

The Role of Local Government Financial Performance in Achieving Sustainable Development Goal 11

Maya Sari¹
Mohammad Iqbal Bakry²
Latifah Sukmawati Yuniar³
Andi Chairil Furqan⁴

^{1,2,3,4}Faculty of Economics and Business, Universitas Tadulako, Indonesia

*Correspondences : sarimaya98765@gmail.com

ABSTRACT

This study examines the role of local government financial performance in achieving Sustainable Development Goal (SDG) 11, with a particular focus on Target 11.1 concerning access to adequate and affordable housing. The study is motivated by Indonesia's persistent housing backlog and the extensive presence of slum settlements, alongside uneven fiscal capacity and suboptimal allocation of local budgets for the housing sector. The analysis employs panel data covering 542 local governments in Indonesia from 2019 to 2022, resulting in 2,144 observations, and applies a random effects panel regression model. The findings indicate that total solvency has a positive and significant effect on SDG 11 achievement, suggesting that stronger long-term fiscal capacity enhances sustainable urban development outcomes. In contrast, financial flexibility shows a significant negative effect, implying that excessive flexibility without clear development priorities may hinder SDG performance. Institutional age, population size, and archipelagic status as control variables also exhibit positive effects. Overall, the study underscores the importance of strengthening local fiscal governance to support sustainable housing development.

Keywords: Sustainable Development Goal 11; Solvency; Financial Flexibility

Peran Kinerja Keuangan Pemerintah Daerah dalam Mencapai Tujuan Pembangunan Berkelanjutan 11

ABSTRAK

Penelitian ini menganalisis peran kinerja keuangan pemerintah daerah dalam mendukung pencapaian Tujuan Pembangunan Berkelanjutan (SDGs) 11, dengan fokus pada Target 11.1 terkait akses terhadap perumahan yang layak dan terjangkau. Kajian ini dilatarbelakangi oleh tingginya backlog perumahan dan masih luasnya kawasan permukiman kumuh di Indonesia, serta belum meratanya kapasitas fiskal dan optimalisasi pengelolaan anggaran daerah pada sektor perumahan. Analisis dilakukan menggunakan data panel yang mencakup 542 pemerintah daerah di Indonesia selama periode 2019–2022 dengan total 2.144 observasi dan diestimasi menggunakan model regresi data panel pendekatan random effects. Hasil penelitian menunjukkan bahwa solvabilitas total berpengaruh positif dan signifikan terhadap capaian SDGs 11, yang mencerminkan bahwa kemampuan fiskal jangka panjang yang lebih kuat berkontribusi pada peningkatan pembangunan perkotaan berkelanjutan. Sebaliknya, fleksibilitas keuangan berpengaruh negatif signifikan, yang mengindikasikan bahwa fleksibilitas anggaran tanpa arah kebijakan yang jelas berpotensi menurunkan capaian SDGs 11. Secara keseluruhan, temuan ini menegaskan pentingnya penguatan tata kelola fiskal daerah untuk mendukung penyediaan perumahan layak bagi masyarakat.

Kata Kunci: Tujuan Pembangunan Berkelanjutan 11; Solvabilitas; Fleksibilitas Keuangan

Artikel dapat diakses : <https://ejournal1.unud.ac.id/index.php/Akuntansi/index>



e-ISSN 2302-8556

Vol. 36 No. 2
Denpasar, 28 Februari 2026
Hal. 332-346

DOI:
10.24843/EJA.2026.v36.i02.p05

PENGUTIPAN:
Sari, M., Bakry, M. I., Yuniar, L. S., & Furqan, A. C. (2026). The Role of Local Government Financial Performance in Achieving Sustainable Development Goal 11. *E-Jurnal Akuntansi*, 36(2), 332-346

RIWAYAT ARTIKEL:
Artikel Masuk:
15 Desember 2025
Artikel Diterima:
18 Februari 2026

INTRODUCTION

Sustainable development has become a central global agenda initiated by the United Nations through the Sustainable Development Goals (SDGs), which aim to address multidimensional challenges such as poverty, inequality, environmental degradation, and inadequate access to basic services. Among the 17 goals, Sustainable Development Goal 11 (SDG 11) emphasizes the creation of inclusive, safe, resilient, and sustainable cities and human settlements, with Target 11.1 focusing explicitly on ensuring access to adequate, safe, and affordable housing for all (United Nation, 2016). The relevance of SDG 11 is increasingly critical as more than half of the world's population currently resides in urban areas, a proportion that continues to rise annually due to rapid urbanization (United Nation, 2020). In Indonesia, urbanization has accelerated significantly, with approximately 56 percent of the population living in urban areas as of 2020 (BPS, 2021). This rapid urban growth has exerted substantial pressure on housing availability and urban infrastructure, resulting in a persistent housing backlog of approximately 13.5 million units and widespread slum settlements that account for nearly 14 percent of the urban population (PUPR, 2022). These conditions indicate that the achievement of SDG 11.1 in Indonesia remains a pressing development challenge, particularly at the local government level where responsibility for housing provision and settlement management is largely decentralized.

