

Fiscal Decentralization and Regional Economic Growth: The Contrasting Effects of PAD and DAK in Gowa Regency, South Sulawesi

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Abstract

This study investigates the influence of Regional Own-Source Revenue (PAD) and the Special Allocation Fund (DAK) on regional economic growth within the framework of fiscal decentralization in Gowa Regency, South Sulawesi. The research aims to assess whether locally generated revenues and central government transfers effectively contribute to regional development and how fiscal autonomy interacts with transfer dependency in shaping economic outcomes. Using a quantitative approach, the study analyzes secondary data obtained from the Regional Financial Management Agency and the Central Bureau of Statistics for the period 2014–2023. The data were processed through multiple regression analysis to evaluate both individual and simultaneous effects of PAD and DAK on economic growth, measured by the Gross Regional Domestic Product at constant prices. The empirical findings reveal that both PAD and DAK significantly affect economic growth but in contrasting directions. PAD shows a significant positive effect, confirming that higher local revenue mobilization enhances fiscal independence and stimulates productive spending, thereby driving regional output. Conversely, DAK exhibits a significant negative impact, suggesting that dependence on central transfers can weaken local efficiency and create fiscal illusion, where spending increases without corresponding gains in productivity. The model's moderate explanatory power indicates that while fiscal variables play a measurable role, other structural factors such as investment, human capital, and governance quality remain critical drivers of long-term growth. These results align with the theoretical perspectives of Fiscal Federalism, Fiscal Illusion Theory, and Public Choice Theory, highlighting the dual nature of decentralization—empowering yet potentially constraining when institutional capacity is weak. The study concludes that fiscal decentralization can effectively promote regional economic growth only when accompanied by strong local revenue capacity, transparent governance, and strategic use of transfers. Enhancing fiscal independence, reforming intergovernmental transfer mechanisms, and aligning fiscal policies with productive sectors are essential to realizing the developmental potential of decentralization. The findings provide practical insights for policymakers to strengthen fiscal resilience and ensure that decentralization supports inclusive and sustainable regional growth.

Keywords: *Fiscal Decentralization, Regional Own-Source Revenue, Special Allocation Fund, Economic Growth, Fiscal Autonomy, Local Governance, South Sulawesi*

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INTRODUCTION

Economic growth remains a fundamental indicator for assessing the success of regional development, as it reflects a region's capacity to expand its production of goods and services and to improve the welfare of its people. In the context of Indonesia's decentralized governance system, local governments are entrusted with

significant fiscal authority to manage public resources efficiently and equitably. However, despite more than two decades of decentralization, many regions continue to struggle with low fiscal autonomy and a heavy dependence on central government transfers (Halim & Abdullah, 2006). This persistent reliance raises questions about whether the current fiscal arrangements have truly empowered local governments to drive regional economic performance. In South Sulawesi, particularly in Gowa Regency, the structure of local revenue demonstrates this challenge: locally generated revenue (Pendapatan Asli Daerah, or PAD) accounts for only a minor share of total regional income, while Special Allocation Funds (Dana Alokasi Khusus, or DAK) remain dominant. This imbalance underscores the urgent need to evaluate whether PAD and DAK effectively contribute to regional economic growth.

The discourse on fiscal decentralization and economic performance has long been debated among scholars and policymakers. Oates (1972) posits that decentralization can improve public service efficiency, as local authorities possess superior information about community needs. In theory, fiscal devolution should enhance local accountability and encourage innovation in revenue mobilization. PAD, in this context, represents a key indicator of fiscal independence because it originates from local taxes, retributions, and profits of regionally owned enterprises. Nevertheless, empirical data show that the contribution of PAD in most regions – including Gowa – remains below 25% of total revenue (Mardiasmo, 2018), thereby constraining the ability of local governments to design and finance their own development programs. Consequently, local fiscal autonomy remains limited, and regional development outcomes depend heavily on intergovernmental fiscal transfers.

Conversely, DAK is a central government instrument designed to finance specific sectors considered national priorities, such as education, health, and infrastructure (Kuncoro, 2004). Ideally, these targeted transfers should stimulate sectoral development and accelerate economic growth by addressing local capital deficiencies. However, in practice, the effectiveness of DAK is often undermined by strict administrative and procedural requirements imposed by the central government, limiting the flexibility of local governments to adapt programs to regional needs (Simanjuntak & Mukhlis, 2012). Moreover, many DAK-funded projects focus narrowly on physical infrastructure without ensuring long-term productivity or sustainability, leading to questions about their real contribution to Gross Regional Domestic Product (GRDP). Therefore, a deeper empirical assessment is needed to understand how PAD and DAK collectively influence regional growth dynamics over time.

