International Journal of
Government Accounting Management
Volume 3, Number 1, 2024

Strengthening National Financial Stability Through Effective Fiscal Decentralization and Public Financial Governance

Amirah Hanantyas Fatimah[1]

[1] Universitas Muhammadiyah Surakarta, Surakarta, Indonesia

Abstract

Article history:
Received: February 7, 2024
Revised: March 11, 2024
Accepted: April 14, 2024
Published: June 30, 2024

Keywords:
Accrual Public Accounting,
Fiscal Decentralization,
Financial Governance,
Financial Stability,
Local Autonomy.

Identifier:
Zera Open
Page: 19-37
https://zeraopen.com/journal/ijgam

Regional autonomy represents a central pillar of modern governmental reform aimed at improving public welfare and enhancing the efficiency of public service delivery. The delegation of authority from the central government to local governments is expected to foster policies that are more responsive to societal needs and capable of optimizing local economic potential. Nevertheless, the implementation of fiscal decentralization frequently encounters challenges, particularly fiscal disparities among regions, limited human resource capacity, and persistent dependence on central government transfers. Effective public financial governance plays a crucial role in ensuring transparency and accountability, while the adoption of accrual-based public accounting contributes to greater efficiency in financial management and strengthens public trust. Through a literature review of recent scholarly works, this study examines the interrelationship between regional autonomy, fiscal decentralization, public financial governance, and national financial stability. The findings indicate that well-implemented decentralization can enhance national economic stability through transparent, accountable, and performance-oriented financial management systems that support improved public service quality.

1. Introduction

Regional autonomy is a fundamental pillar in governance reform aimed at enhancing the effectiveness of public services while expanding community welfare (Purbadharmaja et al., 2019). Through the delegation of authority from the central government to regional governments, a governance framework is established that is more democratic, transparent, and responsive to the specific needs of the local community. Regional governments are given strategic room to manage resources, formulate development priorities, and set policies that align with the social, economic, and geographical characteristics of their respective regions (Nurmandi et al., 2021). Thus, regional autonomy is not only understood as a form of administrative decentralization but also as a process of strengthening public participation in national development decision-making.

Nevertheless, the implementation of regional autonomy, particularly in developing countries, still faces various structural constraints. One of the main components in the implementation of regional autonomy is fiscal decentralization, which is the mechanism for distributing authority in financial management between the central and regional governments. Fiscal decentralization is normatively expected to increase the efficiency of public expenditure allocation while encouraging regional fiscal independence in financing development. However, empirical reality shows that many regions are still in a state of significant fiscal disparity. The relatively limited ability of Local Own-Source Revenue (*Pendapatan Asli Daerah*/PAD) means that most regional governments still rely on financial transfers from the central government to meet public financing needs (Siburian, 2020). This dependence indicates that fiscal decentralization has not been fully effective and still causes inter-regional disparities.

Besides fiscal issues, the quality of human resource capacity within regional governments also poses a substantial challenge in local financial management. Uneven competence among financial management officials contributes to the low effectiveness of public financial governance implementation. Good financial governance is a critical foundation for achieving a nation’s economic and political stability. A government capable of managing finance transparently, efficiently, and accountably will gain the trust of the public and external stakeholders, including investors (Adrian Sutedi, 2022). Conversely, weaknesses in financial governance can trigger budget waste, corrupt practices, and declining bureaucratic effectiveness, which has implications for disrupting national fiscal stability.

In the realm of public accounting, the implementation of an accrual-based accounting system is a strategic instrument for increasing the transparency and accountability of government financial management. The accrual system allows for more comprehensive recording of every financial transaction, making the presentation of financial statements more accurate and informative. The implementation of accrual accounting also supports more rational and data-driven decision-making processes, as it provides a more realistic picture of the government’s financial position (Jati, 2019). Furthermore, an effective public accounting system has the potential to strengthen the integrity of government institutions and improve the quality of public services.

National financial stability is closely linked to the effectiveness of local financial governance. A healthy public financial condition is the foundation for sustainable economic growth and increased community welfare. Conversely, financial management that is neither transparent nor accountable can create fiscal risks that potentially disrupt national stability in the long run. Therefore, every regional government needs to strengthen its financial governance system through improving human resource capacity, optimizing local revenue potential, and implementing accountable and modern accounting practices (Triwibowo, 2019).

Based on this description, this research aims to analyze the relationship between regional autonomy, fiscal decentralization, public financial governance, and national financial stability through a literature review approach. This study is expected to provide a more comprehensive understanding of how effective fiscal decentralization can strengthen public financial governance and support the creation of sustainable national economic stability.

2. Literature Review

2.1. Regional Autonomy and the Improvement of Regional Government Performance

Regional autonomy is essentially designed to strengthen the independence of regional governments in the decision-making process and the management of their resources. Through decentralization policy, regional governments gain broader authority to regulate and manage government affairs in accordance with local characteristics and potential. This increase in independence is expected to boost the effectiveness of public services while expanding the space for community participation in the development process (Moonti, 2019). Thus, regional autonomy functions not only as a mechanism for distributing administrative authority but also as an instrument to strengthen the community's role in governance. A number of studies indicate that the implementation of regional autonomy can encourage the birth of public policy innovations that are more adaptive and aligned with the needs of the local community. Santoso (2021) asserts that the implementation of regional autonomy contributes to increased efficiency in budget management and accelerated implementation of development programs.