In the context of decentralized governance, local government financial flexibility plays a crucial role in determining the effectiveness of policy responses to housing challenges. Financial flexibility refers to the discretionary capacity of local governments to allocate fiscal resources across sectors in response to development priorities and emerging needs (Chen et al., 2022). From a fiscal decentralization perspective, greater flexibility is expected to enhance allocative efficiency by allowing local governments to tailor spending to local housing demands (Oates', 1999). However, empirical evidence suggests that high financial flexibility does not automatically translate into improved social outcomes. Without clear strategic direction and strong governance mechanisms, flexible budgets may be diverted toward short-term or politically motivated expenditures rather than long-term investments in affordable housing and slum upgrading (Alem, 2021) In Indonesia, disparities in fiscal capacity and budget management quality across regions further complicate the relationship between financial flexibility and housing outcomes, raising concerns that excessive discretion without effective prioritization may hinder progress toward SDG 11.

Another critical dimension of local government financial performance is fiscal solvency, which reflects the ability of governments to meet long-term obligations and sustain public service provision over time. Fiscal solvency is particularly relevant for housing and settlement development, as such programs require substantial and continuous investment with long-term planning horizons (Vito et al., 2024). Governments with strong solvency positions are better equipped to finance large-scale housing projects, maintain urban infrastructure, and implement comprehensive slum upgrading programs (Novitasari & Sugianto, 2024). Conversely, weak solvency may constrain capital investment and limit the continuity of housing programs, thereby undermining the achievement of SDG

11.1. In the Indonesian context, uneven fiscal solvency across local governments has resulted in varying capacities to support housing provision, suggesting that long-term fiscal stability is a key prerequisite for sustainable urban development (Marianti et al., 2023).

Previous empirical studies on local government financial performance have predominantly focused on its relationship with outcomes in education, health, and general welfare indicators such as the Human Development Index (HDI). Studies by Sugion & Purbadharmaja (2021) and Sutono (2022) examine the impact of fiscal indicators such as local revenue, intergovernmental transfers, and fiscal management indices on human development outcomes, with mixed and sometimes inconclusive results. Meanwhile, international studies often employ aggregated fiscal indicators or national-level data, which obscure interregional variation in development outcomes (Benito et al., 2023). Research that explicitly links specific dimensions of local government financial performance such as solvency and financial flexibility to SDG related outcomes, particularly SDG 11.1 on housing and settlements, remains extremely limited. This gap is especially pronounced in Indonesia, where housing backlog and urban slums constitute urgent development issues that have not been sufficiently explored within the fiscal decentralization and public finance literature.

Despite the growing body of literature on fiscal decentralization and public sector performance, there remains limited empirical clarity regarding how specific dimensions of local government financial performance translate into concrete Sustainable Development Goal (SDG) outcomes at the subnational level. In particular, it is still unclear whether stronger fiscal solvency and greater financial flexibility genuinely enhance progress toward SDG 11.1, or whether discretionary fiscal space without strategic prioritization may instead dilute sustainable housing achievements. This unresolved issue raises a fundamental research problem: to what extent and in what direction do fiscal solvency and financial flexibility influence the achievement of SDG 11.1 across Indonesian local governments?

Against this backdrop, this study seeks to fill a critical gap by empirically examining the role of local government financial performance in achieving SDG 11.1 in Indonesia. Specifically, this research investigates how fiscal solvency and financial flexibility influence access to adequate and affordable housing across local governments. Using panel data covering Indonesian districts and municipalities over the 2019–2022 period, this study contributes to the literature by shifting the analytical focus from traditional social sectors to the housing and settlement sector within the SDGs framework. The novelty of this study lies not merely in the simultaneous use of agency theory, fiscal decentralization theory, and sustainable development theory, but in the integration of these perspectives into a coherent conceptual framework that explains the fiscal determinants of SDG 11.1 outcomes at the local level. Agency theory provides the micro-foundational explanation by highlighting the accountability relationship between citizens (principals) and local governments (agents), emphasizing how fiscal decisions may reflect either responsible stewardship or discretionary behavior. Fiscal decentralization theory complements this perspective by explaining the structural allocation of fiscal authority and resource capacity across subnational governments, thereby shaping the degree of solvency and financial flexibility

available to local authorities. Meanwhile, sustainable development theory functions as the normative and outcome-oriented framework, defining SDG 11.1 as the long-term development objective toward which fiscal governance should be directed.

Taken together, these three theoretical lenses form an integrated explanatory chain: fiscal decentralization determines the distribution of fiscal capacity; agency dynamics influence how that capacity is managed; and sustainable development theory provides the benchmark for evaluating whether such fiscal management effectively advances inclusive and sustainable housing outcomes. Through this integrated framework, the study offers a more comprehensive understanding of how local fiscal structures and behaviors jointly influence progress toward sustainable urban development.

Agency theory explains the relationship between principals and agents, where principals delegate authority to agents to act on their behalf (Jensen & Meckling, 1976). In the context of local government, citizens act as principals who entrust local authorities as agents to manage public resources, including fiscal budgets, to deliver public services and development outcomes. This relationship inherently involves information asymmetry and potential conflicts of interest, which may lead local governments to allocate resources in ways that do not fully align with public welfare objectives if appropriate accountability mechanisms are absent (Adams, 1994; Panda & Leepsa, 2017).

