

The Influence of General Allocation Funds and Special Autonomy Funds on the Economic Growth

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Abstract: This study analyses the effects of General Allocation Funds (DAU) and Special Autonomy Funds (Otsus) on economic growth in South Papua Province, Indonesia. The research evaluates whether fiscal transfers from the central government effectively stimulate regional economic performance in newly established autonomous regions. This study employs a quantitative approach using multiple linear regression with quarterly time series data from 2023 to 2025. The dependent variable is economic growth (measured by GRDP), while the independent variables are DAU and Otsus. Data were obtained from the Central Bureau of Statistics (BPS) and the Ministry of Finance publications. The results show that DAU has a positive but insignificant effect on economic growth, whereas Otsus shows a negative, insignificant relationship. Simultaneously, both fiscal transfers do not significantly influence economic growth, implying that fiscal allocation alone is insufficient to drive regional development in South Papua. The findings highlight that the effectiveness of fiscal decentralisation depends on institutional capacity, the quality of fiscal governance, and the orientation of public spending toward productive sectors. Policy implications suggest the need to reorient Special Autonomy funds toward long-term productive investment, strengthen fiscal management capacity, and enhance central–local government coordination to achieve inclusive and sustainable growth in South Papua.

Keywords: General Allocation Fund (DAU); Special Autonomy Fund (Otsus); Fiscal Decentralisation; Economic Growth; Regional Original Revenue; Multiple Linear Regression; Quantitative Approach.

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1. Introduction

Regional economic development is an integral part of national development, aiming to create equitable and sustainable growth throughout Indonesia. In a decentralised system of government, regions are given broad authority to manage government and development affairs, including financial matters. One of the main pillars of decentralisation is fiscal decentralisation, which reflects the ability of regions to manage financial resources to fund development spending and public services. A fundamental

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reformulation of Indonesia's fiscal decentralisation policy occurred with the issuance of Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD). This law replaces Law Number 33 of 2004 and introduces new mechanisms for transfers to regions, including the division of the General Allocation Fund (DAU) into block grants and specific grants [3]. Furthermore, this law emphasises the importance of optimising Regional Original Revenue (PAD) and improving the quality of performance-based public spending. Similarly, Law Number 23 of 2014 concerning Regional Government reinforces the principle of regional autonomy as the basis for the delegation of authority from the central government to the regions in governance.

The concept of decentralisation, as explained by the United Nations Development Programme (UNDP) in Schakel [11], is a process of reorganising authority to create shared responsibility among levels of government in accordance with the principle of subsidiarity, thereby increasing the effectiveness and capacity of governance at the local level [13]. In this context, decentralisation is believed to promote development effectiveness because local governments have a better understanding of the social, economic, and resource conditions in their regions. The history of decentralisation in Indonesia began with Law Number 22 of 1999, which was later refined by Law Number 32 of 2004 and Law Number 23 of 2014, to strengthen democratisation and regional autonomy. Regional autonomy, as a concrete form of decentralisation, aims to increase equitable development and strengthen national stability [2]. Within this framework, South Papua Province, established through Law Number 14 of 2022 concerning the Establishment of South Papua Province, faces complex development challenges. As a new autonomous region (DOB), South Papua still faces limited infrastructure, a developing bureaucratic capacity, and high socioeconomic inequality. These conditions place the central government as the primary source of regional development funding [6]. The two dominant fiscal components supporting the development of South Papua are the Special Autonomy Fund (Otsus) and the General Allocation Fund (DAU). The Special Autonomy Fund is provided as a form of fiscal affirmation for Papua to accelerate development and reduce inequality. At the same time, the DAU serves as an instrument to equalise financial capacity across regions.

Based on data from the Directorate General of Fiscal Balance, the allocation of the South Papua Special Autonomy Fund increased by 12.72% (Rp188.5 billion) between 2023 and 2025, while the DAU increased by 6.88% (Rp276.8 billion) during the same period. However, the level of fiscal independence remains low, as explained in PMK No. 211/PMK.07/2022, which emphasises that fiscal independence is measured by PAD's contribution to total regional revenue. This situation illustrates that dependence on central transfers remains very high. The Republic of Indonesia [1] emphasises that effective fiscal decentralisation must be balanced with regional fiscal responsibility and adequate financial management capacity. Excessive reliance on central government funds can weaken local governments' incentives to tap into their own-source revenue potential and strengthen fiscal accountability. From a macroeconomic perspective, South Papua's economic growth is showing a positive trend; for example, it grew 4.20% year-on-year in the first quarter of 2025 [14]. However, the economic structure still faces challenges, including regional inequality, limited infrastructure, and underdeveloped local economic institutions. In this situation, it is crucial to examine the role of the General Allocation Fund (DAU) and the Special Autonomy Fund (Otsus) in driving regional economic growth [15]. In this context, this study aims to analyse the influence of the General Allocation Fund and the Special Autonomy Fund on economic growth in South Papua Province [16]. Using a quantitative approach with time series data from the first quarter of 2022 to the first quarter of 2025, this study is expected to provide an empirical overview of the effectiveness of regional fiscal policy in driving economic growth in the newly autonomous region [17].

