



# Analysis of Regional Government Strategy and Policy in National Economic Development Planning in Indonesia

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## Abstract

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National economic development represents a comprehensive transformational process aimed at enhancing the welfare of society through sustained income growth, structural improvements in the economy, and equitable distribution of resources. Within the Indonesian context, the role of local governments has become increasingly crucial for optimizing local potential, strengthening human resource capacities, and ensuring that policies are fully aligned with the broader national development agenda. This study seeks to examine and analyze the strategies and public policies implemented by local governments to support national economic development, particularly in the current era of decentralization and regional autonomy. The research employs a systematic literature review methodology, analyzing scholarly journal articles. Findings reveal that effective utilization of local potential, capacity-building of government officials, and innovative approaches to development planning constitute key strategic factors in enhancing regional self-reliance and competitiveness. Nevertheless, challenges persist, including fiscal constraints, dependency on central government transfers, and uneven quality of human resources across regions. The study underscores the critical importance of fostering strong central–regional synergy, promoting policy innovation, and reinforcing institutional capacities to achieve economic development that is inclusive, sustainable, and globally competitive. Addressing these challenges effectively can significantly contribute to long-term social welfare, regional resilience, and balanced national growth.



## 1. Introduction

National economic development is one of the strategic agendas in an effort to improve the welfare of the community as a whole. This process does not only include an increase in national and per capita income, but also an improvement in economic structure, an equal distribution of income, and an increase in the quality of life of the community through equitable access to education, health, and employment opportunities. Economic development cannot be separated from the process of social and institutional change, and technological advancement, which together encourage the creation of new economic opportunities, increased productivity, and a reduction in the poverty rate (Kania et al., 2021).

In the context of Indonesia, economic development is regulated through the National Long-Term Development Plan (*Rencana Pembangunan Jangka Panjang Nasional/RPJPN*) and the National Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Nasional/RPJMN*). Both instruments serve as the direction for sustainable and inclusive development policies. However, implementation at the local level requires planning that is in line with the national vision, which is outlined in the Regional Medium-Term Development Plan (*Rencana Pembangunan Jangka Menengah Daerah/RPJMD*) (Afandi & Purwanto, 2019). This emphasizes that national economic development is not only the domain of the central government, but also the responsibility of the regional government to harmonize strategies, policies, and work programs that are in line with local potential and needs.

The role of the regional government in economic development has become increasingly significant since the implementation of regional autonomy policy. Decentralization has given regional governments the flexibility to manage resources, formulate policies, and determine development priorities in accordance with the conditions and potential of their regions. Thus, effective regional economic development will strengthen the foundation of national economic development. Optimizing local potential, whether in the form of natural resources, culture, or leading sectors such as MSMEs, tourism, and the creative industry, is one of the strategic instruments to increase regional competitiveness and create an independent community (Kania et al., 2021).

However, in practice, regional governments still face a number of complex challenges. One of them is limited budget and high dependence on transfer funds from the central government. This condition often limits the room for maneuver of the regions in formulating innovative and sustainable development programs (Obersteg et al., 2019). In addition, the low fiscal independence of the regions becomes an obstacle in creating development that is oriented towards local potential. Therefore, a strategy to strengthen Local Own-source Revenue (*Pendapatan Asli Daerah*/PAD) through policy innovation and diversification of revenue sources becomes very important.

On the other hand, the quality of human resources (HR) of the regional government apparatus is also a determining factor in the success of development. Competent human resources are able to formulate policies, manage budgets, and run development programs effectively. However, many regions still face the problem of

the low quality of the apparatus, both in terms of knowledge, skills, and professionalism (Larson, 2017). Efforts to increase the capacity of the apparatus through training, continuing education, and career development are an important part of improving the performance of the regional government. In addition to institutional and fiscal factors, regional policy innovation is also a crucial aspect in encouraging economic development. Regional governments are required to create breakthroughs in public services, governance, and the use of digital technology so that development can run more effectively and efficiently (Susanti, 2021). Digitalization of government, for example, can accelerate public services, expand community access to information, and increase participation in development (Hanna, 2018).

Without strong collaboration, national development risks being imbalanced, creating disparities between regions, and worsening the inequity of welfare. Therefore, it is important to understand how regional governments can optimize their role through strategic policies, increasing the capacity of human resources, and innovation in sustainable development planning (Saleh et al., 2020). Based on this background, this study aims to analyze the strategies and policies of regional governments in national economic development planning in Indonesia. The main focus of this study is how regional governments optimize local potential, strengthen the capacity of the apparatus's human resources, overcome fiscal limitations, and create policy innovations that support sustainable and inclusive development. With a literature study approach, this research is expected to provide an academic

contribution as well as practical recommendations for strengthening regional development that is oriented towards achieving the national development vision.