Within the SDGs framework, particularly SDG 11.1, agency problems may arise when local governments prioritize short-term political gains or administrative interests over long-term investments in affordable housing and slum upgrading. Fiscal performance indicators such as solvency and financial flexibility serve as observable signals of how effectively local governments fulfill their agency responsibilities. High fiscal solvency reflects prudent financial management and a commitment to sustaining public services over time, whereas poorly managed financial flexibility may indicate discretionary spending that lacks alignment with societal development priorities. Therefore, agency theory provides a critical lens for understanding how local government financial behavior influences the achievement of housing-related SDGs.

Fiscal decentralization theory posits that devolving fiscal authority to subnational governments enhances efficiency and responsiveness in public service delivery, as local governments possess superior information regarding local needs and preferences (Oates', 1999). In Indonesia, fiscal decentralization grants local governments significant autonomy in budget formulation and implementation, including in the housing and settlement sector. This autonomy is expected to facilitate context-specific housing policies that better address local housing shortages and urban slum conditions.

However, the effectiveness of fiscal decentralization depends heavily on local fiscal capacity and governance quality. Regions with weak fiscal solvency or limited revenue bases may struggle to finance housing programs, while those with greater financial flexibility but weak planning may allocate resources inefficiently (Fitriani et al., 2005; Mutiarin, 2017). Consequently, fiscal decentralization does not automatically guarantee improved outcomes for SDG 11.1; rather, its success

hinges on how local governments manage solvency and utilize financial flexibility to support sustainable urban development.

Sustainable development theory emphasizes the balanced integration of economic growth, social inclusion, and environmental protection to meet present needs without compromising future generations (WCED, 1987). SDG 11 operationalizes this principle at the urban level by prioritizing inclusive housing, resilient infrastructure, and sustainable land use. Adequate and affordable housing is not only a social necessity but also a foundation for economic productivity, public health, and environmental sustainability (J. Bebbington & Unerman, 2018).

Scholars argue that achieving SDGs requires sound public financial management and strategic budgeting to ensure that limited resources are allocated toward long-term development goals (A. Bebbington & Humphreys Bebbington, 2018). The OECD (2024) further highlights that subnational governments play a decisive role in translating SDGs into concrete outcomes through fiscal planning and investment prioritization. From this perspective, local government fiscal solvency enables sustained investment in housing infrastructure, while financial flexibility, if strategically guided, can enhance the adaptability of housing policies to changing urban conditions.

Fiscal solvency reflects a local government's capacity to meet its long-term financial obligations and sustain service delivery without compromising fiscal stability. In the housing sector, strong solvency allows governments to finance long-term housing projects, maintain urban infrastructure, and support continuous slum upgrading programs (Amalya & Latief, 2023). Empirical evidence suggests that fiscally solvent local governments are more capable of implementing sustainable housing policies and achieving better urban development outcomes (Benito et al., 2023; Novitasari & Sugianto, 2024). From an agency perspective, high fiscal solvency signals responsible financial stewardship and a stronger commitment to public welfare. Within the SDGs framework, this stability is essential for ensuring continuous progress toward Target 11. Accordingly, the first hypothesis is proposed as follows:

H₁: Fiscal solvency has a positive effect on the achievement of SDG 11.

Financial flexibility refers to the degree of discretion local governments have in reallocating fiscal resources across policy areas. While flexibility can enhance responsiveness and innovation in housing policy, excessive discretion without clear strategic orientation may result in misallocation of resources away from long-term development priorities (Alem, 2021). Studies in both public and private sectors suggest that financial flexibility may have nonlinear or even adverse effects on sustainability outcomes when governance quality is weak (Sheng & An, 2024).

In the context of SDG 11, financial flexibility that is not explicitly directed toward housing and settlement programs may undermine the achievement of affordable housing targets. Therefore, the effect of financial flexibility on SDG outcomes is theoretically ambiguous and requires empirical validation. Based on the Indonesian institutional context and prior evidence, this study proposes the following hypothesis:

H₂: Financial flexibility has a negative effect on the achievement of SDG 11.

In addition to fiscal performance indicators, this study incorporates several control variables that may influence SDG 11 outcomes. The age of local government institutions is expected to reflect accumulated administrative experience and institutional capacity, which can enhance policy implementation effectiveness. Population size captures the scale of housing demand and urban pressure, while archipelagic status reflects geographical challenges and differential fiscal treatment, including targeted intergovernmental transfers for remote regions (BAPPENAS, 2023). These variables are included to isolate the net effects of fiscal solvency and financial flexibility on housing outcomes.