1.1. Formulation of the Problem

- How have the General Allocation Fund (DAU) and Special Autonomy Fund (Otsus) developed in South Papua Province during the first quarter of 2023 to the first quarter of 2025?
- What was the economic growth trend in South Papua Province during that period?
- Is there a significant influence, either simultaneously or partially, between the DAU and the Special Autonomy Fund on economic growth in South Papua Province?

1.2. Research Purposes

- Analysing the development of General Allocation Funds and Special Autonomy Funds in South Papua Province.
- Examining the economic growth trends of South Papua during the research period.
- Testing the simultaneous and partial influence of the General Allocation Fund and Special Autonomy Fund for economic growth in South Papua.

2. Literature Review

2.1. Theoretical Basis

2.1.1. Fiscal Decentralisation Theory

Fiscal decentralisation is an integral part of government decentralisation, granting regional governments the authority to manage their own finances to improve public services and community welfare. According to The Decentralisation Theorem, decentralisation enables local governments to respond more efficiently to the needs and preferences of local communities because they have better information about conditions in their areas [9]. Furthermore, Rodríguez-Pose et al. [10] emphasise that fiscal decentralisation increases the efficiency of resource allocation and equitable distribution between regions. The allocation, distribution, and stabilisation functions carried out by the government must create fiscal balance between the central and regional governments to achieve equitable development. In the Indonesian context, the implementation of fiscal decentralisation is realised through Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (HKPD), which introduces a reformulation of transfer mechanisms to regions, including the General Allocation Fund (DAU) and the Special Autonomy Fund (Dana Otsus). This policy is expected to create a fair, transparent, and performance-oriented fiscal system.

2.1.2. General Allocation Fund (DAU)

The General Allocation Fund (DAU) is a fiscal transfer from the central government to regional governments aimed at reducing disparities in financial capacity between regions (FISCAL equalisation). Based on the 2022 Regional Government Development Law (HKPD) and Minister of Finance Regulation No. 212/PMK.07/2022, the DAU is divided into two components:

- DAU Block Grant, namely funds whose use is entirely handed over to the region (non-earmarked), thus providing fiscal flexibility for regions in financing priority development needs.
- DAU Specific Grant (Earmarked), namely funds with a specific allocation that are directed to finance mandatory expenses such as ASN salaries, education and health.

According to Plaček et al. [9], this mechanism reflects a balance between fiscal autonomy and the equitable distribution of public services. Thus, increasing DAU is expected to enhance regional fiscal capacity, thereby accelerating economic growth by strengthening capital spending and developing basic infrastructure.

2.1.3. Special Autonomy Fund (Dana Otsus)

The Special Autonomy Fund (Otsus) is a form of fiscal transfer granted to certain regions with specific characteristics, such as Papua and West Papua, pursuant to Law Number 21 of 2001 concerning Special Autonomy for Papua Province, which was later updated by Law Number 2 of 2021. The Otsus Fund is allocated at a minimum of 2.25% of the total national DAU and is intended to accelerate development and improve the welfare of indigenous Papuans. In public finance theory, Musgrave classifies the Special Autonomy Fund as a grant with equalisation objectives, a form of transfer intended to achieve fiscal equality while accounting for a region's specific needs and characteristics. With a needs-based allocation approach, the Special Autonomy Fund serves as an affirmative action instrument expected to address historical, social, and economic inequalities in recipient regions. Management of Special Autonomy Funds includes two main forms, namely:

- General Affairs, which can be used flexibly in line with regional priorities.
- Special Section, which is directed at affirmative activities such as education, health, and economic empowerment of indigenous Papuans (OAP).

Thus, the effectiveness of the Special Autonomy Fund is largely determined by the region's ability to manage, allocate, and utilise the funds in an accountable, results-oriented manner.