## **2. Literature Review**

### **2.1. The Role of Regional Government in National Economic Development**

Regional governments have a strategic role in supporting national economic development, especially after the implementation of decentralization and regional autonomy. Decentralization gives a wider authority to the regions to regulate and manage government affairs according to their respective needs and potential. In the context of economic development, this authority is realized through the preparation of the Regional Medium-Term Development Plan (RPJMD) which is in line with the National Medium-Term Development Plan (RPJMN) (Afandi & Purwanto, 2019).

Regional governments play a role in identifying local potential, formulating economic policies, and encouraging the growth of leading sectors that contribute to improving community welfare. Optimizing sectors such as tourism, the creative industry, MSMEs, and modern agriculture are examples of how regions can harmonize local policies with the national development vision (Kania et al., 2021). In addition, regional governments are also required to create inclusive policies so that development can be felt equally by all levels of society (Saleh et al., 2020).

In addition, policy innovation is key for regional governments in accelerating development. Innovation can take the form of digitalization of public services, modernization of governance, and community participation in development

planning. Digitalization, for example, has been proven to be able to expand community access to government services while increasing development efficiency. Thus, the role of the regional government is not only as an implementer of central policies, but also as an agent of development that is creative and adaptive to global and local dynamics.

## **2.2. Challenges and Strategies for Optimizing Local Potential and the Quality of Apparatus's Human Resources**

Although the role of the regional government is very important, the challenges faced are not small. One of the main issues is fiscal limitations and high dependence on transfer funds from the central government. Low fiscal independence causes many regions to have difficulty running sustainable and local potential-based development programs. Therefore, a strategy to increase Local Own-source Revenue (PAD) through economic diversification, strengthening the tax sector, and managing regional assets becomes very important.

In addition to fiscal issues, the quality of human resources (HR) of the regional government apparatus is also a significant challenge. Apparatus with low competence will have difficulty in formulating, implementing, and evaluating development policies. Larson (2017) emphasizes that the quality of the apparatus has a direct correlation with the effectiveness of regional development implementation. Therefore, increasing the capacity of human resources through education, training, career development, and the use of information technology is a key strategy (Yasin et al., 2021).

Optimizing local potential also requires active community participation. Regional governments are required to involve the community in the process of planning, decision making, and policy implementation so that development truly reflects regional needs. Kania et al. (2021) show that regions that are able to explore local potential participatively tend to have more sustainable economic growth. With a combination of fiscal strategies, strengthening human resources, and community empowerment, regional governments are expected to be able to strengthen independence while supporting national development in a more inclusive manner.

### **3. Methods**

This study uses a literature review method to understand the role of regional governments in Indonesia's national economic development. This approach was chosen because it is able to provide a comprehensive overview of the latest academic findings, as well as identify patterns, challenges, and opportunities relevant to the context of regional development.

The stages of the literature review were carried out through several steps. First, a search for published scientific articles and research reports. The literature sources were obtained through academic databases, namely Google Scholar, that are relevant to the fields of development economics, decentralization, and governance. The main focus of the search was on the themes of regional fiscal independence, optimizing local potential, the quality of human resources of the apparatus, and sustainable development strategies.

Second, the collected literature was selected based on inclusion criteria, namely the suitability of the topic with regional economic development and its contribution to national development. Articles that were purely conceptual were juxtaposed with empirical articles, so that a balance between the theoretical framework and field evidence was obtained. Previous studies were then categorized into several main themes, namely: challenges of fiscal independence and dependence on central transfers; the role of optimizing local potential in economic development; increasing the capacity of regional apparatus's human resources; and digital transformation of governance.

Fourth, relevant literature was mapped to build the conceptual framework of the research. This framework does not only serve as the basis for theoretical arguments, but also becomes a reference in compiling the results and discussion. Thus, this literature review does not stop at the descriptive stage, but is also analytical and critical of phenomena that occur in the field. With this approach, research based on a literature review can provide an academic contribution in the form of a synthesis of the latest knowledge, as well as practical recommendations for regional governments in strengthening their role in national economic development that is inclusive and sustainable.