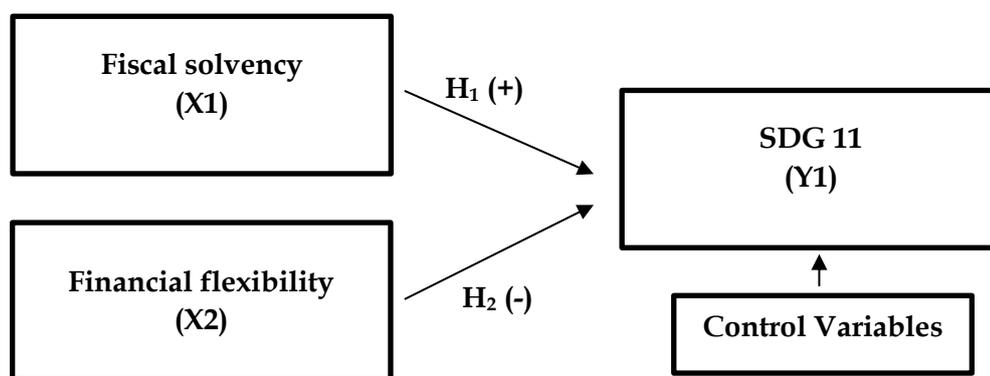


Figure 1. Research Model

Source: Research Data, 2025

RESEARCH METHODS

This study employs secondary panel data that combine cross-sectional and time-series dimensions to capture variations across local governments and over time. The observation period spans four fiscal years, from 2019 to 2022, enabling an assessment of both short-term dynamics and interregional differences in the achievement of SDG 11.1. The unit of analysis consists of Indonesian local governments. Initially, the dataset includes 542 subnational entities, comprising districts, municipalities, and provinces. However, due to data incompleteness and inconsistencies across years, only 356 local governments meet the selection criteria and are retained for analysis. With a four-year observation window, the final dataset comprises 2,144 balanced panel observations.

Financial data were obtained from official Local Government Financial Statements published by the Ministry of Finance of the Republic of Indonesia, which provide information on total assets, liabilities, and revenue composition. Data on SDG 11.1 achievement measuring access to adequate and affordable housing were sourced from the national SDGs performance dashboard managed by the Ministry of National Development Planning (BAPPENAS). Additional control variables, including the age of local governments, population size, and geographical status (archipelagic versus mainland regions), were collected from the Central Bureau of Statistics (BPS) and the Ministry of Home Affairs.

The use of panel data allows the analysis to capture longitudinal changes while controlling for unobserved heterogeneity across local governments, thereby

enhancing the robustness of the estimated relationships. Sample selection follows a purposive approach based on several criteria, including the availability of complete and consistent financial data for the 2019–2022 period, the availability of annual SDG 11.1 achievement indicators, and data comparability across years and regions. Only local governments that met all of these criteria were included in the final dataset to ensure reliability and consistency in the empirical analysis.

The empirical model is specified to evaluate how fiscal performance indicators and regional characteristics influence SDG 11.1 outcomes. The functional form of the model is expressed as follows:

$$SDG11it = \beta_0 + \beta_1Solvencyit + \beta_2Flexibilityit + \beta_3Ageit + \beta_4Munit + \beta_5Islandit + \varepsilon_{it} \dots\dots\dots(1)$$

Where:

- SDG11it = Achievement of SDG 11.1 in region *i* at year *t*.
- β_0 = Constant term.
- Solvencyit = Fiscal solvency (total assets / total liabilities).
- Flexibilityit = Financial flexibility (own-source revenue / total revenue).
- Ageit = Institutional age (years since establishment).
- Munit = Population size (in millions).
- Islandit = Geographical dummy (1 = archipelagic; 0 = mainland).
- β_1 – β_5 = Estimated coefficients.
- ε_{it} = Error term.

The dependent variable, SDG11it, measures the achievement of Sustainable Development Goal 11.1, operationalized as the percentage of households with access to adequate and affordable housing, expressed on a scale from 0 to 100.

Fiscal solvency (Solvencyit) is measured as the ratio of total assets to total liabilities, reflecting the long-term fiscal capacity of local governments to meet their obligations. Financial flexibility (Flexibilityit) is proxied by the ratio of own-source revenue to total revenue, capturing the degree of discretionary fiscal space available for budget allocation and adjustment.

Several control variables are incorporated to isolate the effects of the main explanatory variables. The age of the local government (Ageit) represents the number of years since establishment and serves as a proxy for institutional maturity and administrative experience. Population size (Munit) is measured in millions of residents and controls for demographic pressure on housing demand. Geographical status (Islandit) is a dummy variable equal to 1 for archipelagic regions and 0 for mainland regions, included to capture differential development challenges related to geography.