2.1.4. Economic Growth

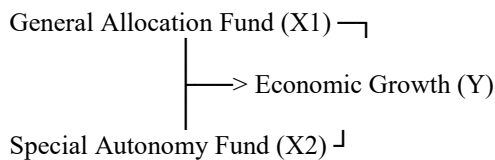
Economic growth describes the increase in a region's capacity to produce goods and services over a certain period. According to Marcal et al. [8], economic growth is measured by increases in Gross Domestic Product (GDP) or Gross Regional Domestic Product (GRDP) over time. Iskandar [15] emphasises that economic growth is not merely an increase in output but also reflects increases in productivity, capital accumulation, and continuous technological progress. In a regional context, inclusive economic growth reflects an equitable and sustainable increase in social welfare.

2.2. Relationship between Variables

- **The Relationship between DAU and Economic Growth:** The General Allocation Fund (DAU) plays a crucial role in strengthening regional fiscal capacity to finance development activities and public services. Increasing DAU increases regional capital spending capacity, with implications for GRDP and economic growth. (H1: DAU has a positive effect on the economic growth of South Papua).
- **The Relationship of Special Autonomy Funds to Economic Growth:** The Special Autonomy Fund is an affirmative fiscal instrument designed to accelerate economic and social development in Papua. The use of the Special Autonomy Fund in the education, health, and basic infrastructure sectors is expected to increase productivity and public welfare. (H2: Special Autonomy Funds have a positive effect on the economic growth of South Papua).
- **The Simultaneous Relationship between General Allocation Funds (DAU) and Special Autonomy Funds (Otsus) on Economic Growth:** The combination of the General Allocation Fund (DAU) (which promotes fiscal equalisation) and the Special Autonomy Fund (which is affirmative) creates synergy in supporting regional economic growth. Both variables play a role in expanding regional fiscal capacity and encouraging public investment oriented toward long-term development. (H3: DAU and Special Autonomy Funds simultaneously have a significant effect on the economic growth of South Papua).

2.3. Conceptual Thinking Framework

Conceptually, the relationship between variables can be described as follows:



This framework shows that DAU (X1) and the Special Autonomy Fund (X2) are independent variables suspected to positively influence Economic Growth (Y) in South Papua Province.

3. Research Methodology

3.1. Types and Approaches of Research

This research uses a quantitative, explanatory research method to examine the causal relationships among the independent variables. Johannesson et al. [7] examine the General Allocation Fund (DAU) and the Special Autonomy Fund (Otsus) as independent variables, with the dependent variable being Economic Growth in South Papua Province. Quantitative analysis is used because this study seeks to test the hypothesis using numerical data and statistical analysis, specifically multiple linear regression models based on quarterly time-series data [5].

3.2. Research Location and Period

This research was conducted in South Papua Province, one of the New Autonomous Regions (DOB) established by Law Number 14 of 2022, which divided Papua Province. This location was chosen because South Papua still relies heavily on central fiscal transfers (DAU and Otsus) but shows interesting economic growth dynamics worth studying. The research period covers the first quarter of 2023 to the first quarter of 2025, with a total of nine observations (quarterly data). This timeframe was selected based on the initial period of full implementation of the Special Autonomy Fund and General Allocation Fund (DAU) policies in South Papua following the province's formation.

3.3. Data Types and Sources

The data used in this study are secondary data obtained from official government institutions, namely:

- **Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance:** For General Allocation Fund and Special Autonomy Fund data.
- **Central Statistics Agency (BPS) of South Papua Province:** For economic growth data (GRDP).
- **Publication of the Ministry of Home Affairs and Bappenas:** For supporting data related to regional fiscal and special autonomy policies.

3.4. Research Variables and Operational Definitions

This study uses three main variables, with the following operational definitions (Table 1):

Table 1: Definition and measurement of research variables

| Variable Types | Variable Name | Symbol | Operational Definition | Unit of Measurement | Data source |
|----------------|-------------------------|----------------|--|---------------------|-------------------------------|
| Dependent | Economic growth | Y | Percentage change in Gross Regional Domestic Product (GRDP) at constant prices between quarterly periods | Percentage (%) | South Papua Statistics Agency |
| Independent 1 | General Allocation Fund | X ₁ | Total DAU transfer funds received by South Papua Province from the APBN each quarter | Rupiah (Rp billion) | DJPK Ministry of Finance |
| Independent 2 | Special Autonomy Fund | X ₂ | Total Special Autonomy Funds received by South Papua Province to support regional development and affirmation of Indigenous Papuans. | Rupiah (Rp billion) | DJPK Ministry of Finance |

