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Comparative analysis of regional financial performance in Papua Province: The implementation of the HKPD Law

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ABSTRACT

This study examines changes in regional financial performance in Papua Province during 2019–2025 following Indonesia's Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments (HKPD) and the 2022 establishment of new autonomous provinces. Using a quantitative descriptive-comparative approach, secondary budget and realization data were analyzed through five indicators: fiscal independence, fiscal decentralization, PAD effectiveness, expenditure-to-revenue ratio, and capital expenditure ratio. Results indicate that average fiscal independence increased from 7.61% (2019–2021) to 10.82% (2023–2025), while fiscal decentralization rose from 6.79% to 9.14%. Conversely, PAD effectiveness declined from 110.31% to 96.70%, the expenditure-to-revenue ratio increased from 99.07% to 107.40%, and the capital expenditure ratio decreased from 15.47% to 12.21%. Changes in nominal revenue and expenditure require cautious interpretation due to Papua's administrative restructuring. Although relative fiscal autonomy improved, stronger fiscal capacity cannot be established through ratios alone. The findings emphasize strengthening own-source revenue, improving expenditure quality, protecting productive capital spending, and adapting fiscal strategies to Papua's post-expansion administrative structure.

Keywords: Fiscal Decentralization; Fiscal Independence; HKPD; Papua; Regional Financial Performance; Regional Restructuring

INTRODUCTION

Fiscal decentralization is a major component of public-sector reform because it redistributes authority over public resources between levels of government. The underlying rationale is that subnational governments may respond more effectively to local preferences when they have meaningful responsibility for revenue and expenditure decisions (Oates, 1999). At the same time, decentralization does not automatically create fiscal autonomy. Where local revenue capacity is limited and expenditure responsibilities are substantial, subnational governments may remain dependent on intergovernmental transfers. The quality of fiscal decentralization therefore depends on the alignment between expenditure responsibilities, own-source revenue capacity, transfer arrangements, and institutional capability.

Indonesia has implemented fiscal decentralization through a succession of reforms in intergovernmental relations. The latest major framework is Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments, commonly referred to as the HKPD Law. The reform seeks, among other objectives, to strengthen regional fiscal capacity, improve the design of transfers, broaden and harmonize local revenue instruments, and improve the quality of regional expenditure. The policy direction is particularly relevant for regions where own-source revenue remains small relative to transfers and where public spending must respond to large infrastructure and service-delivery needs.

Papua represents a distinctive setting for evaluating regional fiscal performance. The province has historically relied heavily on transfers from the central government, while the contribution of Pendapatan Asli Daerah (PAD), or regional own-source revenue, has remained relatively limited. Papua also faces high service-delivery costs, difficult geography, infrastructure gaps, and a development structure that differs from many Indonesian regions. These conditions make fiscal autonomy important, but they also mean that fiscal performance cannot be assessed only through the reduction of transfer dependence.

The interpretation of Papua's fiscal performance became more complex after the administrative restructuring of 2022. The establishment of Papua Selatan, Papua Tengah, and Papua Pegunungan substantially changed the administrative coverage of the original Papua Province. Before the restructuring, Papua Province covered 29 regencies/cities. After the new provinces were formed, the parent province covered nine regencies/cities. Consequently, the economic base, revenue potential, transfer allocation, expenditure responsibilities, and service-delivery area recorded in the provincial budget also changed. A decline in nominal revenue after 2022 may therefore reflect a change in the size and composition of the province rather than a simple deterioration in fiscal management.

This issue is important because the HKPD reform and administrative restructuring occurred in a closely related period. The year 2022 represents both the transition toward the new fiscal framework and a major institutional break in the Papua fiscal series. Treating every post-2022 change as a direct effect of the HKPD Law would therefore risk overstating the policy effect. A more appropriate approach is to examine the direction and magnitude of changes in financial indicators while explicitly recognizing the administrative restructuring as a structural factor.