Table 1. Variable Operationalization and Data Sources

Variable	Variable Operationalization	Sources
SDG11 _{it}	Represents the achievement of Sustainable Development Goals (SDGs), measured by the percentage of adequate and affordable housing, expressed on a scale of 0-100.	National Development Planning Agency (BAPPENAS)
Solvency _{it}	The ratio of total assets to total liabilities, reflecting the long-term fiscal capacity of local governments to meet their financial obligations.	Ministry of Finance (Local Government Budget Realization Reports)
Flexibility _{it}	A financial variable measured by the ratio of own-source revenue to total regional revenue, indicating the local government's ability to adjust fiscal policy and manage budgets dynamically.	Ministry of Finance (Regional Budget Reports)
Age _{it}	A proxy for local government size, measured by the number of years since the establishment of the local government.	Ministry of Home Affairs (KEMENDAGRI)
Mun _{it}	Total population of the local government, measured in millions of inhabitants (continuous scale).	Statistics Indonesia (BPS)
Island _{it}	A dummy variable representing geographical status, where 1 indicates an archipelagic region and 0 denotes a mainland region.	Statistics Indonesia (BPS); Ministry of Home Affairs (KEMENDAGRI)

Source: Research Data, 2025

RESULTS AND DISCUSSION

Descriptive statistics are employed to summarize the main characteristics of the processed data and to provide an overview of the distribution, central tendency, and variability of each variable included in the analysis. The descriptive statistics for all variables are reported in Table 2, which presents the number of observations, mean values, standard deviations, and minimum-maximum ranges.

Table 2. Descriptive Statistics of Research Variables

Variable	Obs	Mean	Std. dev.	Min	Max
SDG11 _{it}	2,144	57.05	18.72	0.03	93.73
Solvency _{it}	2,144	15.92	0.81	12.53	19.04
Flexibility _{it}	2,144	0.81	0.27	-0.24	2.2
Age _{it}	2,144	43.94	23.95	5	72
Mun _{it}	2,144	0.30	0.51	0	2
Island _{it}	2,144	0.22	0.41	0	1

Number of Observations = 2144

Table 1 explains the variable operationalization.

*) in billions of rupiah

Source: Research Data, 2025

The average achievement score of SDG 11 across 2,144 observations is 57.05, with a standard deviation of 18.72. The minimum value of 0.03 and maximum value of 93.73 indicate substantial variation in SDG 11 performance among local governments. This wide dispersion suggests uneven progress in achieving sustainable and affordable housing and inclusive urban development across regions.

Total solvency records a mean value of 15.92 with a relatively low standard deviation of 0.81, indicating a generally stable long-term fiscal position among sampled local governments. The narrow range between the minimum (12.53) and maximum (19.04) values suggests limited dispersion in solvency capacity. Financial flexibility shows an average value of 0.81, with a standard deviation of 0.27. The presence of negative minimum values (-0.24) and a relatively high maximum (2.20) indicates heterogeneity in local fiscal structures, particularly in the composition and utilization of own-source revenues.

Regarding control variables, the average institutional age of local governments is 43.94 years, with a wide range from 5 to 72 years, reflecting differences in institutional maturity. The average population size is 0.30 million inhabitants, indicating that the sample is dominated by small- to medium-sized regions. The dummy variable for island status has a mean of 0.22, implying that approximately 22 percent of the observed local governments are classified as archipelagic regions.

To examine the linear relationships among variables and to identify potential multicollinearity issues, a correlation analysis is conducted. The correlation matrix is presented in Table 3, where correlation coefficients and corresponding significance levels are reported.

Table 3. Correlation Matrix

	SDG11 _{it}	Solvency _{it}	Flexibility _{it}	Age _{it}	Mun _{it}	Island _{it}
SDGs11 _{it}	1.000					
Solvency _{it}	-0.169***	1.000				
Flexibility _{it}	0.000	0.000	1.000			
Age _{it}	-0.237***	0.321***	0.000	1.000		
Mun _{it}	0.297***	-0.443***	-0.234***	0.000	1.000	
Island _{it}	0.000	0.000	0.000	0.082***	0.040**	1.000
	0.215***	-0.164***	-0.152***	0.000	0.059	
	0.000	0.000	0.000	0.000		
	0.226***	-0.408***	-0.002	0.454***		
	0.000	0.000	0.899	0.000		

Number of observations = 2.144

table 1 explains the variable operationalization.

***, ** = p-value significant 1% , 5%

Source: Research Data, 2025

The results indicate diverse correlation patterns between SDG 11 achievement and the explanatory variables. Total solvency exhibits a weak negative correlation with SDG 11 achievement ($r = -0.1692$; $p < 0.01$). Financial

flexibility also shows a negative correlation with SDG 11 ($r = -0.2377$; $p < 0.01$), suggesting that greater fiscal discretion does not necessarily correspond to higher SDG 11 outcomes at the bivariate level.

In contrast, institutional age is positively correlated with SDG 11 achievement ($r = 0.2974$; $p < 0.01$), indicating that more mature local governments tend to record higher SDG 11 scores. Population size also displays a positive, albeit weaker, correlation ($r = 0.2159$; $p < 0.01$). Similarly, island status shows a positive correlation with SDG 11 achievement ($r = 0.2263$; $p < 0.01$).

Among independent variables, total solvency is positively correlated with financial flexibility ($r = 0.3215$; $p < 0.01$), while negative correlations are observed between solvency and institutional age ($r = -0.4430$; $p < 0.01$) as well as between solvency and island status ($r = -0.4083$; $p < 0.01$). The mean Variance Inflation Factor (VIF) of 1.31 reported later confirms that multicollinearity does not pose a serious concern in the regression model.