3.5. Data Analysis Model

To test the formulated hypothesis, this study uses a Multiple Linear Regression model with the following equation:

$$Y_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \varepsilon_t$$

Information:

- (Y_t): Economic growth (GRDP) in period t
- (X_{1t}): General Allocation Fund in period t
- (X_{2t}): Special Autonomy Funds in period t
- (β_0): Constant
- (β_1, β_2): Regression coefficient of each independent variable
- (ε_t): Error term (random noise)

The analysis was carried out using statistical software (SPSS or EViews) to obtain parameter and model significance test results.

3.6. Hypothesis Analysis and Testing Techniques

The analysis steps are carried out through the following stages:

3.6.1. Classical Assumption Test

To ensure the validity of the regression model, a classical assumption test was carried out, which includes:

- Normality Test (Kolmogorov-Smirnov Test)
- Multicollinearity Test (VIF and Tolerance)
- Heteroscedasticity Test (Glejser Test or White Test)
- Autocorrelation Test (Durbin-Watson Test)

3.6.2. Coefficient of Determination (R²) Test

Measuring the proportion of variations in economic growth explained by the DAU and Special Autonomy Fund variables.

3.6.3. Partial Test (t-Test)

To determine the influence of each independent variable on economic growth individually:

- **H₀:** $\beta_i = 0 \rightarrow$ no significant effect
- **H₁:** $\beta_i \neq 0 \rightarrow$ there is a significant influence

3.6.4. Simultaneous Test (F Test)

To determine the influence of DAU and Special Autonomy Funds together on economic growth:

- **H₀:** $\beta_1 = \beta_2 = 0 \rightarrow$ no simultaneous effect
- **H₁:** $\beta_1 \neq 0$ and/or $\beta_2 \neq 0 \rightarrow$ simultaneous effect

3.6.5. Elasticity Analysis and Economic Interpretation

After obtaining the estimation results, the regression coefficients are interpreted to assess the sensitivity of economic growth to changes in DAU and Special Autonomy Funds.

3.7. Research Hypothesis

Based on the theoretical framework and previous research, the hypothesis proposed is:

- **H1:** The General Allocation Fund (DAU) has a positive and significant impact on the economic growth of South Papua Province.
- **H2:** The Special Autonomy Fund (Dana Otsus) has a positive and significant impact on the economic growth of South Papua Province.
- **H3:** The General Allocation Fund (DAU) and the Special Autonomy Fund (Dana Otsus) simultaneously have a significant impact on the economic growth of South Papua Province.

4. Results and Discussion

4.1. Descriptive Statistical Analysis

Descriptive statistical analysis is used to provide an overview of the characteristics of the research variables, namely the General Allocation Fund (X_1), Special Autonomy Fund (X_2), and Economic Growth (Y) in South Papua Province during the quarterly period of 2023–2025 (Table 2).

Table 2: Descriptive statistics of research variables

| Statistics | X_1 (DAU) | X_2 (Special Autonomy Fund) | Y (Economic Growth) |
|--------------------|-------------|-------------------------------|-----------------------|
| Mean | 19,905.84 | 80.97 | 3.96 |
| Median | 17,203.00 | 63.81 | 4.20 |
| Maximum | 38,558.00 | 588.92 | 10.32 |
| Minimum | 6,570.00 | 0.00 | -2.39 |
| Standard Deviation | 8,396.85 | 107.98 | 2.79 |
| Observation | 45 | 45 | 45 |

- General Allocation Fund (X_1) has an average of Rp19,905.84 million with a fairly wide distribution range (minimum Rp6,570 million and maximum Rp38,558 million). The standard deviation of Rp8,396.85 million indicates a high level of variation in fund distribution, which may influence fiscal capacity and regional needs in South Papua.
- The Special Autonomy Fund (X_2) shows an average of Rp80.97 million with very high variation (Std. Deviation: Rp107.98 million), and there are even periods with a value of 0. This reflects the inequality in the distribution of Special Autonomy Funds across regions and over time, while also highlighting the heavy reliance on central fiscal policy.
- Economic Growth (Y), the average is 3.96%, with a maximum of 10.32% and a minimum of -2.39%. The 2.79% variation indicates that although South Papua generally experienced positive growth, it also experienced periods of contraction, suggesting spatial and sectoral imbalances.

