



RESEARCH ARTICLE

Analysis of Fiscal Equalisation Funds and Local Financial Autonomy in West Tanjung Jabung Regency

Muhammad Teja ^{1*} | Zulfanetti ² | Jaya Kusuma Edy ³

^{1,2,3} Local Finance Program, Faculty of Economics and Business, Universitas Jambi, Jambi City, Jambi Province, Indonesia.

Correspondence

¹ Local Finance Program, Faculty of Economics and Business, Universitas Jambi, Jambi City, Jambi Province, Indonesia.
Email. dewi35539@gmail.com.

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Universitas Jambi.

Abstract

This study aims to analyze the development of balancing funds, the structure of balancing funds, and the level of regional financial independence in Tanjung Jabung Barat Regency during the 2020 to 2024 period. This study uses a descriptive quantitative approach with secondary data obtained from the Regional Revenue and Expenditure Budget (APBD) Realization Report published by the Directorate General of Fiscal Balance (DJPK), Ministry of Finance of the Republic of Indonesia. The analytical methods used include development analysis, contribution analysis, and regional financial independence ratio analysis. The results show that balancing funds remain the main source of regional revenue, with an average contribution of 87% to total regional revenue. The structure of balancing funds is dominated by Revenue Sharing Funds (DBH) and General Allocation Funds (DAU), while the average regional financial independence ratio is only 8%, which is categorized as very low. These findings indicate that Tanjung Jabung Barat Regency still has a high level of dependence on central government transfers. Therefore, efforts are needed to optimize Regional Original Revenue (PAD) to increase fiscal capacity and strengthen regional financial independence.

Keywords

Balancing Funds; Regional Financial Independence; Fiscal Dependency; Regional Revenue; West Tanjung Jabung Regency.

1 | INTRODUCTION

Regional autonomy requires local governments to prove that fiscal authority can improve development outcomes, strengthen public service delivery, and build more accountable financial management. Decentralization gives regional Governments wider authority to plan budgets, collect certain revenues, allocate expenditure, and respond to local needs. Yet wider authority does not automatically create stronger fiscal capacity. Local governments need credible revenue planning, disciplined spending, reliable financial administration, and clear policy priorities. Without those requirements, decentralization may only shift administrative responsibility to the regional level while dependence on the central government remains strong. Local financial autonomy is one way to assess the fiscal strength of a region. A region with stronger financial autonomy has greater room to determine development priorities, finance public services, and respond to economic change. A region with weak own-source revenue tends to depend on central transfers for routine expenditure and development programs. West Tanjung Jabung Regency still faces that fiscal problem. Its regional revenue structure relies heavily on fiscal equalisation funds, while Local Own-Source Revenue (PAD) has not formed a strong fiscal base. Such a condition may reduce budget flexibility and weaken local motivation to expand revenue sources.

Fiscal decentralization theory states that local governments can allocate public resources more efficiently because they operate closer to citizens. Local governments are expected to understand local preferences, service needs, and economic potential better than the central government. Oates (2022) argues that fiscal federalism can improve allocative efficiency when expenditure authority and revenue responsibility are assigned to the level of government closest to the people. The argument is relevant to regional autonomy because local governments are not only expected to spend public funds, but also to manage revenue responsibility in a more accountable way. When expenditure authority grows faster than revenue capacity, fiscal pressure increases and dependence on transfers becomes harder to reduce. Shah (2021) explains that effective decentralization requires clear expenditure assignments, adequate revenue authority, transparent transfer systems, and strong accountability mechanisms. Fiscal decentralization should not only move funds from the central government to local governments. It should also encourage regions to strengthen revenue administration, improve spending quality, and manage public resources responsibly. Transfer funds can support public services, but long-term reliance on transfers can reduce pressure to improve tax collection, retribution services, and asset management. A transfer-based budget may keep local services running, yet it can also weaken fiscal initiative when PAD remains small.