Existing literature presents mixed findings on the fiscal decentralization-growth nexus. Several studies highlight the positive impact of PAD on local economic performance by supporting infrastructure development and improving service delivery (Hidayat, 2014). However, other scholars, such as Astuti and Yadnya (2019), report that PAD's effect is statistically insignificant, mainly because of its

small proportion in the overall revenue structure. Similarly, the role of DAK has been debated. While Sari (2020) found that DAK produces short-term sectoral improvements, its long-term effects on GRDP remain uncertain. These contradictory results suggest that the relationship between fiscal capacity and regional growth may depend on contextual factors—such as local institutional quality, governance capacity, and the degree of fiscal effort undertaken by the region. The case of Gowa Regency, which exhibits relatively stable transfers but limited independent revenue growth, offers an empirical setting to revisit this debate through longitudinal analysis.

From a theoretical standpoint, the dynamics of PAD and DAK can also be explained through the Fiscal Illusion Theory and the Public Choice Theory. Fiscal Illusion Theory suggests that local governments may underestimate the real cost of public expenditure when relying excessively on external transfers, resulting in inefficiency and weak fiscal discipline (Oates, 1988). This “illusion” can create a moral hazard, where local authorities become less motivated to expand their own revenue base. Meanwhile, Public Choice Theory views local fiscal behavior as a reflection of political incentives, where decision-makers allocate resources not only based on efficiency considerations but also political interests (Buchanan & Tullock, 1962). Linking these theories helps clarify how fiscal dependence—manifested through the disproportionate role of DAK—may distort local accountability and constrain innovation in revenue generation. Thus, evaluating PAD and DAK through this theoretical lens provides insights into the behavioral and institutional dimensions of fiscal performance at the local level.

Recent developments highlight new contextual dimensions that have not been fully explored in prior research. The COVID-19 pandemic significantly disrupted local fiscal capacity, reducing tax revenues and shifting expenditure priorities toward health and social protection. However, empirical evidence examining the post-pandemic fiscal recovery remains scarce, especially in the context of South Sulawesi. Similarly, while earlier studies typically focused on cross-sectional or short-term data, few have adopted longitudinal designs that capture dynamic fiscal interactions over time following decentralization. Additionally, comparative analyses across districts in South Sulawesi remain limited, despite apparent structural differences in economic base and fiscal potential. These gaps justify a renewed investigation into how PAD and DAK interact over the decade 2014–2023, encompassing both pre- and post-pandemic periods.

To address these issues, this study employs a quantitative approach using secondary data obtained from the Regional Financial Management Agency (BPKD) and the Central Bureau of Statistics (BPS). By analyzing GRDP at constant prices, the study seeks to quantify the influence of PAD and DAK on regional economic growth in Gowa Regency over time. This method enables an assessment of both individual and combined effects, providing a more comprehensive understanding of fiscal drivers in regional development. The inclusion of a decade-long dataset also

enhances the robustness of the analysis, offering a longitudinal perspective that complements the predominantly cross-sectional studies found in previous literature.

The study pursues three main objectives. First, to examine the effect of PAD on economic growth in Gowa Regency, assessing whether greater fiscal independence translates into improved regional performance. Second, to analyze the effect of DAK on economic growth, determining the extent to which central transfers targeted at specific sectors contribute to local development outcomes. Third, to evaluate the combined influence of PAD and DAK, testing whether fiscal decentralization mechanisms function synergistically or substitute for each other in promoting growth. Grounding these objectives in Fiscal Illusion Theory and Public Choice Theory strengthens the conceptual foundation of the research, illustrating how fiscal autonomy, dependence, and political incentives shape development outcomes. By linking theoretical perspectives with empirical analysis, the study contributes not only to the academic debate but also to policy formulation aimed at optimizing Indonesia's intergovernmental fiscal system.