Several studies provide relevant perspectives. Bahl and Bird (2013) emphasize that fiscal decentralization requires sufficient local revenue capacity and institutional

arrangements. Sarjoko et al. (2022), using Indonesian district/city data, show that vertical fiscal balance is related to local fiscal discipline and the incentives to collect local taxes. In Papua, Ratang et al. (2025) demonstrate that the effects of fiscal decentralization depend partly on how expenditure is allocated across sectors, with their findings highlighting the importance of expenditure effectiveness. Research in Jayapura City also finds a positive relationship between economic growth and regional own-source revenue, suggesting that the local economic base is important for strengthening fiscal capacity (Iqbal et al., 2025).

Against this background, this study analyzes the transformation of regional financial performance in Papua Province over 2019–2025. It compares three periods: the baseline period of 2019–2021, the transition year of 2022, and the post-restructuring period of 2023–2025. The analysis focuses on five indicators: fiscal independence, fiscal decentralization, PAD effectiveness, expenditure-to-revenue, and capital expenditure. The study aims to identify the direction of change, assess the consistency of those changes across indicators, and explain why nominal fiscal changes after 2022 should be interpreted in conjunction with the administrative restructuring.

The contribution of the study is primarily empirical and contextual. Rather than estimating a causal impact of the HKPD Law, the study establishes a comparative baseline for understanding Papua's fiscal transformation during a period of simultaneous policy and institutional change. This distinction is important for future evaluations of fiscal reform in Papua, especially when longer post-reform data become available.

LITERATURE REVIEW

Fiscal Decentralization and Vertical Fiscal Imbalance

Fiscal decentralization transfers selected fiscal responsibilities from central to subnational governments with the expectation that local authorities can allocate resources in ways that better reflect local preferences. Oates (1999) argues that decentralized public finance can improve allocative efficiency when local governments possess relevant information about local needs. Bird and Vaillancourt (2006) similarly emphasize that decentralization in developing countries must be designed around the actual fiscal and institutional capacity of subnational governments.

A central challenge is vertical fiscal imbalance, which arises when expenditure responsibilities are larger than the revenue capacity assigned to subnational governments. Intergovernmental transfers can address this imbalance and equalize fiscal capacity, but persistent transfer dependence can also shape local incentives. Sarjoko et al. (2022) find, using Indonesian district/city data, that vertical fiscal balance is associated with local fiscal discipline, while local characteristics such as population density, tertiary-sector share, and GRDP per capita also matter. This evidence supports the view that fiscal autonomy is influenced by both fiscal architecture and the underlying economic base.

Regional Financial Performance

Regional financial performance refers to the capacity of a local government to mobilize revenue, manage expenditure, and maintain fiscal sustainability while delivering public services. In Indonesian regional finance, ratio analysis is commonly used to summarize these dimensions. The fiscal independence ratio compares PAD with transfer revenue and provides an indication of the relative contribution of locally generated revenue. The fiscal decentralization ratio measures PAD relative to total regional revenue. PAD effectiveness compares realized PAD with the budget target. The expenditure-to-

revenue ratio describes the relationship between realized spending and realized revenue, while the capital expenditure ratio indicates the share of total spending devoted to asset formation and investment.

These indicators should be read together rather than individually. A higher independence ratio may result from stronger PAD, lower transfers, or both. Similarly, a higher expenditure-to-revenue ratio is not by itself evidence of technical inefficiency because deficits may be financed through regional financing sources. A capital expenditure ratio measures spending composition, not the quality or impact of the resulting assets. A multidimensional assessment is therefore necessary to avoid interpreting a single fiscal ratio as a complete measure of financial performance.

Papua's Fiscal and Institutional Context

Papua's fiscal context is shaped by a high reliance on transfers, the importance of special fiscal arrangements, large infrastructure needs, and significant geographic dispersion. These factors influence both the revenue side and the expenditure side of regional finance. The World Bank (2020) highlights the importance of improving expenditure quality and service delivery in Indonesia's regional governments, while Papua-specific research shows that the relationship between fiscal decentralization and development outcomes depends on the sectoral composition and effectiveness of spending (Ratang et al., 2025).

Revenue capacity is also connected to the local economic base. Iqbal et al. (2025) find a positive relationship between economic growth and PAD in Jayapura City over 2014–2023. Although that study concerns a city rather than the province, it reinforces the broader proposition that sustainable own-source revenue requires a sufficiently active and taxable local economy. In addition, Sanggrangbano et al. (2024) examine fiscal policy and economic development in Papua and highlight the importance of fiscal instruments in shaping regional economic outcomes. These studies support an approach that treats fiscal capacity and economic structure as interconnected.