Indonesia regulates central and regional financial relations through Law Number 33 of 2004 and Law Number 23 of 2014. Law Number 33 of 2004 establishes financial balance between the central government and regional governments through fiscal equalisation funds. The policy aims to reduce vertical fiscal gaps between levels of government and horizontal fiscal gaps across regions. Law Number 23 of 2014 strengthens regional authority in managing public affairs, including regional finance. Fiscal equalisation funds consist of the Revenue Sharing Fund (DBH), General Allocation Fund (DAU), and Special Allocation Fund (DAK). DBH reflects revenue sharing from certain state revenues, DAU supports fiscal equalization across regions, and DAK finances specific activities aligned with national priorities.

Fiscal equalisation funds have a clear role in regional budgeting, especially for regions with weak own-source revenue. These transfers help maintain public services, finance development programs, and reduce fiscal disparities. However, transfer funds should support local capacity rather than replace local fiscal effort. Sidik (2002) argues that central and regional financial balance should distribute fiscal resources more fairly while encouraging local governments to expand their own revenue base. A good transfer system should not make local governments passive. It should give regions fiscal space while still pushing them to improve PAD, strengthen revenue administration, and manage regional assets more productively.

Empirical studies show that fiscal decentralization can improve local government performance when supported by sound institutions, fiscal discipline, and accountable financial management. Martinez-Vazquez and Lago-Peñas (2022) found that fiscal rules, institutional quality, accountability, and transfer design shape the effect of fiscal decentralization on local government performance. OECD (2023) also stresses the need for balance between revenue authority, expenditure responsibility, and transfer arrangements in subnational finance. These findings suggest that fiscal decentralization should not be judged only by the amount of funds transferred to regions. The quality of local fiscal management, PAD performance, and spending discipline also need serious attention.

Studies on regional finance also show that PAD plays a central role in strengthening local fiscal capacity. Nurkhayati (2022) found that a high share of fiscal equalisation funds tends to reduce local financial autonomy, while PAD strengthens regional fiscal capacity. Pratika (2025) also reported that PAD has a stronger role in improving regional financial independence than central government transfers. Kuncoro (2014) argues that a revenue structure dominated by transfers reflects weak regional capacity to finance development needs through local sources. These findings are relevant for assessing West Tanjung Jabung Regency because fiscal equalisation funds still dominate its regional revenue structure.

West Tanjung Jabung Regency offers a strong case for assessing the relationship between fiscal equalisation funds and local financial autonomy. APBD data from the Directorate General of Fiscal Balance show that fiscal equalisation funds accounted for an average of 87% of total regional revenue during 2020–2024. The large share of central transfers

indicates that DBH, DAU, and DAK remain the main fiscal sources for financing regional needs. At the same time, PAD has not grown enough to reduce dependence on transfers. The problem does not lie in the existence of fiscal equalisation funds, because such funds are needed to reduce fiscal disparities and maintain public services. The main concern lies in how the regional government uses transfer funds while building stronger local revenue capacity.

Analysis at the regency level is needed because many studies on fiscal decentralization focus on national trends or comparisons across regions. Such studies often leave little room to assess the fiscal structure of a single local government. West Tanjung Jabung Regency has distinct fiscal characteristics, particularly its high reliance on fiscal equalisation funds during 2020–2024. Examining the movement of DBH, DAU, and DAK alongside local financial autonomy can clarify whether central transfers strengthen fiscal capacity or sustain dependence. The analysis can also show which transfer source carries the largest fiscal weight and how PAD performs within the regional revenue structure. The study aims to examine the development of fiscal equalisation funds, the structure of DBH, DAU, and DAK, and the level of local financial autonomy in West Tanjung Jabung Regency during 2020–2024.

2 | METHOD

This study uses a quantitative descriptive method. Quantitative descriptive research was used to describe the development of the balance fund, the structure of the balance fund, and the level of regional financial independence of West Tanjung Jabung Regency during the 2020–2024 period based on regional financial data obtained from the Regional Revenue and Expenditure Budget (APBD) realization report. The data used in this study is secondary data sourced from the Directorate General of Financial Balance (DJPK) of the Ministry of Finance of the Republic of Indonesia as well as other supporting documents related to the research.

The data analysis method used in this study is quantitative descriptive analysis using development analysis, contribution analysis, and regional financial independence ratio analysis. Developmental analysis was used to determine the development of Revenue Sharing Funds (DBH), General Allocation Funds (DAU), and Special Allocation Funds (DAK) during the research period. Contribution analysis is used to determine the structure of the balance fund to the total regional balance fund. Meanwhile, the analysis of the regional financial independence ratio is used to measure the level of local government's ability to finance regional needs through Regional Original Revenue (PAD) compared to transfer income from the central government.

