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EQUALISING IN LEVEL, UNIFORM IN SHARE: WHAT TRANSFERS DO TO DISTRICT REVENUE DISTRIBUTION

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ABSTRACT

Whether an intergovernmental transfer system equalises depends on what is measured, and two standard measures give opposite impressions of the same system. Using realised revenue returns for all 508 Indonesian district-level governments in the fiscal year 2024, this article shows that transfers reduce the Gini coefficient of district revenue from 0.633, the figure for own-source revenue alone, to 0.342 once transfers are included. The top tenth of jurisdictions holds 50.8 per cent of all own-source revenue but receives only 23.6 per cent of transfers, while the bottom tenth holds 0.5 per cent of own revenue against 4.1 per cent of transfers. On this evidence the system equalises substantially. Measured instead as a share of each jurisdiction's own total revenue the picture inverts: the transfer share has a coefficient of variation of 0.163 against 0.832 for the own-revenue share, and the two correlate at minus 0.954, so that the transfer share is very nearly one minus the own-revenue share and carries almost no information of its own. The article argues that the share measure describes an accounting identity rather than a policy outcome, that the level measure is the one that answers the equalisation question as it is normally posed, and that on that measure transfers close roughly half the gap they inherit.

1. INTRODUCTION

An intergovernmental transfer system is judged by whether it equalises. The judgement is usually made on one of two quantities: the proportion of each jurisdiction's revenue that arrives as transfer, or the distribution of transfer money across jurisdictions. The two are related by arithmetic and are treated as interchangeable.

They are not. This article computes both across the complete population of Indonesian district-level governments for fiscal year 2024 and finds that they support opposite readings. On the distribution of money, transfers substantially compress inequality: the Gini coefficient of revenue falls from 0.633 to 0.342 once transfers are added to own revenue. On the proportion of revenue, transfers appear to do almost nothing that own revenue has not already determined, the transfer share being very nearly the arithmetic complement of the own-revenue share.

The resolution is that one of the two measures is not a measure of anything. Where transfers are the largest revenue source, the transfer share of revenue is close to one minus the own-revenue

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share by construction, and its behaviour across jurisdictions reflects the denominator rather than the transfer system. The correlation between the two shares in this population is −0.954.

The research gap is that the share measure is widely used and its near-identity with the complement of own revenue is rarely stated. This article quantifies that identity, shows what the level measure says instead, and estimates how far the system closes the gap it inherits.

2. LITERATURE REVIEW

2.1 What transfers are expected to do

The first strand concerns the design objectives of transfer systems and how far they are met.

Bury, Feld and Burret (2024) quantify the fiscal incentives embedded in the German equalisation formula, where the redistributive intent is explicit and the incentive effect is the concern. Aikins (2023) examines how intergovernmental revenue affects local governments' use of their own reserves. Cohen (2023) asks whether external assistance crowds subnational revenue in or out, which is the same question posed for a different funder.

Alves and Araujo (2024) and Bernardelli, Paschoalino, Russo and Kortt (2026) both find transfers altering local fiscal incentives in Brazilian municipalities. Porto, Puig and Vidal (2026) model how subnational budgets adjust to transfers dynamically. In each, the transfer is treated as an amount rather than as a share, which is the measure Section 4.2 argues is the informative one.

2.2 Measuring fiscal disparity

A second strand concerns how disparity across jurisdictions is quantified.

Saens, Cox and Villalobos (2026) work with fiscal capacity and the flypaper effect, in which the disparity of interest is in what jurisdictions can raise rather than in what they receive. Masi, Savoia and Sen (2024) test whether resource rents depress fiscal capacity, a question about the dispersion of capacity across units. Henriques, Karaman and Palma (2026) approach fiscal capacity historically through constraints on the executive.

Vincent and Osei Kwadwo (2022) document spatial interdependence and spillovers among grant recipients in Benin, which complicates any measure treating jurisdictions as independent draws. Lucidi (2022) shows that regional heterogeneity determines what a national fiscal figure means, a caution that applies to any single summary of a distribution.

2.3 Shares and their denominators

A third strand, thinner than the others, concerns ratios whose components are not independent.

Where a jurisdiction's revenue is composed of a small number of sources and one of them dominates, the shares of those sources are constrained to sum to one, and the share of the dominant source is largely determined by the shares of the others. A companion article makes a related point about the choice between weighted and unweighted averages of the own-revenue ratio in this same population, showing that the two differ by a third of the smaller.