Research Gap and Analytical Framework

The existing literature provides important evidence on fiscal decentralization, transfer dependence, PAD, and development outcomes, but the fiscal transformation of Papua Province around 2022 requires special treatment because the policy reform coincided with major administrative restructuring. This study addresses that gap by comparing pre-restructuring, transition, and post-restructuring periods using a common set of financial indicators. The analytical framework links changes in own-source revenue and transfers to fiscal independence and decentralization, while examining whether these changes are accompanied by stronger PAD realization and a more investment-oriented expenditure structure.

RESEARCH METHOD

This study employs a quantitative descriptive-comparative design to examine regional financial performance in Papua Province during 2019–2025. The analysis is descriptive because it summarizes the movement of fiscal indicators over time, and comparative because it contrasts the baseline period before the structural change with the post-restructuring period. The study does not estimate a causal effect of the HKPD Law.

The unit of analysis is the Government of Papua Province. This choice maintains consistency at the provincial-government level across the observation period. The study uses secondary financial data from provincial APBD and budget realization documents

for 2019–2025. The variables include total regional revenue, PAD, central-government transfer revenue, total regional expenditure, capital expenditure, and PAD budget targets.

The period is divided into three phases. First, 2019–2021 is treated as the baseline period before the main implementation of the HKPD reform and before the administrative restructuring. Second, 2022 is treated as a transition year because it marks the initial implementation of the HKPD framework and the formation of new autonomous provinces. Third, 2023–2025 is treated as the post-restructuring period. The primary comparison is therefore between 2019–2021 and 2023–2025, while 2022 is retained as a structural transition point.

Five indicators are calculated. The fiscal independence ratio is PAD divided by transfer revenue multiplied by 100. The fiscal decentralization ratio is PAD divided by total regional revenue multiplied by 100. PAD effectiveness is realized PAD divided by budgeted PAD multiplied by 100. The expenditure-to-revenue ratio is realized regional expenditure divided by realized regional revenue multiplied by 100. The capital expenditure ratio is realized capital expenditure divided by realized total expenditure multiplied by 100.

Data processing involved checking consistency of account nomenclature and distinguishing budget values from realized values. Realized values form the basis for the performance analysis, while the PAD budget target is used to calculate PAD effectiveness. The analysis consists of annual trend examination, period averages, and comparative changes between the baseline and post-restructuring periods.

A critical methodological consideration is the change in administrative coverage after 2022. Because three new provinces were established from the former Papua Province, nominal values before and after 2022 are not strictly comparable as measures of the same fiscal territory. The study therefore interprets nominal changes jointly with ratio indicators and treats 2022–2023 as a structural break. This approach reduces the risk of attributing all post-2022 changes to the HKPD Law.

RESULTS

Changes in Regional Revenue

The revenue series shows a pronounced structural break after 2022. Realized regional revenue was Rp53.26 trillion in 2019, Rp47.60 trillion in 2020, Rp50.50 trillion in 2021, and Rp53.62 trillion in 2022. It then fell to Rp13.15 trillion in 2023, Rp12.56 trillion in 2024, and Rp10.55 trillion in 2025. The average annual revenue therefore declined from approximately Rp50.45 trillion in 2019–2021 to Rp12.08 trillion in 2023–2025.

Table 1. Realized Regional Revenue of Papua Province, 2019–2025

Year	Regional Revenue (Rp trillion)	Period
2019	53.26	Pre-HKPD / pre-restructuring
2020	47.60	Pre-HKPD / pre-restructuring
2021	50.50	Pre-HKPD / pre-restructuring
2022	53.62	Transition
2023	13.15	Post-HKPD / post-restructuring
2024	12.56	Post-HKPD / post-restructuring
2025	10.55	Post-HKPD / post-restructuring

Source: Provincial APBD/budget realization data, as compiled in the research report.