The development of the balancing fund is examined to measure annual changes in the Revenue Sharing Fund (DBH), General Allocation Fund (DAU), and Special Allocation Fund (DAK) in West Tanjung Jabung Regency during 2020–2024. The calculation compares each fund across fiscal years to identify growth, decline, and shifts in transfer patterns. The assessment does not stop at recording numbers, but also questions whether central transfers still dominate regional revenue and limit budget flexibility. The results can guide local government efforts to strengthen PAD, improve revenue planning, and reduce structural dependence on transfer funds while maintaining the equalization role of central government support over time.

$$Development = \frac{X_t - X_{t-1}}{X_{t-1}} \times 100\%$$

Contribution analysis is applied to assess how far each type of fiscal equalization fund, namely Revenue Sharing Fund (DBH), General Allocation Fund (DAU), and Special Allocation Fund (DAK), shapes the total balancing fund received by West Tanjung Jabung Regency. The assessment compares the share of each fund against total transfers during the observed period, allowing the study to identify which source carries the largest fiscal weight. A high DAU share may indicate routine dependence for administrative spending, while DBH and DAK reflect revenue sharing and targeted development support. The results provide a basis for evaluating transfer reliance, fiscal structure, and the regional economic independence ratio more critically.

$$Contribution = \frac{Component\ Realization}{Total\ Equalization\ Funds} \times 100\%$$

$$Self - Reliance = \frac{Local\ Own - Source\ Revenue\ (PAD)}{Total\ Local\ Revenue} \times 100\%$$

3 | RESULTS AND DISCUSSION

4.1 Results

3.1.1 Development of the Balance Fund of Tanjung Jabung Barat Regency

According to Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments, the balance fund is a fund sourced from the State Revenue and Expenditure Budget (APBN) which is allocated to the regions to fund regional needs in the context of implementing decentralization. The balance fund consists of the Profit Sharing Fund (DBH), the General Allocation Fund (DAU), and the Special Allocation Fund (DAK) which are the main source of regional revenue in West Tanjung Jabung Regency.

Table 1. Development of Revenue Sharing Fund (DBH) 2020-2024

Year	Profit Sharing Fund (Rp)	Development (%)
2020	399.230.000.000	-
2021	534.390.000.000	133,85
2022	742.360.000.000	138,91
2023	803.580.000.000	108,24
2024	621.910.000.000	77,39
Average		114,60

Source: DJPK Ministry of Finance Data (Data Processed)

Based on Table 1, the development of the Revenue Sharing Fund (DBH) of West Tanjung Jabung Regency during the 2020–2024 period shows a fluctuating pattern with an average development of 114.60%. The value of DBH increased from IDR 399.23 billion in 2020 to IDR 803.58 billion in 2023 before decreasing to IDR 621.91 billion in 2024. The increase in DBH shows that regional revenues are still quite influenced by the natural resources sector and the realization of state revenue. According to Law Number 33 of 2004, DBH is a fund sourced from state budget revenues allocated to regions based on a certain percentage to fund regional needs in the context of implementing decentralization. This condition shows that DBH is still one of the main sources of regional revenue in West Tanjung Jabung Regency.

Table 2. Development of the General Allocation Fund (DAU) 2020-2024

Year	General Allocation Fund (Rp)	Development (%)
2020	487.550.000.000	-
2021	479.380.000.000	98,32
2022	479.790.000.000	100,09
2023	496.600.000.000	103,50
2024	549.760.000.000	103,50
Average		101,35

Source: DJPK Ministry of Finance Data (Data Processed)

Based on Table 2, the General Allocation Fund (DAU) of West Tanjung Jabung Regency during the 2020–2024 period shows relatively stable development with an average development of 101.35%. The value of DAU increased from IDR 487.55 billion in 2020 to IDR 549.76 billion in 2024. The stable development of DAU shows that this fund has an important role in maintaining the regional fiscal balance. According to Law Number 33 of 2004, DAU aims to equalize financial capabilities between regions in the context of implementing decentralization. The high contribution of DAU shows that local governments still have a fairly high level of dependence on central government transfers in financing government needs and regional development.