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Agrawal and Shybalkina (2024) demonstrate that a rule change can redistribute local tax revenue between jurisdictions while leaving the national total unaltered, which is the clearest available illustration that distributional and aggregate statements are separable. Lamothe (2024) makes the general methodological case that administrative datasets carry properties their compilers did not design for.

2.4 Comparing local governments as units

A fourth strand asks what makes a set of local governments a comparable population, which is a precondition for any distributional statement about them.

Kim and Kang (2024) and Tran and Dollery (2022) both treat administrative intensity as a construct comparable across local governments and relate it to fiscal performance. Pill (2024) argues that local capacity is a property of the organisation rather than of the jurisdiction. Collazos-Ortiz and Schakel (2023) examine whether administrative efficiency moderates a resource curse among Colombian municipalities, a design that requires the municipalities to be commensurable.

The Indonesian district tier satisfies that requirement unusually well: the jurisdictions perform the same statutory functions under one framework, none can fail or merge within the period examined, and the population is complete. A distributional statement across them is therefore about the fiscal system rather than about a sample.

Two further strands supply the fiscal context. Singh and Dubey (2026) trace how fiscal shocks pass into subnational finances, and del Castillo and Cabral (2024) examine whether a fiscal rule has delivered subnational debt sustainability; both concern what a transfer-dependent tier can absorb. Giertz and Kumar (2023) estimate the local fiscal multiplier of grants, and Baskaran (2021) the revenue effects of local tax changes — the two margins between which the distribution examined here is settled. Krishna Chaitanya and Roberto (2026) document unintended consequences of externally aided projects on fiscal transfers, a reminder that a transfer formula interacts with flows outside it.

2.5 The research gap

The gap is that the transfer share of revenue is used as an equalisation indicator without its near-identity to the complement of the own-revenue share being tested. This article tests it, reports the correlation, and sets the level-based measures alongside it so that the two accounts can be compared directly on the same population.

3. METHOD

The data are realised revenue returns for Indonesian district-level governments for fiscal year 2024, obtained on 30 August 2026 from the Regional Financial Information System portal maintained by the Directorate General of Fiscal Balance. Returns are retrieved for the twelfth reporting period, so each covers the full year. Provincial governments and the portal's roll-up rows are excluded, leaving 508 jurisdictions.

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Own-source revenue is the PAD line and transfers the TKDD line, which comprises transfers from the central government. Total revenue is the Pendapatan Daerah line, which also includes a small residual of other revenue, so the two shares do not sum exactly to one and the near-identity reported in Section 4.3 is empirical rather than definitional.

Two families of measure are computed. Share measures are own revenue and transfers as proportions of each jurisdiction's total revenue, summarised by the mean and coefficient of variation across jurisdictions. Level measures are the amounts themselves, summarised by the Gini coefficient and by the share of the total held by the top and bottom deciles of jurisdictions ranked on the variable concerned. The Gini is computed on the 508 jurisdiction totals without population weighting.

Four limitations apply. The analysis is unweighted by population, so it describes the distribution across jurisdictions rather than across people, and Section 4.7 states what that omits. It covers one fiscal year. The returns are self-reported and unaudited at this disaggregation, on a portal that revises them. And the article measures the distribution that resulted, not the formula that produced it; nothing here identifies which component of the transfer does the equalising.

4. RESULTS AND DISCUSSION

4.1 What the level measures show

Table 1 reports the distribution of the two revenue sources and of their sum.

Table 1. Distribution across 508 jurisdictions, FY2024

Variable	Gini	Top decile	Bottom decile	Coefficient of variation
Own-source revenue	0.633	50.8%	0.5%	1.940
Transfers	0.291	23.6%	4.1%	0.644
Total revenue	0.342	27.5%	3.6%	0.760

Computed by the authors from Directorate General of Fiscal Balance realised revenue returns for fiscal year 2024, retrieved from the Regional Financial Information System portal on 30 August 2026. Deciles are of jurisdictions ranked on the variable in each row; the Gini is unweighted across the 508 jurisdictions.

Own-source revenue is very unequally distributed. Its Gini of 0.633 is high for any fiscal variable, the top tenth of jurisdictions holds more than half of it, and the bottom tenth holds one two-hundredth. Transfers are distributed far more evenly, with a Gini of 0.291 and a top decile holding under a quarter.

The effect on the sum is substantial. Adding transfers to own revenue reduces the Gini from 0.633 to 0.342, a compression of 46 per cent. The share of the total held by the top decile falls from 50.8 to 27.5 per cent and the share held by the bottom decile rises from 0.5 to 3.6 per cent — a sevenfold increase for the poorest tenth.