PAD and Transfer Revenue

PAD followed a similar structural pattern. Realized PAD increased from Rp3.50 trillion in 2019 to Rp4.09 trillion in 2021 and Rp4.64 trillion in 2022. After restructuring, PAD was Rp1.20 trillion in 2023, Rp0.95 trillion in 2024, and Rp1.13 trillion in 2025. The average nominal PAD declined substantially between the two comparison periods. At the same time, transfer revenue declined from Rp46.71 trillion in 2022 to Rp10.72 trillion in 2023 and Rp8.94 trillion in 2025. These changes reinforce the need to interpret the post-2022 data in relation to the reduced territorial and administrative scope of the parent province.

Table 2. PAD and Transfer Revenue of Papua Province

Year	PAD (Rp trillion)	Transfer (Rp trillion)	PAD Effectiveness (%)
2019	3.50	48.13	126.90
2020	2.71	42.80	91.20
2021	4.09	44.27	112.81
2022	4.64	46.71	112.56
2023	1.20	10.72	107.76
2024	0.95	11.03	83.36
2025	1.13	8.94	99.00

Source: Provincial APBD/budget realization data, as compiled in the research report.

Expenditure and Capital Spending

Realized expenditure also changed sharply. Expenditure was Rp51.99 trillion in 2019, Rp47.56 trillion in 2020, Rp50.33 trillion in 2021, and Rp52.17 trillion in 2022. It fell to Rp14.94 trillion in 2023, Rp13.00 trillion in 2024, and Rp11.08 trillion in 2025. Despite the decline in nominal expenditure, the relationship between expenditure and revenue became tighter after restructuring. Capital expenditure was Rp9.84 trillion in 2019 and Rp9.92 trillion in 2022, but declined to Rp2.23 trillion in 2023 and Rp0.94 trillion in 2025. The capital expenditure ratio fell to 8.46% in 2025.

Table 3. Expenditure Structure of Papua Province

Year	Total Expenditure (Rp trillion)	Expenditure/Revenue (%)	Capital Expenditure (Rp trillion)	Capital Ratio (%)
2019	51.99	97.63	9.84	18.93
2020	47.56	99.92	6.40	13.46
2021	50.33	99.68	7.06	14.03
2022	52.17	97.30	9.92	19.01
2023	14.94	113.62	2.23	14.91
2024	13.00	103.51	1.72	13.25
2025	11.08	105.08	0.94	8.46

Source: Provincial APBD/budget realization data, as compiled in the research report.

Financial Performance Ratios

The ratio results reveal a mixed pattern rather than a uniformly improving or deteriorating performance. Fiscal independence increased from an average of 7.61% in 2019–2021 to 10.82% in 2023–2025. Fiscal decentralization increased from 6.79% to 9.14%. In contrast, PAD effectiveness declined from 110.31% to 96.70%. The expenditure-to-revenue ratio increased from 99.07% to 107.40%, while the capital expenditure ratio declined from 15.47% to 12.21%.

Table 4. Comparative Financial Performance of Papua Province

Indicator	2019–2021	2022	2023–2025	Change vs. Baseline
Fiscal independence	7.61%	9.94%	10.82%	+3.21 pp
Fiscal decentralization	6.79%	8.66%	9.14%	+2.35 pp
PAD effectiveness	110.31%	112.56%	96.70%	−13.60 pp
Expenditure/Revenue	99.07%	97.30%	107.40%	+8.33 pp
Capital expenditure	15.47%	19.01%	12.21%	−3.27 pp

Source: Authors' calculation based on provincial fiscal data.

Annual Fiscal Independence and Decentralization

Table 5. Annual Fiscal Independence and Fiscal Decentralization

Year	Fiscal Independence (%)	Fiscal Decentralization (%)
2019	7.26	6.57
2020	6.33	5.69
2021	9.24	8.10
2022	9.94	8.66
2023	11.21	9.15
2024	8.66	7.60
2025	12.59	10.67

Source: Authors' calculation based on provincial fiscal data.

DISCUSSION

The most visible finding is the increase in the fiscal independence ratio after 2022. The average ratio rose by 3.21 percentage points, from 7.61% to 10.82%. In conventional interpretation, a higher PAD-to-transfer ratio indicates that own-source revenue occupies a larger relative position in the fiscal structure. The result is therefore consistent with the direction of fiscal decentralization reforms that seek to strengthen local revenue capacity. However, the increase should not be interpreted as evidence that Papua's absolute fiscal capacity improved to the same extent.