Hypothesis testing is conducted using panel data regression with a random effects estimator. The random effects estimator is selected based on the structure and objective of the study. The panel dataset represents a broad population of local governments rather than fixed entities, making the random effects model appropriate for capturing both within- and between-region variation (Baltagi, 2021). This approach provides more efficient and consistent estimates under the assumption that unobserved individual effects are not systematically correlated with the explanatory variables (Wooldridge, 2010). Given the macro-fiscal and structural characteristics of the variables employed in this study, this assumption is considered theoretically plausible in the context of Indonesian local governments. The regression results are summarized in Table 4, which reports coefficient estimates, significance levels, and overall model statistics.

Table 4. Hypothesis Testing Results

	Expected sign	SDG11 _{it}
_Cons		30.57*** 0.001
Solvency _{it}	H1: (+)	1.68*** 0.002
Flexibility _{it}	H2 : (-)	-12.91*** 0.000
Age _{it}	(+/-)	0.15*** 0.000
Mun _{it}	(+/-)	5.69*** 0.000
Prob>F		0.000
R-square		0.16
Obs		2.144
Mean Vif		1.31

Number of observations = 2.144

table 1 explains the variable operationalization.

*** = p-value significant 1%.

Source: Research Data, 2025

The regression model is statistically significant overall, as indicated by a Prob > F value of 0.000. Although the R-squared value of 0.16 is relatively modest, such explanatory power is common in public finance panel studies, where development outcomes are influenced by multiple socio-economic and institutional factors beyond fiscal variables. Given the multidimensional nature of SDG 11.1, the model is intended to identify partial and directional relationships rather than provide a comprehensive predictive explanation. The coefficient of total solvency is positive and statistically significant ($\beta = 1.68$; $p = 0.002$). This result indicates that an increase in local government solvency is associated with higher SDG 11 achievement. Accordingly, Hypothesis 1 (H1), which predicts a positive effect of solvency on SDG 11, is accepted.

The coefficient of financial flexibility is negative and highly significant ($\beta = -12.91$; $p < 0.001$). This finding implies that greater fiscal flexibility is associated with lower SDG 11 achievement. Therefore, Hypothesis 2 (H2), which predicts a negative relationship between financial flexibility and SDG 11, is accepted. Among the control variables, institutional age shows a positive and significant coefficient ($\beta = 0.15$; $p < 0.001$), indicating that older local governments tend to achieve higher SDG 11 scores. Population size also exerts a positive and significant effect ($\beta = 5.69$; $p < 0.001$), suggesting that more populous regions record higher SDG 11 outcomes. Likewise, island status demonstrates a positive and significant coefficient ($\beta = 7.09$; $p < 0.001$), indicating that archipelagic regions exhibit higher SDG 11 achievement compared to mainland regions.

The first finding demonstrates that local government solvency plays a critical role in supporting the achievement of Sustainable Development Goal 11, thereby confirming the acceptance of the first hypothesis. This result is consistent with prior studies emphasizing that sound fiscal conditions enable local governments to maintain long-term investment capacity in urban infrastructure, housing provision, and basic public services that underpin sustainable cities and settlements (Benito et al., 2023; Bisogno, 2023). Financially solvent governments are better positioned to absorb fiscal shocks and to allocate resources strategically toward sustainability-oriented programs, particularly those related to inclusive and resilient urban development. From the perspective of fiscal decentralization theory, solvency reflects intertemporal budget sustainability and institutional credibility, which are essential for effective policy implementation at the local level (Mutiarin, 2017). Moreover, studies on SDG implementation at the municipal level indicate that strong balance-sheet positions enhance governments' ability to integrate SDG targets into development planning and execution (Aprilia Oktaviani et al., 2024). Thus, this finding reinforces the argument that the successful realization of SDG 11 is contingent not only on regulatory frameworks but also on the availability and prudent management of long-term fiscal resources.

The second finding reveals that financial flexibility is negatively associated with the achievement of SDG 11, supporting the acceptance of the second hypothesis. This outcome aligns with previous research suggesting that the relationship between fiscal flexibility and sustainable development is not linear and may become counterproductive beyond an optimal threshold (Poniatowicz et al., 2024; Sheng & An, 2024). While fiscal flexibility theoretically allows governments to respond adaptively to development needs, excessive discretion

without strong budgeting discipline may encourage inefficient spending and weaken alignment with sustainability priorities. Public finance and institutional theories highlight that broad fiscal discretion can increase the risk of fragmented allocations and short-term political expenditure, particularly in the absence of robust planning and accountability mechanisms (OECD, 2024). Empirical evidence further indicates that regions with high own-source revenue flexibility do not necessarily prioritize investments in sustainable urban infrastructure or housing development, which are central to SDG 11 (Labi, 2019; Permatasari et al., 2021). International policy assessments similarly emphasize that uncoordinated fiscal flexibility may hinder the effective mobilization of resources for SDG-related investments, especially at the subnational level (Stefano, 2024). Therefore, this finding underscores the importance of integrating fiscal flexibility within coherent planning frameworks to ensure that discretionary resources are directed toward sustainable urban outcomes.