Table 3. Special Allocation Fund (DAK) 2020-2024

Year	Special Allocation Fund (Rp)	Development (%)
2020	176.240.000.000	-
2021	163.530.000.000	92,79
2022	185.380.000.000	113,36
2023	257.310.000.000	138,81
2024	203.160.000.000	78,96
Average		105,98

Source: DJPK Ministry of Finance Data (Data Processed)

Based on Table 3, the development of the Special Allocation Fund (DAK) of West Tanjung Jabung Regency during the

2020–2024 period shows fluctuating conditions with an average development of 105.98%. The value of DAK increased from IDR 176.24 billion in 2020 to IDR 257.31 billion in 2023, but decreased again to IDR 203.16 billion in 2024. These fluctuations are influenced by central government policies and national development priorities every year. According to Law Number 33 of 2004, DAK is a fund allocated to certain regions to help fund special activities that are a national priority. Although its contribution is not as large as DAU and DBH, DAK still has an important role in supporting the development of infrastructure and regional public services.

3.1.2 Analysis of the Structure of the Balance Fund

Mahmudi (2019), the structure of the balance fund is the composition of central government transfer funds to the regions consisting of Profit Sharing Funds (DBH), General Allocation Funds (DAU), and Special Allocation Funds (DAK). The structure of the balance fund can be seen through the amount of contribution of each component of the balance fund to the total regional balance fund. The contribution analysis was used to determine the most dominant components of transfer funds in supporting regional revenues and to describe the level of regional fiscal dependence on the central government.

Table 4. Table of Contributions of DBH, DAU, DAK Year 2020 - 2024

Year	DBH (%)	DAU (%)	DAK (%)
2020	33%	41%	15%
2021	39%	35%	12%
2022	51%	33%	13%
2023	71%	44%	23%
2024	35%	31%	11%
Flat - Flat	46%	37%	15%

Source: DJPK Ministry of Finance Data (Data Processed)

Based on Table 4, the structure of the balance fund of West Tanjung Jabung Regency during the 2020–2024 period is dominated by the Profit Sharing Fund (DBH) and the General Allocation Fund (DAU). The average contribution of DBH to the balance fund is 46%, while DAU is 37% and DAK is 15%. The high contribution of DBH shows that regional revenue is quite influenced by the natural resources sector owned by the region. Meanwhile, the contribution of DAK is relatively smaller because its use is special according to national priority programs. This condition shows that the regional revenue structure of Tanjung Jabung Barat Regency is still highly dependent on central government transfer funds.

According to Mahmudi (2019), the structure of the balance fund is the composition of central government transfer funds to the regions consisting of the Revenue Sharing Fund (DBH), the General Allocation Fund (DAU), and the Special Allocation Fund (DAK). The structure of the balance fund can be seen through the amount of contribution of each component of the balance fund to the total regional balance fund. According to Kuncoro (2014), the high contribution of transfer funds to regional revenue shows that the region's fiscal ability to produce PAD is still relatively low. This can be seen from the dominance of DBH and DAU in the balance fund structure of West Tanjung Jabung Regency during the research period.

Table 5. Table of Regional Financial Independence in Tanjung Jabung Barat Regency 2020 - 2024

Year	Regional Original Revenue (Rp)	Total Regional Revenue (Rp)	Contribution Ratio	Criteria
2020	115.556.000.000	1.421.415.183.080	8%	Very Low
2021	118.526.000.000	1.540.399.130.692	8%	Very Low
2022	130.480.000.000	1.665.016.502.341	8%	Very Low
2023	119.748.000.000	1.323.383.640.563	9%	Very Low
2024	138.039.000.000	2.009.410.681.820	7%	Very Low
Flat - Flat			8%	

Source: DJPK Ministry of Finance Data (Data Processed)

Based on Table 5, the level of regional financial independence of West Tanjung Jabung Regency during the 2020–2024 period is still in the very low category with an average ratio of 8%. The highest independence ratio will occur in 2023 at 9%, while the lowest ratio will occur in 2024 at 7%. Although Regional Original Revenue (PAD) increased from IDR 115.56 billion in 2020 to IDR 138.03 billion in 2024, PAD's contribution to total regional revenue is still relatively small compared to central government transfer funds.