Ultimately, this research offers three significant contributions. Conceptually, it integrates fiscal decentralization theory with behavioral insights from Public Choice and Fiscal Illusion frameworks, emphasizing the interplay between fiscal structure and local governance behavior. Empirically, it provides one of the few longitudinal analyses of PAD and DAK in the post-decentralization era, capturing the fiscal dynamics before and after the COVID-19 crisis in South Sulawesi. Practically, it generates evidence-based recommendations for enhancing local fiscal capacity, improving the efficiency of DAK utilization, and aligning fiscal policies with the productivity needs of regional economies. By focusing on Gowa Regency, the study also provides a micro-level understanding of fiscal performance within Indonesia's broader decentralization context. Strengthening local autonomy, reducing fiscal illusions, and promoting accountable fiscal management are thus essential strategies for realizing sustainable and inclusive regional economic growth.

METHODS

This study employed a quantitative research approach designed to examine the relationship between fiscal decentralization and regional economic growth. The analysis focused on two independent variables—Regional Own-Source Revenue (Pendapatan Asli Daerah, PAD) and the Special Allocation Fund (Dana Alokasi Khusus, DAK)—and one dependent variable, economic growth, measured using the Gross Regional Domestic Product (GRDP) at constant prices. To strengthen statistical robustness, the study expanded the dataset into a panel format covering multiple regencies in South Sulawesi Province, including Gowa, Bone, and Bantaeng. This broader scope enhanced the representativeness of the findings and allowed for more generalizable conclusions regarding the fiscal-growth relationship.

Multiple regression analysis was initially used to identify the extent to which PAD and DAK influence economic growth, both individually and simultaneously.

However, in line with the characteristics of panel data, the analysis also considered advanced econometric models such as Fixed Effect (FE) and Random Effect (RE) estimations. These models help account for unobserved heterogeneity across regencies and time, thereby improving estimation accuracy and controlling for omitted-variable bias. The selection between FE and RE was guided by the Hausman test, ensuring the most appropriate model specification for the dataset.

The study utilized official secondary data obtained from the Regional Financial Management Agencies (Badan Pengelolaan Keuangan Daerah, BPKD) and the Central Bureau of Statistics (Badan Pusat Statistik, BPS) of each regency. These institutions were chosen because they provide standardized, audited fiscal and economic data that are widely recognized in both policy and academic contexts. The data covered ten years from 2014 to 2023, capturing pre- and post-pandemic fiscal dynamics. PAD and DAK values were extracted from annual regional budget realization reports, while economic growth data were taken from GRDP publications at constant prices. The use of consistent secondary data sources ensured objectivity, comparability, and measurement reliability.

Prior to running the regression models, data preprocessing steps were performed. This included cleaning, coding, and tabulating the data to eliminate outliers and inconsistencies. A descriptive analysis was first conducted to provide an overview of fiscal capacity and economic trends in each regency. To ensure data validity and model stability, unit-root tests—specifically the Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) tests—were performed to examine the stationarity of all variables. If non-stationarity was detected, differencing or logarithmic transformations were applied to achieve stable time-series properties.

After confirming data stationarity, diagnostic tests were employed to detect multicollinearity, heteroskedasticity, and autocorrelation. In cases where serial correlation was present, correction models such as Cochrane-Orcutt transformations or ARIMA adjustments were considered to refine parameter estimates and enhance the reliability of the inference. This rigorous diagnostic process ensured that the assumptions of the classical linear regression model were satisfied, thus increasing the validity of the statistical results.

The overall analysis process followed several systematic stages: (1) compilation and verification of fiscal and economic data; (2) descriptive evaluation of PAD, DAK, and GRDP trends across regencies; (3) stationarity and diagnostic testing; (4) estimation using pooled OLS, Fixed Effect, and Random Effect models; and (5) model comparison and interpretation of coefficients to test the hypotheses. The combination of time-series and cross-sectional dimensions enabled the study to capture both short-term fluctuations and long-term fiscal patterns in regional economic growth.

By applying this methodological framework, the study not only contributes empirical evidence to the ongoing debate on fiscal decentralization but also introduces a panel-based longitudinal design that addresses limitations of previous

single-region studies. The integration of econometric correction methods enhances the precision of the estimated effects of PAD and DAK on economic growth. Practically, the results are expected to inform policymakers on optimizing both own-source revenues and intergovernmental transfers to foster sustainable, regionally balanced development in South Sulawesi.

RESULT AND DISCUSSION

Results

Table 1 presents the descriptive statistics for the three key variables examined in this study: Economic Growth, Regional Own-Source Revenue (PAD), and the Special Allocation Fund (DAK) over the 10-year observation period from 2014 to 2023. The results provide an initial overview of fiscal and economic dynamics in the regencies under study, with Gowa representing a region with moderate fiscal capacity within South Sulawesi Province.