With regard to the control variables, the results indicate that institutional maturity, population scale, and geographical characteristics collectively influence the achievement of SDG 11. Institutional age reflects accumulated administrative experience and governance stability, which enhance policy consistency and long-term planning capacity. This interpretation is supported by institutional studies suggesting that older local governments tend to exhibit more stable planning and budgeting processes, thereby improving development performance (Karima et al., 2021). Population size, as a demographic factor, represents both development pressure and opportunity, as larger jurisdictions typically possess stronger fiscal bases and institutional capacities to support sustainable urban services (Fitriani et al., 2005; Wibowo & Murwaningsari, 2024). Furthermore, the positive role of archipelagic status highlights the relevance of territorial characteristics in shaping development outcomes. Previous studies note that island regions often benefit from targeted intergovernmental transfers and affirmative development policies, which help mitigate structural disadvantages and support progress toward SDG targets (Sutono, 2022). Collectively, these findings indicate that the achievement of SDG 11 is shaped by an interplay between fiscal capacity, institutional characteristics, and spatial context, reinforcing the need for differentiated and context-sensitive policy approaches in sustainable urban development.

CONCLUSION

This study concludes that local government financial performance plays a substantive role in supporting the achievement of Sustainable Development Goal 11, which focuses on inclusive, safe, resilient, and sustainable cities and human settlements. The findings affirm that fiscal solvency strengthens the capacity of local governments to sustain long-term development commitments, thereby reinforcing the realization of sustainable urban development objectives. Conversely, financial flexibility, when not accompanied by strong planning discipline and strategic prioritization, does not necessarily translate into improved SDG outcomes and may even weaken alignment with sustainability goals. These conclusions confirm the relevance of agency theory and fiscal decentralization theory in explaining how financial capacity and discretion influence development performance at the subnational level. Overall, the study underscores that

achieving SDG 11 at the local level requires not only fiscal autonomy but also prudent financial management and institutional maturity to ensure that available resources are effectively directed toward sustainable urban priorities. Despite its contributions, this study is subject to several limitations that should be considered in interpreting the conclusions and formulating future research agendas. The analysis relies exclusively on secondary data, which constrains the ability to capture qualitative dimensions of local governance, political commitment, and planning quality that may influence SDG achievement. In addition, the study focuses on a limited set of fiscal indicators, thereby excluding other potentially relevant variables such as direct housing expenditure, spatial planning effectiveness, and intergovernmental coordination mechanisms. The relatively short observation period also limits the assessment of long-term fiscal impacts on sustainable urban development. Future research is therefore encouraged to incorporate longer time horizons, mixed-method approaches, and more comprehensive fiscal and institutional variables. Such extensions would provide deeper insights into the causal mechanisms linking local government finance and sustainable development, as well as inform more nuanced policy interventions to accelerate the achievement of SDG 11.

REFERENCE

- Adams, M. B. (1994). Agency Theory and the Internal Audit. *Managerial Auditing Journal*, 9(8), 8–12. <https://doi.org/10.1108/02686909410071133>
- Alem, G. (2021). Urban plans and conflicting interests in sustainable cross-boundary land governance, the case of national urban and regional plans in Ethiopia. *Sustainability*, 13(6), 3081.
- Amalya, H. A., & Latief, R. (2023). Efektivitas Program Bantuan Stimulan Perumahan Swadaya (BSPS) di Kec. Tamalanrea Kota Makassar. *PROSIDING TEMU ILMIAH*, 11(1), G069–G088.
- Aprilia Oktaviani, S., Yudha Pratiwi, B., Kurrohman, T., Negeri Jember, P., Matrip Po Box, J., Jember, U., & Kalimantan Tegalboto No, J. (2024). PENYUSUNAN KONSEP SUSTAINABLE VILLAGE MELALUI ANALISIS ANGGARAN PENDAPATAN DAN BELANJA DESA DI KABUPATEN JEMBER. In *Jurnal Akuntansi Terapan dan Bisnis* (Vol. 4, Number 1).
- Baltagi, B. H. (2021). *Econometric Analysis of Panel Data* (6th ed.). John Wiley & Sons. <http://www.springer.com/series/10099>
- Bebbington, A., & Humphreys Bebbington, D. (2018). Mining, movements and sustainable development: Concepts for a framework. *Sustainable Development*, 26(5), 441–449. <https://doi.org/10.1002/sd.1888>
- Bebbington, J., & Unerman, J. (2018). Achieving the United Nations Sustainable Development Goals: an enabling role for accounting research. *Accounting, Auditing & Accountability Journal*, 31(1), 2–24.
- Benito, B., Guillamón, M. D., & Ríos, A. M. (2023). The sustainable development goals: How does their implementation affect the financial sustainability of the largest Spanish municipalities. *Sustainable Development*, 31(4), 2836–2850. <https://doi.org/10.1002/sd.2551>
- Bisogno, M. (2023). SUSTAINABLE DEVELOPMENT GOALS IN PUBLIC ADMINISTRATIONS: ENABLING CONDITIONS IN LOCAL