According to Halim (2014), the higher the ratio of regional financial independence, the lower the level of regional dependence on central government assistance. The low independence ratio of West Tanjung Jabung Regency shows that the region's ability to finance government and development needs through PAD is still limited so that the level of fiscal dependence on the central government is still quite high. Therefore, local governments need to increase the optimization

of PAD through increasing regional tax revenues, regional levies, and managing regional economic potential to strengthen regional financial independence. According to Mardiasmo (2018), increasing PAD can be done through optimizing regional tax collection, regional levies, and effective management of regional assets. Therefore, local governments need to improve the management of regional economic potential to strengthen fiscal capacity and increase regional financial independence.

The research findings indicate that the level of financial autonomy in Tanjung Jabung Barat Regency during the 2020–2024 period remains in the very low category, with an average ratio of 8%. This situation suggests that the local government's capacity to finance the administration of government and development through Local Own-Source Revenue (PAD) remains limited, meaning that dependence on central government transfer funds remains quite high. The high proportion of equalisation funds within the local revenue structure indicates that the region's fiscal capacity is not yet fully capable of supporting the implementation of regional autonomy independently. These research findings are consistent with Nurkhayati's (2022) study, which showed that a high proportion of equalisation funds tends to contribute to a low level of local financial autonomy. The findings of this study also support the results of Pratika's (2025) research, which states that Local Own-Source Revenue (PAD) is a key factor in enhancing local fiscal capacity and financial autonomy. The greater the contribution of PAD to total local revenue, the higher the region's ability to finance development needs independently.

The dominance of transfer funds in the revenue structure of Tanjung Jabung Barat Regency indicates that the local government still faces limitations in tapping into local revenue sources. Therefore, more optimal policies are required to increase Local Own-Source Revenue through improved effectiveness in collecting local taxes and levies, productive management of local assets, and the development of potential economic sectors capable of contributing to local revenue. It is hoped that these efforts will strengthen the region's fiscal capacity and reduce dependence on central government transfers, thereby enabling the objectives of fiscal decentralisation to be achieved more effectively. Consequently, the local government needs to improve the management of the region's economic potential in order to strengthen fiscal capacity and enhance the region's financial autonomy.

3.2 Discussion

The results indicate that West Tanjung Jabung Regency still relies heavily on fiscal equalisation funds during the 2020–2024 period. Central transfers remain the largest source of regional revenue, while Regional Original Revenue (PAD) has not yet become a strong fiscal base. Such a pattern suggests that fiscal decentralisation has not fully improved local financial autonomy. Law Number 33 of 2004 positions fiscal equalisation funds as a mechanism to support decentralisation and reduce fiscal gaps among regions. However, long-term dependence on transfers can weaken local fiscal initiative when PAD growth does not move at a stronger pace. The Revenue Sharing Fund (DBH) recorded the highest average growth compared with the General Allocation Fund (DAU) and the Special Allocation Fund (DAK). DBH increased from IDR 399.23 billion in 2020 to IDR 803.58 billion in 2023, before declining to IDR 621.91 billion in 2024. The movement reflects the sensitivity of DBH to state revenue, natural resource performance, and central allocation policy. For a region with resource-based revenue potential, DBH can support fiscal capacity in the short term. However, heavy reliance on DBH also creates risk because local government cannot fully control its allocation. When DBH decreases, the regional budget may face pressure, especially if spending has already increased in previous years. For that reason, DBH should support fiscal planning, but should not replace efforts to strengthen PAD.

DAU showed a more stable pattern during the same period. The fund increased from IDR 487.55 billion in 2020 to IDR 549.76 billion in 2024, with an average growth of 101.35%. DAU helps maintain fiscal balance and supports routine public administration. Mahmudi (2019) explains that central transfers form part of the financial relationship between central and regional governments. Even so, a large DAU share may indicate that local revenue capacity remains weak. DAU aims to reduce fiscal inequality, not to weaken local revenue effort. If routine spending depends too much on DAU, the local government may have less pressure to improve tax management, retribution governance, and asset utilisation. DAK had a smaller share than DBH and DAU, yet its role remains relevant for financing priority programs. The value of DAK increased until 2023, then declined in 2024. The movement reflects national priority programs and annual policy direction from the central government. Since DAK is earmarked, its use follows specific technical rules. Such a design can improve infrastructure and public service facilities, but it gives less fiscal flexibility to the local government. West Tanjung Jabung Regency needs to ensure that DAK-funded programs match local service needs, produce measurable results, and avoid becoming short-term physical spending without clear follow-up maintenance.