The reason is that the ratio changed while both PAD and transfers were affected by the administrative restructuring. The research report shows that average nominal PAD fell by approximately 68.12% between the baseline and post-restructuring periods. Thus, the higher independence ratio reflects a relative change in the relationship between PAD and transfers within a smaller provincial administrative base. This distinction is important because fiscal autonomy can improve as a ratio even when the absolute amount of resources available to the government declines. The finding reinforces the need to report both nominal fiscal capacity and fiscal ratios.

The improvement in fiscal decentralization, from 6.79% to 9.14%, tells a similar story. PAD contributed a larger share of total regional revenue in the post-restructuring period. Yet the ratio remains relatively low, meaning that transfers and other external sources continued to dominate the revenue structure. This pattern is consistent with the broader literature on vertical fiscal imbalance. Sarjoko et al. (2022) show that fiscal balance between government levels is related to local fiscal discipline and the incentives for local revenue collection. In Papua, strengthening the local revenue base therefore remains relevant, but it must be accompanied by an economic structure capable of sustaining that revenue.

The decline in PAD effectiveness complicates the interpretation of the improved independence and decentralization ratios. Average effectiveness fell from 110.31% to 96.70%, and the lowest annual value occurred in 2024 at 83.36%. This indicates that the province did not consistently achieve its PAD targets in the post-restructuring period. One possible interpretation is that revenue targets and administrative systems were adjusting to the new territorial and institutional structure. The finding also suggests that fiscal reform should not focus solely on the share of PAD in total revenue; the ability to formulate realistic targets and realize them is equally important.

The relationship between economic structure and revenue capacity is particularly relevant in this context. Iqbal et al. (2025) find a positive relationship between economic growth and PAD in Jayapura City, suggesting that local revenue performance is linked to the underlying economic base. For Papua Province, a sustainable PAD strategy therefore requires more than intensification of tax collection. It requires strengthening productive sectors, improving connectivity, formalizing economic activity where appropriate, and expanding the number and quality of economic activities that can generate legitimate local revenue.

The expenditure results provide another important dimension. The expenditure-to-revenue ratio increased from 99.07% in the baseline period to 107.40% after restructuring. This means that realized expenditure became larger relative to realized revenue. The ratio exceeded 100% in all three post-restructuring years, reaching 113.62% in 2023. This should not automatically be labeled inefficiency because the regional budget can be financed through legitimate financing sources when a deficit occurs. Nevertheless, the pattern signals greater pressure on the relationship between annual revenue capacity and expenditure requirements.

The increase in expenditure pressure should be considered alongside the changing responsibilities of the parent province. After the formation of new provinces, Papua Province had a smaller territorial coverage but still retained important government functions and service obligations. Fiscal restructuring can therefore alter the composition of spending needs as well as the revenue base. A meaningful assessment of expenditure performance should examine not only the size of spending but also the outputs and outcomes generated by that spending.

The decline in capital expenditure is particularly relevant for Papua. The average capital expenditure ratio fell from 15.47% in 2019–2021 to 12.21% in 2023–2025, while the ratio fell to only 8.46% in 2025. Papua continues to face connectivity and infrastructure challenges, so a sustained reduction in the investment share of the budget may constrain the government's ability to build productive public assets. At the same time, the study does not assume that a higher capital ratio automatically means better expenditure quality. Project readiness, asset utilization, maintenance, geographic targeting, and service outcomes are also necessary for assessing the effectiveness of capital spending. Evidence from Papua supports this multidimensional interpretation. Ratang et al. (2025), using district/city panel data for Papua during 2010–2021, find that the relationship between fiscal decentralization and poverty outcomes differs across expenditure sectors. Their findings indicate that education and economic expenditure were associated with reductions in poverty, while the results for health and infrastructure were more complex. Although their period and unit of analysis differ from the present study, the implication is relevant: expenditure composition and effectiveness matter alongside fiscal autonomy.