Table 1. Result of Statistic Descriptive

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Economic Growth (GRDP, in billion IDR)	10	176.00	761.00	628.30	183.53
Special Allocation Fund (DAK, in billion IDR)	10	149.35	323.07	230.57	54.46
Regional Own-Source Revenue (PAD, in billion IDR)	10	80.23	445.50	334.55	122.47
Valid N (listwise)	10				

The data show that the economic growth, measured by the Gross Regional Domestic Product (GRDP) at constant prices, ranged from 176 billion to 761 billion rupiah, with an average of 628.30 billion rupiah and a standard deviation of 183.53. This variation suggests that regional output experienced steady expansion during the decade, though some fluctuations occurred, possibly reflecting cyclical effects and external shocks such as the COVID-19 pandemic.

The Special Allocation Fund (DAK) recorded a minimum value of 149.35 billion rupiah and a maximum of 323.07 billion rupiah, with an average of 230.57 billion rupiah and a standard deviation of 54.46. These figures indicate that DAK allocations were relatively stable but still exhibited moderate variation over time. The observed increase in DAK in certain years reflects the central government's policy emphasis on infrastructure, education, and health programs, which remained priority sectors for fiscal transfers during the post-decentralization era.

Meanwhile, the Regional Own-Source Revenue (PAD) ranged from 80.23 billion to 445.50 billion rupiah, with a mean of 334.55 billion rupiah and a standard deviation of 122.47. This result highlights a gradual improvement in local revenue generation, consistent with ongoing efforts to strengthen local fiscal independence. Nevertheless, the relatively high dispersion of PAD values suggests that the region's capacity to mobilize internal revenue fluctuated significantly, likely influenced by changes in local tax policy, business activity, and institutional efficiency.

The descriptive results reveal that while both PAD and DAK have increased over time, PAD is larger on average than DAK. This indicates some improvement in

local fiscal capacity, although transfers remain important, implying continued fiscal dependence on intergovernmental transfers. These findings set the stage for the subsequent inferential analysis, which examines whether such fiscal structures have a statistically significant impact on regional economic growth and to what extent local fiscal autonomy contributes to sustainable development outcomes.

Classical Assumption Tests

To ensure the validity of regression analysis, several classical assumption tests were conducted. Normality Test, The Normal P-P Plot demonstrated that the residuals were distributed closely around the diagonal line, suggesting that the residuals followed a normal distribution.

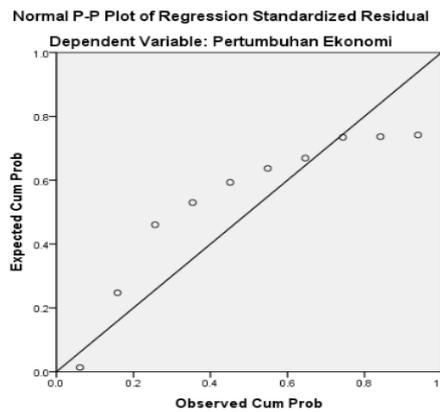


Figure 1 P-Plot Normality Diagrams

This indicates that the regression model fulfilled the normality assumption.

Multicollinearity Test,

Table 2 Multicollinearity Test Results

Coefficients ^a		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	The Special Allocation Fund (DAK)	0.645	1.549
	Regional Own-Source Revenue (PAD)	0.645	1.549

a. Dependent Variable: Economic growth

Since tolerance exceeded 0.10 and VIF was below 10, it can be concluded that no multicollinearity problem existed between the independent variables, allowing both PAD and DAK to be included in the regression model without bias.

The Heteroscedasticity Test and scatterplot analysis revealed that the residuals were randomly distributed both above and below zero, without forming any discernible pattern. This confirmed that the model satisfied the homoscedasticity assumption.

Multiple Regression Analysis

The regression model tested the influence of Regional Own-Source Revenue (PAD) and the Special Allocation Fund (DAK) on economic growth. The estimated regression equation is as follows:

$$Y = 412.287 - 2.814 \times 10^{-9}(\text{DAK}) + 6.473 \times 10^{-10}(\text{PAD}) + e$$

Table 3. Multiple Regression Result Test

Model	Unstandardized Coefficients (B)	Std. Error	Standardized Coefficients (Beta)	t	Sig.	Tolerance	VIF
(Constant)	412.287	185.261	-	2.225	0.036	-	-
The Special Allocation Fund (DAK)	-2,81E-06	.000	-0.421	-2.791	0.027	0,44791667	1.549
Regional Own-Source Revenue (PAD)	6,47E-07	.000	0,41388889	3.722	0.007	0,44791667	1.549

*Note: Monetary predictors in rupiah; descriptive stats reported in billion IDR.