Overall, these descriptive results indicate that the three variables exhibit a fairly wide distribution across fiscal allocation and economic performance. This provides an important empirical basis for panel-data regression analysis.

4.2. Panel Data Regression Analysis

Panel data regression analysis was used to test the effect of the General Allocation Fund (X_1) and the Special Autonomy Fund (X_2) on Economic Growth (Y). Based on the results of the Chow and Lagrange Multiplier (LM) tests, the best model was the Random Effect Model (REM), as it captures random effects across districts that are not directly observed but may influence regional economic performance. The general model in this research is written as follows:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \mu_i + \epsilon_{it}$$

The estimation results using the EGLS (Cross-Section Random Effect) Panel method are shown in the following Table 3:

Table 3: EGLS (cross-section random effects) panel regression results

| Variables | Coefficient | Std. Error | t-Statistic | Prob. |
|-------------------------------|-------------|------------|-------------|--------|
| C | 3,0955 | 1,3661 | 2,2660 | 0.0287 |
| X_1 (DAU) | 0.0000464 | 0.0000573 | 0.8090 | 0.4231 |
| X_2 (Special Autonomy Fund) | -0.0007206 | 0.004063 | -0.1773 | 0.8601 |

$$R^2 = 0.0174 \mid \text{Adjusted } R^2 = -0.0294 \mid F\text{-statistic} = 0.3711 \mid \text{Prob}(F) = 0.6922$$

4.3. Hypothesis Testing

4.3.1. Partial Test (T-Test)

The results of the partial test show that neither the General Allocation Fund (X_1) nor the Special Autonomy Fund (X_2) variables have a significant effect on economic growth:

- **DAU:** $t = 0.809 < t_{table} = 2.018$; $p = 0.4231$
- **Special Autonomy Fund:** $t = -0.177 < t_{table} = 2.018$; $p = 0.8601$

Thus, individually, the increase in the allocation of DAU and Special Autonomy Funds does not have a significant direct impact on the economic growth of South Papua.

4.3.2. Simultaneous Test (F Test)

The F-statistic of 0.3711 and p-value of 0.6922 (>0.05) indicate that neither independent variable has a significant effect on economic growth. This indicates that the contribution of central government transfer funds to regional economic activity was still limited during the observation period.

4.3.3. Coefficient of Determination (R^2)

The R^2 value of 0.0174 indicates that only 1.74% of the variation in economic growth is explained by the General Allocation Fund (DAU) and Special Autonomy Fund (Dana Otsus) variables. Other factors, such as productive capital expenditure, real-sector investment, governance quality, infrastructure, and human resources, explain the remaining 98.26%.

5. Discussion

The analysis shows that the General Allocation Fund (DAU) and the Special Autonomy Fund (Otsus) have no significant impact on economic growth in South Papua Province. Although the DAU has a positive effect, while the Otsus has a negative effect, neither is statistically able to explain variations in regional economic growth. This finding aligns with the theory of fiscal federalism, which holds that the effectiveness of fiscal transfers depends on local governments' capacity to manage and convert these funds into productive public spending. In South Papua, as a newly autonomous region, fiscal effectiveness remains constrained by institutional and administrative factors. The results of this study also support the findings of Rodríguez-Pose et al. [10] and Abrar et al. [12], who stated that central government fund transfers do not automatically drive economic growth unless they are accompanied by sound budget governance, adequate bureaucratic capacity, and development policies grounded in local potential. The place-based development approach emphasises the importance of fiscal policies tailored to local socio-economic conditions [4]; [11]. In this regard, South Papua requires a more contextualised DAU and Otsus management strategy, for example, by increasing the proportion of productive spending in infrastructure, education, and the indigenous economy. The low R^2 value in this study (1.74%) also indicates that other factors, such as institutional quality, the effectiveness of regional

spending, community economic participation, and local political stability, may be more dominant in shaping the dynamics of economic growth in South Papua.

5.1. Implications of Research Results

- **Policy Implications:** These results indicate the need to improve the distribution and utilisation mechanisms of Special Autonomy Funds to make them more productive, for example, by strengthening oversight, transparency, and orientation towards capital expenditure and human resource development.
- **Academic Implications:** Theoretically, this study emphasises the importance of assessing the influence of fiscal policy not only by the nominal amount of fund transfers, but also by the effectiveness of regional institutions and governance in managing these resources.
- **Implications for Regional Development:** South Papua needs to strengthen its independent fiscal capacity and improve the quality of public spending so that transfer funds can contribute significantly to inclusive and sustainable economic growth.