The findings also support the need to distinguish policy reform from institutional restructuring. The sharp decline in regional revenue from Rp53.62 trillion in 2022 to

Rp13.15 trillion in 2023, and the corresponding decline in transfers and expenditure, represents a structural break that coincides with the formation of new provinces. It would therefore be inappropriate to attribute the entire change to the HKPD Law. The HKPD reform may have changed the rules of fiscal relations, but the observed provincial fiscal series was simultaneously redefined by the change in administrative boundaries.

This limitation does not reduce the policy relevance of the study. Instead, it indicates that the appropriate benchmark for future evaluation should be the post-restructuring fiscal structure of Papua. Once a longer series of post-2022 data is available, researchers can examine whether the improvements in independence and decentralization are sustained, whether PAD effectiveness recovers, and whether the expenditure structure becomes more investment-oriented. Such analysis could eventually use stronger causal designs if suitable comparison groups and sufficient observations become available.

The findings also have implications for the design of fiscal strategies in Papua. First, PAD expansion should be based on credible tax and non-tax potential, improved databases, digital administration, and compliance. Second, target setting should reflect the post-restructuring tax base and economic structure rather than mechanically extrapolating historical targets. Third, expenditure planning should connect allocations to measurable outputs and outcomes. Fourth, capital spending should protect investments that improve connectivity, basic services, and economic productivity. Finally, central-regional fiscal coordination remains important because transfers will continue to play a significant role in Papua's fiscal structure.

These implications are consistent with AIBPM studies that place fiscal structure within a broader institutional and development context. Sanggrangbano et al. (2024) examine special-autonomy fiscal policy and economic development in Papua, while Sarjoko et al. (2022) emphasize the relationship between vertical fiscal balance and local fiscal discipline. Together with the Jayapura evidence from Iqbal et al. (2025), these studies suggest that fiscal autonomy should be understood as an interaction between revenue capacity, intergovernmental arrangements, and the regional economic base rather than as a single ratio.

CONCLUSION

This study examined the transformation of regional financial performance in Papua Province during 2019–2025 in the context of the HKPD reform and the administrative restructuring that occurred in 2022. The results show that the transformation was multidimensional. Fiscal independence improved from an average of 7.61% in 2019–2021 to 10.82% in 2023–2025, while fiscal decentralization increased from 6.79% to 9.14%. These changes indicate an improvement in the relative position of PAD within the regional fiscal structure.

However, the improvement in the ratios did not correspond to a straightforward strengthening of absolute fiscal capacity. Nominal PAD and total regional revenue declined substantially after the formation of the new autonomous provinces. PAD effectiveness also decreased from 110.31% to 96.70%, indicating that the province's ability to meet its PAD targets weakened in the post-restructuring period. At the same time, the expenditure-to-revenue ratio increased from 99.07% to 107.40%, indicating greater pressure of expenditure relative to realized revenue.

Capital expenditure provides an additional concern. The average capital expenditure ratio declined from 15.47% in the baseline period to 12.21% after restructuring, reaching

8.46% in 2025. Given Papua's infrastructure and connectivity needs, the composition of expenditure deserves continued attention. The evidence therefore does not support a one-dimensional conclusion that fiscal performance simply improved or deteriorated. Instead, the post-2022 period is characterized by stronger relative fiscal independence but weaker PAD effectiveness, greater expenditure pressure, and a lower investment share.

Finally, the 2022–2023 structural break means that the findings cannot be interpreted as a causal effect of the HKPD Law. The fiscal reform occurred alongside the creation of new provinces and a major change in the administrative coverage of Papua Province. The study is therefore best understood as a baseline assessment of fiscal transformation during a period of simultaneous policy and institutional change. Future evaluation should use longer post-restructuring data and combine nominal, ratio, expenditure-quality, and development-outcome indicators.

LIMITATION

The main limitation is the short post-restructuring observation period and the lack of a counterfactual that could isolate the effect of the HKPD Law from the effects of provincial restructuring. The study also relies on aggregate provincial financial data and therefore cannot assess differences among sectors, regencies/cities, or individual revenue instruments. Future research should develop multi-year post-2022 data, incorporate economic and demographic indicators, and where possible compare Papua with suitable provinces or administrative units using panel or quasi-experimental methods.

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DECLARATION OF CONFLICTING INTERESTS

The authors have declared no potential conflicts of interest concerning the study, authorship, and/or publication of this article.

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