## **4. Results**

The results of the literature review that has been conducted show that national economic development in Indonesia cannot be separated from the strategic role of regional governments in managing local potential, strengthening apparatus capacity,



and formulating policies that are adaptive to global and domestic challenges. The process of national economic development is basically a series of structural transformations that include an increase in community income, an equal distribution, and an improvement in the quality of life as a whole. However, in practice, there are a number of factors that influence the effectiveness of the regional government's role, both internal such as limited budget and apparatus capacity, and external such as the dynamics of central policies, global changes, and technological developments.

The study by Qiao et al. (2019) highlights that fiscal decentralization, which should strengthen regional independence, has not fully run as expected. Most regions in Indonesia are still highly dependent on transfer funds from the central government, either through the General Allocation Fund (*Dana Alokasi Umum* /DAU) or the Special Allocation Fund (*Dana Alokasi Khusus*/DAK). This dependence limits the flexibility of regional governments in formulating development priorities. As a result, development programs are often more oriented towards compliance with central regulations than the specific needs of the local community. Similar findings were also put forward by Temenggung et al. (2020) who emphasize that the low contribution of Local Own-source Revenue (PAD) to the total APBD (Regional Revenue and Expenditure Budget) hinders development innovation at the regional level.

On the other hand, the literature also shows that there is a great opportunity in optimizing local potential as a driving force for regional development. Kania et al., (2021) argue that the MSME, creative economy, and culture-based tourism sectors have a significant leverage for regional economic growth. With the right

promotion strategy, regions are not only able to increase community income but also create a competitive economic identity. The study by Afandi and Purwanto (2019) supports this by showing that regional development planning based on the Regional Medium-Term Development Plan (RPJMD) is able to increase the attractiveness of local investment, as long as it is prepared by involving community and stakeholder participation.

In addition to economic potential, the quality of human resources of the regional apparatus is an important determinant in the effectiveness of development. Larson (2017) highlights that the low competence of the apparatus often hinders the implementation of innovative policies. Regional apparatus are required not only to understand administrative aspects, but also to have the ability to analyze policies, manage programs, and have skills in using digital technology. Yasin et al. (2021) shows that local needs-based training programs, combined with an increase in the welfare of the apparatus, have been proven to improve the performance of the regional bureaucracy. Hanna (2018) add that the digitalization of governance is able to strengthen transparency, accountability, and the speed of public services, which in turn increases public trust in the regional government.

However, the results of the literature study also show that there are structural challenges that need to be addressed immediately. First, there is a gap in fiscal capacity between regions, where regions rich in natural resources tend to be more independent than regions that depend on the agricultural or service sectors. Second, the weak coordination between the central and regional governments often leads to overlapping development policies. For example, central development programs that

are not in sync with regional priorities can lead to inefficient use of the budget. Third, there is a gap in the use of digital technology, where only a small number of regions have succeeded in integrating digital systems in governance, while most others still use less efficient manual methods.

Furthermore, the literature also emphasizes the importance of inclusive and sustainable development. According to Saleh et al. (2020), regional development should not only be oriented towards the growth of GDRP (Gross Domestic Regional Product) figures, but also must ensure an equal distribution of welfare, environmental protection, and an increase in access to education and health. Regions that are able to integrate sustainability aspects into development policies are proven to be more resilient to crises, both economic and environmental crises. The study by Obersteg et al. (2019) even emphasizes that the success of regional economic development must be measured not only by income growth, but also by the extent to which the community feels the direct benefits of the development.

In addition, the results of the study show that community participation in the process of planning and implementing development is one of the key factors. Community participation in playing an active role in encouraging development is still very limited, which is influenced by indications that have started to be embedded in the community. Starting from indications of intellectual participation, financial participation, to implementation. From the intellectual side, the community certainly has the desire to change the development system to be more advanced.

But because of the existence of some individuals from the village or sub-district government who sometimes do not have the same understanding with the

community, so that these intellectual communities become unfocused or even do not want to interfere (Smith & Ulus, 2020), this is reinforced by the study by Afandi and Purwanto (2019) which shows that regions that involve the community in the preparation of the RPJMD have a higher level of public satisfaction and development effectiveness. Community participation also plays an important role in identifying local potential that often escapes the attention of the government. By actively involving the community, regional governments can ensure that development policies are genuinely aligned with the real needs and aspirations of the residents. Such participation not only strengthens the legitimacy of government programs but also fosters a sense of ownership among the people, encouraging them to play a more active role in supporting and sustaining local development initiatives. Through this collaborative approach, policies become more inclusive, responsive, and sustainable, ultimately leading to improved welfare and equitable growth across different segments of society.

