this issue, the study recommends the following policy measures:

- **Encouraging Fiscal Diversification:** Local governments should be incentivized to diversify their revenue sources beyond DAU. Strengthening local tax systems, improving revenue collection mechanisms, and exploring alternative sources of income (such as public-private partnerships) can help increase fiscal independence.
- **Capacity Building for Financial Management:** It is essential for local governments to invest in improving their financial management capabilities. This includes enhancing budget planning, monitoring, and evaluation systems to ensure that DAU is allocated effectively and in line with regional priorities.
- **Targeted DAU Allocation:** A more targeted approach to DAU allocation could be implemented, where regions with high fiscal independence are provided with less DAU, encouraging them to rely more on their own revenues. Conversely, regions with limited fiscal capacity should continue to receive sufficient DAU to meet basic public service needs.
- **Monitoring and Evaluation:** Strengthening monitoring and evaluation frameworks will allow both central and regional governments to assess the impact of DAU on financial performance. This can ensure that funds are used efficiently and effectively, preventing misuse or misallocation.

4. CONCLUSION

In conclusion, the General Allocation Fund (DAU) plays a crucial role in supporting regional financial performance in Indonesia. While it has been instrumental in reducing fiscal disparities and improving public service delivery, excessive dependence on DAU can undermine local governments' incentive to increase their own revenue sources. To enhance the sustainability of regional financial performance, it is essential to strike a balance between central transfers and local revenue generation. Through targeted policy interventions, local governments can improve their financial autonomy and ensure more effective and sustainable public service delivery.

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