The regression results reveal that both fiscal variables—PAD and DAK—significantly influence regional economic growth during the observation period. The constant value (412.287) represents the predicted baseline of economic growth when both PAD and DAK are hypothetically zero, capturing the inherent economic momentum driven by non-fiscal factors such as natural resources and local business activity.

The PAD coefficient (6.473E-10) is positive and statistically significant ($p = 0.007$), indicating that increases in local revenue are associated with higher economic growth. This finding aligns with the fiscal decentralization framework, suggesting that greater financial autonomy enables local governments to allocate resources more efficiently toward productive development sectors. In practical terms, an increase in PAD—derived from local taxes, retributions, and regionally owned enterprises—tends to enhance public investment capacity and stimulate business activities, thereby boosting GRDP.

Meanwhile, the DAK coefficient (-2.814E-9) shows a negative but significant relationship ($p = 0.027$) with economic growth. This suggests that while DAK aims to promote development in key sectors such as education, health, and infrastructure, its impact may not always translate into proportional increases in aggregate output. The negative sign likely reflects inefficiencies in fund absorption, rigid allocation procedures, and limited alignment with local economic priorities. In other words, excessive dependence on central transfers could create fiscal complacency or “fiscal illusion,” weakening incentives for local innovation and revenue generation.

The VIF values (1.549) indicate no multicollinearity issue, confirming that PAD and DAK measure distinct fiscal effects. Overall, the model demonstrates statistical significance and explanatory power, implying that variations in PAD and DAK together contribute meaningfully to fluctuations in regional economic growth.

F-Test (Simultaneous Test)

The results of the F-test, summarized in Table 4, show a significance value of 0.014, which is below the 0.05 threshold. This means that PAD and DAK jointly have a significant effect on economic growth, confirming that the regression model is statistically valid and capable of explaining variations in the dependent variable.

Table 4. Simultaneous Test Result

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	142,763.510	2	71,381.755	7.814	0.014
Residual	63,092.790	7	9,013.256		
Total	205,856.300	9			

The significant positive effect of PAD underscores the importance of strengthening local fiscal capacity to drive sustainable economic growth. This finding supports the argument of Oates (1972) and Halim (2008) that fiscal autonomy enhances efficiency in public service delivery and resource allocation. When local governments have greater control over their revenue sources, they can respond more effectively to community needs and promote growth-oriented spending.

The significant yet negative effect of DAK aligns with insights from Simanjuntak and Mukhlis (2012), who argue that rigid administrative requirements and central government dominance can limit the developmental impact of intergovernmental transfers. This pattern reflects the risk of fiscal dependency, where local governments rely excessively on transfers without improving local tax effort or investment attraction.

Despite the model's significance, several omitted variables may still influence economic growth beyond fiscal capacity:

- Investment (Capital Formation): Higher public or private investment typically increases output and productivity, suggesting a positive expected effect.
- Public Expenditure Composition: Development-oriented expenditure (infrastructure, health, education) promotes long-term growth, while routine spending may not, implying a mixed but generally positive direction.
- Human Capital: Better education and skills improve productivity and innovation capacity, producing a substantial positive impact on growth.

Including these variables in future panel data analysis could strengthen explanatory power and refine causal inference. Moreover, econometric refinements such as Cochrane–Orcutt correction or ARIMA adjustments may address potential serial correlation and improve model stability over time. Overall, the findings suggest that fiscal decentralization – when supported by sound governance, efficient fund allocation, and human capital development – can effectively stimulate regional economic growth. However, without improving local institutional capacity, even significant fiscal transfers may fail to generate the expected developmental outcomes.

Discussion

The findings of this study reveal that both Regional Own-Source Revenue (PAD) and the Special Allocation Fund (DAK) exert a significant influence on regional economic growth in Gowa Regency, South Sulawesi. However, the direction of these effects differs: PAD shows a significant positive relationship, while DAK demonstrates a significant negative relationship with economic growth. This outcome aligns with the theoretical expectation that fiscal decentralization can

enhance regional development when local governments effectively manage their financial autonomy. However, it also highlights the risks of dependency on intergovernmental transfers.