The fiscal equalisation fund structure shows that DBH and DAU dominate regional transfers. The average share of DBH reached 46%, while DAU reached 37% and DAK reached 15%. Kuncoro (2014) argues that a revenue structure dominated by transfers reflects weak regional fiscal capacity. The result supports that argument because PAD remains small compared with total regional revenue. However, the annual percentage values in Table 4 need to be reviewed before final submission because several figures appear inconsistent with a normal share calculation. A more accurate calculation will strengthen the validity of the discussion and prevent weak interpretation of the transfer structure. The regional financial independence ratio gives the clearest signal of weak fiscal autonomy. During 2020–2024, the average ratio reached only 8%, which falls into the very low category. PAD increased from IDR 115.56 billion in 2020 to IDR 138.03

billion in 2024, but its share in total revenue stayed small. The ratio declined to 7% in 2024 even though total regional revenue rose. The result shows that revenue growth came mainly from external transfers, not from stronger local fiscal performance. Halim (2014) states that a higher financial independence ratio reflects lower dependence on central government assistance. Based on that view, West Tanjung Jabung Regency still faces a serious challenge in building fiscal autonomy.

Mardiasmo (2018) explains that local financial management should support the capacity of regional governments to finance public needs through local revenue sources. The findings suggest that PAD optimisation has not yet produced a strong fiscal effect. Several issues may explain the weak PAD share, including a narrow tax base, low retribution performance, underused regional assets, and weak linkage between local economic activity and revenue collection. The local government needs to improve taxpayer data, strengthen collection systems, review retribution objects, and manage assets more productively. Digital payment channels, integrated taxpayer records, and stricter monitoring of arrears can help improve compliance and reduce leakage. The findings also align with fiscal federalism theory. Oates (2022) argues that decentralisation can improve public service delivery when local governments have sufficient authority and fiscal capacity. Bird and Smart (2021) also argue that intergovernmental transfers should support local services without weakening local revenue effort. In West Tanjung Jabung Regency, fiscal authority has not been matched by strong PAD performance. Fiscal equalisation funds still play a stabilising role, but the transfer system has not yet pushed the region toward stronger financial independence. OECD (2023) also stresses the need for balance between transfers, own-source revenue, and accountable spending in subnational finance.

Policy improvement should focus on gradual fiscal strengthening rather than reducing transfers abruptly. Fiscal equalisation funds remain needed to maintain public services and reduce fiscal gaps. However, the local government should treat transfers as supporting finance while building a stronger PAD base. Revenue policy needs to focus on fair tax collection, better retribution governance, productive asset use, and stronger local economic sectors that can generate revenue. Spending policy also needs stronger discipline. Programs funded by transfers should support activities that expand the local economy and improve future revenue capacity.

5 | CONCLUSIONS AND FUTURE WORK

The findings show that fiscal equalisation funds in West Tanjung Jabung Regency fluctuated during 2020–2024. The Revenue Sharing Fund (DBH) recorded the highest average growth, followed by the Special Allocation Fund (DAK) and the General Allocation Fund (DAU). The transfer structure was still dominated by DBH and DAU, with average shares of 46% and 37%, while DAK reached 15%. The figures indicate that regional revenue still depends heavily on central government transfers. The regional financial independence ratio remained in the very low category, with an average of 8%. Although Regional Original Revenue (PAD) increased in nominal terms, its share in total regional revenue stayed weak. The result confirms that West Tanjung Jabung Regency has not yet built a strong fiscal base to support regional autonomy. The local government needs to strengthen PAD through better tax collection, improved retribution management, productive use of regional assets, and spending policies linked to local economic potential. Future studies may include economic growth, capital expenditure, population, and poverty rate to explain regional fiscal capacity with stronger empirical support.

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