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On the level measures, then, the system equalises considerably. It does not equalise fully: a Gini of 0.342 across jurisdictions performing the same statutory functions remains substantial, and the ratio between the largest and smallest total revenue is 23.7 to one.

4.2 What the share measure shows

The same population measured in shares gives a different impression, and Table 2 sets it out.

Table 2. Share measures across 508 jurisdictions, FY2024

Share of revenue	Mean	Std. dev.	CV	Range
Own-source revenue	13.14%	10.94	0.832	0.30% to 87.09%
Transfers	79.72%	13.02	0.163	9.87% to 98.73%

Computed by the authors from Directorate General of Fiscal Balance realised revenue returns for fiscal year 2024, retrieved 30 August 2026. Unweighted across the 508 jurisdictions.

The transfer share is one of the least dispersed variables in these accounts, with a coefficient of variation of 0.163 against 0.832 for the own-revenue share — a fivefold difference. Read naively, this says that Indonesian districts are uniformly dependent on transfers while differing greatly in what they raise themselves.

Counting confirms the concentration. Of the 508 jurisdictions, 301 draw more than four-fifths of their revenue from transfers, 103 more than nine-tenths and 20 more than 95 per cent. Only 20 draw less than half.

The naive reading is where the difficulty lies. A variable that is uniform because it is the complement of a variable that is not tells one about the arithmetic, not about the policy.

4.3 The two shares are nearly the same variable

The relationship between the two shares is the article's central measurement point.

Across the 508 jurisdictions the own-revenue share and the transfer share correlate at −0.954. Squared, that is 91.0 per cent of the variance in one accounted for by the other. The two are not independent descriptions of a jurisdiction's finances; they are very nearly the same number reported twice, once from each end.

The residual 9.0 per cent is the other revenue that the Pendapatan Daerah line contains — grants, inter-regional transfers and other lawful receipts — which prevents the two from summing exactly to one. That residual is the only part of the transfer share carrying information the own-revenue share does not already carry.

It follows that the low dispersion of the transfer share is not a finding about transfers. Own revenue is small in most jurisdictions, so its complement is large in most jurisdictions, and a large number bounded above at one has little room to vary. The coefficient of variation of 0.163 is what one would compute for any quantity whose mean is 0.797 and which is bounded at unity; it is a property of the scale, not of the system.

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4.4 How much of the gap the transfer closes

If the level measures are the informative ones, the natural question is how far they go.

The comparison in Table 1 gives a direct answer for the distribution across jurisdictions. Own revenue alone would produce a Gini of 0.633. Perfect equalisation would produce zero. The observed 0.342 lies 46 per cent of the way from the first to the second, so on this measure transfers close a little under half the gap they inherit.

The decile shares tell the same story with different emphasis. The bottom tenth's share of total revenue, at 3.6 per cent, is well above its 0.5 per cent share of own revenue but well below the 10 per cent that equal division would give. The top tenth retains 27.5 per cent against 50.8 for own revenue and 10 for equality.

A further feature qualifies the equalisation reading. Transfer amounts correlate positively with own-revenue amounts, at 0.364, and with total revenue at 0.874: in absolute rupiah, jurisdictions that raise more also receive more. That is consistent with a formula containing size-related components — population, area, functional responsibility — alongside any equalising element. The system compresses relative disparity while still directing more money to larger recipients.

4.5 Whether equalisation is strengthening or weakening

A single year establishes how far the system goes; a series establishes whether it is going further than it used to. Four additional observation years are available on a balanced panel and they give a consistent answer.

Table 3. Equalisation performance over time, balanced panel of 482 jurisdictions

Year	Gini, own revenue	Gini, transfers	Gini, total revenue	Gap closed	Share correlat
2017	0.5936	0.2338	0.2946	50.4%	−0.863
2018	0.6033	0.2372	0.3006	50.2%	−0.900
2020	0.5794	0.2438	0.3015	48.0%	−0.889
2021	0.5921	0.2458	0.3108	47.5%	−0.949
2024	0.6222	0.2956	0.3468	44.3%	−0.955

Computed by the authors from Directorate General of Fiscal Balance realised revenue returns, retrieved 30 August 2026. Balanced panel of 482 jurisdictions present in all five years; the 2024 figures therefore differ slightly from those in Table 1, which use all 508. "Gap closed" is one minus the ratio of the total-revenue Gini to the own-revenue Gini.