- GOVERNMENTS. *Sage International Review of Administrative Sciences*, 89(4), 1223–1242. <https://doi.org/10.1177/00208523221146458> Copyright
- BPS. (2021). *Laporan Statistik Indonesia 2021*.
- Chen, M., Chen, L., Cheng, J., & Yu, J. (2022). Identifying interlinkages between urbanization and Sustainable Development Goals. *Geography and Sustainability*, 3(4), 339–346.
- Fitrani, F., Hofman, B., & Kaiser*, K. (2005). Unity in diversity? The creation of new local governments in a decentralising Indonesia. *Bulletin of Indonesian Economic Studies*, 41(1), 57–79.
- Jensen, M. C., & Meckling, W. H. (1976). *Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure*. 4(3), 305–360.
- Karima, F., Saleh, C., & Sarwono, S. (2021). Planning and Budgeting Process of Regional Revenue and Expenditure Budget: A Study on the Consistency of Pangkalpinang City Government's Planning and Budgeting Process for the 2018-2020 Fiscal Year. *Society*, 9(1), 205–227.
- Labi, A. (2019). Analisis kinerja anggaran pendapatan dan belanja daerah pada pemerintah daerah kabupaten pulau morotai tahun anggaran 2013-2015. *Jurnal Akuntansi Bisnis Dan Ekonomi*, 5(1), 1355–1370.
- Marianti, M. M., Permatasari, P., Manurung, E. M., Wardhana, I. W., Alim, T. E., & Wahyuputri, F. W. (2023). Village Fund for Renewable Energy Development: A Case Study of Rural Area in Indonesia. *International Journal of Energy Economics and Policy*, 13(4), 225–236. <https://doi.org/10.32479/ijeep.14541>
- Mutiarin, D. (2017). Public Budgeting in The Fiscal Decentralization Policy in Indonesia. *Jurnal Ilmiah Administrasi Pemerintahan Daerah*, 9(2).
- Novitasari, R. D., & Sugianto, S. (2024). Revealing The Impact Of Regional Government Function Budget Patterns On Achievements SDG 11 In Indonesia. *JAS (Jurnal Akuntansi Syariah)*, 8(2), 316–340.
- Oates', W. E. (1999). An Essay on Fiscal Federalism. In *Journal of Economic Literature*: XXXVII. <https://about.jstor.org/terms>
- Panda, B., & Leepsa, N. M. (2017). Agency theory: Review of theory and evidence on problems and perspectives. *Indian Journal of Corporate Governance*, 10(1), 74–95. <https://doi.org/10.1177/0974686217701467>
- Peraturan Menteri Negara Perencanaan Pembangunan Nasional/Kepala Badan Perencanaan Pembangunan Nasional Nomor 7 Tahun 2023 Tentang Pelaksanaan Kerja Sama Pemerintah Dan Badan Usaha Dalam Penyediaan Infrastruktur , Indonesia (2023).
- Permatasari, P., Iلمان, A. S., Tilt, C. A., Lestari, D., Islam, S., Tenrini, R. H., Rahman, A. B., Samosir, A. P., & Wardhana, I. W. (2021). The village fund program in Indonesia: Measuring the effectiveness and alignment to sustainable development goals. *Sustainability*, 13(21), 12294.
- Poniatowicz, M., Konopka, P., & Piekutowska, A. (2024). Towards a comprehensive evaluation of decentralization: a multidimensional insight of OECD countries. *Technological and Economic Development of Economy*, 30(6), 1652–1681.
- PUPR. (2022). *Laporan Kinerja Dinas Pekerjaan Umum dan Penataan Ruang Tahun 2022*.

- Sheng, X., & An, Y. (2024). The nonlinear impact of financial flexibility on corporate sustainability: Empirical evidence from the Chinese manufacturing industry. *Heliyon*, 10(6).
- Sugion, I., & Purbadharmaja, I. B. P. (2021). Pengaruh PAD dan Belanja Modal Terhadap Tingkat Kemiskinan dan IPM di Kabupaten/Kota Provinsi Bali. *E-JURNAL EKONOMI PEMBANGUNAN UNIVERSITAS UDAYANA*, 10(1), 361-388.
- Sutono, I. A. (2022). Pengaruh belanja pemerintah terhadap indeks pembangunan manusia di Provinsi Riau. *Jurnal Manajemen Perbendaharaan*, 3(2), 150-168.
- United Nation. (2016). *World Cities Report 2016: Urbanization and Development - Emerging Futures*.
- United Nation. (2020). *World Cities Report 2020: The Value of Sustainable Urbanization*.
- Vito, D. S. D. M. S., Armin, R. N., & Nasution, R. (2024). *Desentralisasi Fiskal dan Politik Dalam Pelaksanaan Otonomi Daerah di Indonesia*.
- Wibowo, P., & Murwaningsari, E. (2024). Factors influencing non-tax revenue sustainability in Indonesian government institutions: the mediating role of accountability. *Cogent Business & Management*, 11(1), 2303788.
- Wooldridge, M. (2010). *Econometric Analysis of Cross Section and Panel Data* (2nd ed.). MIT Press.