6. Conclusions and Policy Implications

6.1. Conclusion

Based on the results of quarterly panel data analysis in 2023–2025 regarding the influence of the General Allocation Fund (DAU) and Special Autonomy Fund (Otsus) on the Economic Growth of South Papua Province, several main conclusions were obtained as follows:

- The General Allocation Fund (DAU) shows a positive influence on economic growth, but this effect is not statistically significant. This indicates that although the General Allocation Fund (DAU) plays a role in maintaining fiscal stability and supporting regional spending, its contribution to boosting regional economic output remains limited.
- The Special Autonomy Fund (Otsus) indicates a negative and insignificant impact on economic growth. This suggests that the allocation of Special Autonomy Funds has not fully improved regional economic performance, likely due to limited institutional capacity, inefficient public spending, and a suboptimal orientation of fund use toward productive sectors.
- Simultaneously, both fiscal transfer variables, the General Allocation Fund (DAU) and Special Autonomy (Otsus), did not significantly influence South Papua's economic growth. The low coefficient of determination (R^2) indicates that variations in economic growth are largely determined by factors outside the model, such as private sector investment, infrastructure quality, bureaucratic effectiveness, and human resource development.
- These results reinforce the theory of fiscal federalism and public finance, which states that the effectiveness of fiscal decentralisation is highly dependent on the capacity of regions to manage transfer funds into efficient development instruments, as well as the ability of regional governments to translate central fiscal policies into development programs that have a direct impact on local communities.

6.2. Policy Implications

Based on the findings of this study, several policy implications that can be recommended are as follows:

- **Strengthening the Governance of Regional Transfer Funds:** Regional governments need to improve the planning, implementation, and evaluation mechanisms for the use of the General Allocation Fund (DAU) and Special Autonomy Funds (Dana Otsus) in line with the principle of value for money. Transparency and accountability in fund management must be enhanced through a performance-based monitoring system and open public reporting.
- **Reorienting the Use of Special Autonomy Funds to Productive Spending:** Special Autonomy Funds should be directed toward activities with long-term economic impacts, such as basic infrastructure development, economic empowerment of indigenous communities, vocational education, and support for local MSMEs. This approach can increase the multiplier effect on regional economic growth.
- **Improving Regional Fiscal and Institutional Capacity:** As a newly autonomous region, South Papua requires strengthening its apparatus, financial planning system, and regional fiscal governance to effectively utilise fiscal transfers. Training support, technical assistance, and a digital budgeting system can improve regional fiscal efficiency.
- **Synergy of Central and Regional Policies in Regional Development:** The central government needs to strengthen cross-ministerial coordination to support the implementation of Papua's Special Autonomy policy, including harmonising sectoral programs to avoid overlap. Strong synergy between the central and regional governments will accelerate the realisation of development goals and equitable prosperity.

- **Expansion of Variables in Further Research:** It is recommended that future research include additional variables, such as productive capital expenditure, private investment, the human development index (HDI), and infrastructure spending, to obtain a more comprehensive understanding of the determinants of economic growth in South Papua.

6.3. Conclusion

This study provides a substantial empirical contribution to the literature on fiscal decentralisation by evaluating its efficacy in Eastern Indonesia, specifically targeting newly autonomous provinces. The results show that you can't just look at how much money the central government gives to regional governments to see how it affects them. The quality of local governance, the level of institutional capacity, and how well fiscal policies align with local socio-economic conditions and development priorities have a significant effect on how well these transfers work. Fiscal decentralisation often has a weaker impact on development in remote areas due to weak administrative structures, a shortage of human resources, and poor planning and monitoring systems. In South Papua, these problems are exacerbated by the area's geographic isolation, poor infrastructure, and strong traditional institutions that don't always fit well with formal governance frameworks. The analysis shows that centrally planned, inflexible fiscal policies are less effective at addressing differences in local development. On the other hand, adaptable fiscal frameworks that emphasise performance-based budgeting, openness, and accountability are more likely to improve development outcomes. Fiscal decentralisation should also aim to give communities more power by backing local economic projects, improving public services, and ensuring that everyone has equal access to development resources. These kinds of policies can help South Papua and other frontier regions grow their economies in a way that is both long-term and inclusive. They can also help eliminate regional inequities and make institutions more resilient over time.

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