Equalisation performance has weakened in every interval. The proportion of the own-revenue gap that transfers close fell from 50.4 per cent in 2017 to 44.3 in 2024 — a loss of 6.1 percentage points, or an eighth of the system's equalising effect, over seven years. The movement is monotonic apart from a negligible reversal between 2017 and 2018.

Two components drive it. Own revenue became somewhat more unequally distributed, its Gini rising from 0.594 to 0.622. More importantly, transfers themselves became markedly less evenly

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distributed, their Gini rising from 0.234 to 0.296 — an increase of 26.4 per cent against 4.8 per cent for own revenue. The equalising instrument has become less equal faster than the disparity it is meant to offset.

The consequence appears in the total. The Gini of district revenue rose from 0.2946 to 0.3468, an increase of 17.7 per cent. Whatever was happening to the local economies underneath, the fiscal system delivered a more unequal distribution of spending power to district governments in 2024 than it did in 2017.

The final column records a separate movement that bears on Section 4.3. The correlation between the two shares strengthened from −0.863 to −0.955, so the transfer share has become progressively less informative over the period: in 2017 roughly a quarter of its variance was independent of the own-revenue share, and by 2024 under a tenth. An indicator that was weak has become weaker.

Two cautions apply to reading this as a policy failure. The panel excludes the 26 districts reassigned to the four Papua provinces created in 2022, and those districts sit at the low-own-revenue end of the distribution, so their exclusion may understate the equalising task the system faces in the later years. And a companion article documents a substantial recomposition of the revenue categories over this period, which affects the own-revenue line; the transfer line is less exposed to that concern, and it is the transfer line whose dispersion moved most.

4.6 The jurisdictions at the top of the dependence range

The extreme of the share distribution is worth examining because it is where the share measure, for all its limitations, does describe something real.

Twenty jurisdictions draw more than 95 per cent of their revenue from transfers. A companion article identifies the lower tail of the own-revenue distribution as a remoteness tail concentrated in Papua, and the same jurisdictions appear here by construction, given the correlation of −0.954.

For these jurisdictions the distinction the article draws is not merely technical. Their transfer share is high because their own revenue is near zero, and reporting them as 98 per cent transfer-dependent conveys less than reporting that they raise three parts in a thousand of what they spend. The first phrasing suggests a relationship with the centre; the second describes an absent local tax base, which is what a companion article finds at that end of the distribution.

Vincent and Osei Kwadwo (2022) show grants generating spillovers between neighbouring jurisdictions, and where a group of adjacent districts is uniformly transfer-funded, the transfer system is effectively the regional economy's public sector rather than a supplement to it. Whether that is the intended arrangement is a policy question the data cannot answer.

4.7 Which measure to use

The article's practical recommendation follows from Sections 4.1 to 4.3 and can be stated briefly.

Where the question is whether the transfer system reduces disparity, the level measures answer it and the share measure does not. The Gini and the decile shares compare the distribution before

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and after the transfer, which is what equalisation means. The transfer share compares a jurisdiction with itself and is dominated by its own-revenue position.

Where the question is about a single jurisdiction's exposure — how much of its budget would be at risk if transfers were cut — the share measure is appropriate, since that is precisely the quantity at issue. Its limitation is that it should not then be compared across jurisdictions as though the differences reflected the transfer system.

The error to avoid is reporting a low dispersion in the transfer share as evidence that the system treats jurisdictions alike. It treats them alike in the share by construction; whether it treats them alike in the money is the question, and the answer here is that it goes a little under half way.

4.8 Two objections

The first objection is that the analysis is unweighted by population, so a Gini across jurisdictions does not describe disparity across citizens. This is correct and is a real limitation. A jurisdiction-level Gini answers the question a transfer formula is written to answer — how much each government receives — while a person-level measure answers a distributional question about citizens. The two can differ substantially where jurisdiction size and revenue are correlated, and they are here, at 0.874 between transfers and total revenue. The article reports the jurisdiction-level measure because the transfer is made to the jurisdiction, and flags the other as the first extension.

The second objection is that a correlation of −0.954 between the two shares is a mathematical necessity where two components dominate a total, so demonstrating it adds nothing. The response is that the magnitude is not necessary but empirical: it depends on how large the third component is, and that component varies. Had other revenue been a fifth of the total rather than under a tenth, the correlation would be materially weaker and the transfer share would carry independent information. The finding is that in this population it does not, which cannot be known without computing it.

4.9 Limitations

Four limitations bound the analysis. It is unweighted by population for the reason given in Section 4.7. The cross-sectional measures are computed for one year; the trend in Section 4.5 uses five observation years rather than the full series, and on a panel that excludes 26 jurisdictions.