According to Oates' (1972) theory of fiscal federalism, devolving fiscal authority to local governments should improve allocative efficiency, stimulate innovation in public service delivery, and ultimately accelerate economic performance. The significant positive coefficient of PAD in this study supports this notion. As Halim (2008) emphasized, PAD serves as an indicator of fiscal independence—reflecting a region's ability to mobilize local resources through taxation, retribution, and the management of regional enterprises. In Gowa, the rising contribution of PAD to regional budgets has likely enabled the government to finance infrastructure development and social programs that directly contribute to Gross Regional Domestic Product (GRDP). This finding resonates with Hidayat (2014), who observed that higher PAD enhances the responsiveness and effectiveness of local public spending.

The significant negative coefficient of DAK indicates that larger allocations from the central government may not automatically translate into higher economic growth. In theory, intergovernmental transfers such as DAK are designed to correct fiscal imbalances and support strategic sectors like education, health, and infrastructure (Musgrave & Musgrave, 1989). However, when these transfers are heavily regulated and tied to central priorities, they can limit regional discretion and efficiency. This result aligns with Simanjuntak and Mukhlis (2012), who noted that rigid DAK disbursement procedures often lead to inefficiencies and low absorption rates. From the perspective of Fiscal Illusion Theory (Oates, 1988), excessive reliance on central transfers may create an illusion of fiscal capacity—encouraging spending without genuine local accountability or productivity gains. Similarly, Public Choice Theory (Buchanan & Tullock, 1962) suggests that such conditions may foster politically motivated expenditures rather than economically strategic investments.

From the broader lens of growth theory, the significance of PAD and DAK confirms that fiscal instruments do play a measurable role in shaping regional economies. However, they operate alongside a range of other structural determinants. As emphasized by Todaro and Smith (2015), sustainable long-term growth depends more heavily on factors such as investment, human capital, technology, and productivity than on fiscal revenues alone. In this context, the regression model's moderate explanatory power ($R^2 = 0.46$) indicates that while PAD and DAK significantly influence growth, more than half of the variation in GRDP remains attributable to other variables not included in the model. These omitted factors likely include regional investment, public expenditure quality, and human resource development—all of which can amplify or diminish the effects of fiscal policies.

The positive effect of PAD underscores the importance of strengthening local fiscal capacity as a foundation for sustainable growth. Increasing PAD through

improved tax collection, digitalization of local revenue systems, and the development of regionally owned enterprises can expand the fiscal space for productive spending. At the same time, the adverse effect of DAK suggests that transfer dependency can hinder innovation and fiscal discipline. To address this, central-local fiscal relations must shift toward performance-based transfers, where DAK allocations are tied to measurable outcomes and efficiency indicators. Such reforms would align fiscal decentralization practices with the theoretical principles of accountability, transparency, and efficiency.

The interaction between PAD and DAK may also reflect institutional and governance quality. Regions with strong administrative capacity are better positioned to integrate central transfers with local priorities, whereas those with weak institutions may experience fund misallocation or delays in project implementation. Strengthening institutional capacity—through improved financial management systems, local planning autonomy, and transparent monitoring mechanisms—can therefore magnify the developmental impact of both PAD and DAK.

CONCLUSION

This study demonstrates that fiscal decentralization exerts a significant but asymmetric impact on regional economic growth in Gowa Regency. PAD contributes positively and significantly, confirming that local fiscal autonomy and efficient revenue utilization stimulate economic expansion. DAK, on the other hand, exerts a significant negative influence, suggesting that dependence on centrally directed transfers can suppress local initiative and reduce allocative efficiency.

These findings contribute to the empirical debate on fiscal decentralization by illustrating that its success depends not only on the amount of fiscal resources but also on how effectively they are managed and aligned with local economic structures. To maximize the developmental benefits of fiscal decentralization, policymakers should prioritize:

- Expanding local revenue sources through diversified taxation and innovation in regional enterprises;
- Reforming intergovernmental transfers to be more flexible, performance-based, and oriented toward long-term productivity; and
- Enhancing institutional quality and human capital to ensure that fiscal instruments translate into tangible economic outcomes.

Fiscal decentralization is not a guarantee of growth but a framework whose effectiveness depends on governance, policy design, and institutional commitment. Strengthening fiscal capacity and improving the efficiency of both PAD and DAK utilization remain central strategies for realizing sustainable and inclusive economic growth across Indonesian regions.

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