From a fiscal sustainability perspective, Temenggung et al. (2020) emphasize the need for regional innovation in exploring PAD, for example through the development of the tourism sector, digital service-based levies, and cooperation with the private sector. Regions that dare to innovate fiscally are proven to be more able to reduce dependence on central transfer funds and are more flexible in formulating development programs that are in line with needs.

The results of the literature review confirm that national economic development in Indonesia will be difficult to achieve without strengthening the role of the regional government. Fiscal independence, optimizing local potential,

increasing the quality of the apparatus, and digitizing governance are the main pillars in realizing inclusive, equitable, and sustainable development. The existing challenges are indeed complex, but with synergy between the central and regional governments, supported by active community participation and policy innovation, national economic development can run more effectively.

## 5. Discussion

The discussion of the results of the literature review shows that the role of the regional government in national economic development is a fundamental aspect that cannot be separated from the overall development agenda of Indonesia. The main challenge that arises is the high fiscal dependence on central transfers. This condition creates flexibility limitations for the regions in designing policies in accordance with the specific needs of their area. This is in line with the findings of Qiao et al. (2019) who emphasize that the uneven fiscal capacity between regions results in a wide development disparity. The discussion on this issue is important, because fiscal dependence is not just a technical budgeting issue, but is also closely related to the political and institutional independence of the regions.

Another issue that needs to be discussed is the optimization of local potential as the engine of development. The literature shows that regions with development strategies based on local potential, such as MSMEs, the creative economy, and tourism, have higher economic resilience than regions that only rely on central funds. However, these optimization efforts face challenges in the form of limited access to capital, low digital literacy of the community, and a lack of technology-based

marketing strategies. Therefore, the regional government needs to play a dual role as a facilitator for local economic actors and as a regulator that creates a healthy and competitive business ecosystem.

The discussion also highlights the importance of the quality of human resources of the apparatus. Many regions face the challenge of low bureaucratic competence, which has an impact on the weak implementation of innovative policies (Larson, 2017). Meanwhile, globalization and the development of digital technology demand that regional apparatus be more adaptive, creative, and responsive to change. Apparatus capacity building programs do not only stop at technical training, but also include the formation of an entrepreneurial bureaucracy mindset that is able to create policy breakthroughs.

Furthermore, the digitalization of governance is an important discourse that has emerged in the latest literature. Digitalization does not only increase transparency and accountability, but also accelerates public services, strengthens community participation, and opens up opportunities for cross-sector data integration. However, its implementation still faces infrastructure gaps between regions, especially between urban and rural areas. This discussion is important because digitalization is not just an option, but a necessity in realizing effective government in the era of industry 4.0 and society 5.0.

Finally, the discussion on inclusive and sustainable development confirms that economic growth must be in line with the equal distribution of welfare, environmental protection, and an increase in the quality of life of the community. Regions that integrate sustainability principles into development policies are proven

to be more resilient in facing multidimensional crises (Obersteg et al., 2019). Thus, national economic development through the role of the regional government does not only need to focus on growth figures, but must also ensure social, economic, and ecological sustainability.

By connecting these literature findings, the discussion shows that the key to the success of national economic development lies in the synergy between the central government, regional governments, the community, and the private sector. The central government must provide more space for the regions to be independent, while the regional governments must build fiscal, institutional, and human resource capacity. Only then can the vision of inclusive, equitable, and sustainable development be truly realized.

## **6. Conclusion**

Based on the results of the literature review, it can be concluded that national economic development in Indonesia is highly dependent on the effective role of regional governments in managing local potential, strengthening apparatus capacity, and creating inclusive and sustainable policies. The main challenges faced are the high fiscal dependence on central transfers, weak fiscal independence, and a gap between regions in financial and resource capacity. This shows that regional fiscal independence is an important prerequisite for realizing competitive and sustainable economic development.

On the other hand, the optimization of local potential, especially in the MSME, creative economy, and tourism sectors, has been proven to be able to drive

regional economic growth. The active participation of the community in development planning is also an important factor so that the policies formulated truly align with local needs and aspirations. In addition, the quality of human resources of the regional government apparatus must be continuously improved through education, training, and digitalization of governance, so that they are able to adapt to global developments.

Overall, national economic development will only run effectively if there is a strong synergy between the central government, regional governments, the community, and the private sector. With an integrated, innovative, and sustainability-oriented strategy, Indonesia has a great opportunity to realize inclusive, equitable, and sustainable economic growth, while improving the welfare of the community as a whole.

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