The transfer line is taken as a single aggregate, so the article does not identify which of its components — general allocation, specific allocation, shared revenue, village funds — does the equalising, and those components have different formulas and different intents. And the returns are self-reported and unaudited at this disaggregation, on a portal that revises them, so the figures are those of one retrieval date.

4.10 Policy implications

Three implications follow for those who monitor or design transfer arrangements.

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The first is that equalisation performance should be reported as a before-and-after distribution statistic, not as a dependence ratio. The single most useful pair of numbers is the Gini of own revenue and the Gini of total revenue: 0.633 and 0.342 in 2024. Tracking that pair annually would show directly whether the system is closing more or less of the gap over time, which no dependence ratio can show.

The second is that a target expressed in terms of reducing transfer dependence is, on this evidence, a target to raise own revenue and nothing else. Given the correlation of −0.954, the transfer share cannot be moved except by moving own revenue, so the two policies are the same policy under two names. Stating it as an own-revenue objective would make its instruments and its distributional consequences visible.

The third is that the positive correlation between transfer amounts and own-revenue amounts deserves examination in its own right. A system that compresses relative disparity while directing more absolute money to larger recipients may be doing exactly what its size-related components were designed to do, or may be doing more of it than intended. Decomposing the transfer into its components, as Section 5 proposes, would settle which.

4.11 Summary of findings

The factual findings are seven. Across all 508 Indonesian district-level jurisdictions in fiscal year 2024 the Gini coefficient of own-source revenue is 0.633, of transfers 0.291 and of total revenue 0.342. The top decile holds 50.8 per cent of own revenue, 23.6 per cent of transfers and 27.5 per cent of total revenue; the bottom decile holds 0.5, 4.1 and 3.6 per cent respectively. Measured as shares of revenue, the own-revenue share has a coefficient of variation of 0.832 and the transfer share 0.163. The two shares correlate at −0.954, so 91.0 per cent of the variance in one is accounted for by the other. Of the 508 jurisdictions, 301 draw more than four-fifths of revenue from transfers, 103 more than nine-tenths and 20 more than 95 per cent. Transfer amounts correlate with own-revenue amounts at 0.364 and with total revenue at 0.874. And on a balanced panel of 482 jurisdictions the proportion of the own-revenue gap that transfers close fell from 50.4 per cent in 2017 to 44.3 in 2024, while the Gini of transfers themselves rose from 0.234 to 0.296.

The interpretive claims are three. The transfer share of revenue is very nearly the arithmetic complement of the own-revenue share in this population and therefore carries almost no information about the transfer system. The level measures do carry that information, and they show transfers closing 46 per cent of the disparity that own revenue alone would produce. The system compresses relative disparity while still directing more absolute money to larger recipients, which the share measure conceals entirely. And its equalising performance has weakened monotonically across the period examined, driven more by the transfer distribution becoming less even than by own revenue becoming less even.

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5. CONCLUSION

Indonesian district governments look uniformly dependent on transfers and are not uniformly funded by them. The transfer share of revenue varies little because it is what is left when own revenue is subtracted; the money itself is distributed in a way that halves the inequality own revenue would otherwise produce.

The general claim is that a share whose complement dominates it is not an independent measure and should not be read as one. The specific claim is that on the measure that does answer the question, this transfer system closes a little under half the gap it inherits, leaving a Gini of 0.342 across jurisdictions charged with the same statutory functions.

Three extensions follow. Weighting by population would convert a statement about jurisdictions into one about citizens, which is the distribution most readers have in mind. Decomposing the transfer into its statutory components would identify which of them equalises and which tracks size, a distinction the aggregate hides. And extending the Gini series of Section 4.5 to every year, on a panel reconstructed to include the reassigned Papua districts, would confirm whether the weakening it reports survives the population restriction.

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Author contributions (CRediT). Wachidah Fauziyanti: conceptualisation; methodology; formal analysis; writing - original draft. Hussein Hassan Laizer: validation; writing - review and editing.

Declaration of generative AI and AI-assisted technologies. Claude (Anthropic) was used for language editing and for translation of the manuscript into English. The authors reviewed and verified all content, and take full responsibility for the final text. No generative tool was used for data analysis, for the interpretation of results, or for the generation of scholarly content. AI is not listed as an author.

Ethics statement. Aggregate secondary data from public agencies only. No human participants, no identifiable personal data, no animal subjects; ethics approval not required.

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