However, this effectiveness is highly determined by human resource capacity and the commitment of regional governments to implement the principles of good governance. Regions with competent officials are generally able to optimally utilize autonomous authority to improve community welfare. Nevertheless, the implementation of regional autonomy still faces significant challenges, particularly related to the effort to balance autonomy with accountability. Many regions encounter constraints in budget planning, control, and oversight aspects, leading to inefficiency in the utilization of public resources (Nur et al., 2023). Therefore, a comprehensive evaluation mechanism is needed to ensure that regional autonomy not only grants administrative leeway but also encourages the establishment of strong financial responsibility.

2.2. Fiscal Decentralization and Regional Financial Independence

Fiscal decentralization is a key component of regional autonomy related to the distribution of financial management authority between the central and regional governments. Its goals are to increase public expenditure efficiency, strengthen accountability, and create fiscal independence at the local level (Rahardjo, 2020). With fiscal decentralization, regional governments are expected to have adequate revenue sources to finance development without excessive reliance on central funds. However, in practice, most regions still face high dependence on transfer funds from the central government, such as the General Allocation Fund (*Dana Alokasi Umum*/DAU) and the Special Allocation Fund (*Dana Alokasi Khusus*/DAK). Fiscal disparity between regions is a serious problem due to differences in economic potential and the capacity of PAD.

Research by Lamba et al. (2019) shows that although fiscal decentralization increases expenditure efficiency, fiscal disparity remains a major obstacle to regional independence. Furthermore, limited fiscal capacity also impacts the low allocation of productive spending. The majority of regional budgets are still dominated by personnel expenditure, while the proportion of productive capital expenditure is relatively small. This inhibits regional economic growth and reduces the long-term development impetus (Asih, 2019). To overcome this problem, a strategy is needed to strengthen PAD through local taxation innovation, optimization of local assets, and improved performance of Regional Owned Enterprises (*Badan Usaha Milik Desa*/BUMD). Effective fiscal decentralization not only demands technical competence in managing the budget but also requires transparent and accountable public financial governance. Public financial reform is an important prerequisite for creating an equitable and sustainable decentralization system.

2.3. Public Financial Governance, Accrual Accounting, and National Financial Stability

Good public financial governance is the foundation for national financial stability. A government that is able to manage its finances based on the principles of transparency, accountability, and efficiency will generate greater public trust and strengthen economic stability (Triwibowo, 2019). One important instrument in realizing good financial governance is the implementation of an accrual-based accounting system. The accrual system allows transactions to be recorded when they occur, not just when cash changes hands, thereby providing a more comprehensive picture of the government's financial position. A study by Jati (2019) indicates that the application of accrual accounting in the public sector significantly contributes to increased transparency and quality of government financial statements. In addition, this system also supports more rational and data-driven decision-making.

The connection between public financial governance and fiscal stability becomes increasingly important in the context of decentralization. Regional governments with accurate and accountable accounting systems tend to be better able to maintain fiscal balance and minimize financial risks (Adrian Sutedi, 2022). Conversely, weak oversight and low fiscal integrity can lead to financial imbalances that impact national stability. Thus, good public financial governance, supported by the application of accrual accounting, is key to realizing effective fiscal decentralization and maintaining national financial stability. Public financial reform in the era of regional autonomy not only demands increased technical capacity of officials but also commitment to fiscal integrity and transparency as the main pillars of sustainable economic development.

3. Methods

This research uses the literature review method (library research) as the main approach for exploring, analyzing, and synthesizing various theories and empirical findings related to regional autonomy, fiscal decentralization, public financial governance, public sector accounting, and national financial stability. This approach was chosen because it is considered the most appropriate for examining conceptual phenomena and public policies without requiring direct field data collection. Through the literature review, this research seeks to build a comprehensive understanding based on previously generated scientific works, thus being able to provide an in-depth analysis of the dynamics of regional autonomy implementation and its relation to national fiscal stability.

The literature review process was conducted through a systematic search of various scientific sources published in the last five years, including academic journals, reference books, research reports, and relevant policy documents. This timeframe was chosen to ensure that the data and references used reflect the latest developments in the field of public financial governance and the implementation of fiscal decentralization. Scientific sources were obtained through the Google Scholar, Garuda or Research Gate database, using keywords such as regional autonomy, fiscal decentralization, accrual accounting, public financial governance, and national fiscal stability. Every piece of literature found was then selected based on its topic relevance, publication quality, author reputation, and the clarity of the methodology used in previous research.

The analysis stage was carried out in layers through a process of identification, evaluation, and thematic synthesis of the selected literature. In the identification phase, the researcher ensured the suitability of each source with the focus of the study. The next stage involved evaluating the quality of the literature by assessing the methodological strength, the validity of the findings, and the research contribution to theoretical development. Subsequently, a thematic synthesis was conducted by grouping findings based on main themes, such as regional autonomy policy, the effectiveness of fiscal decentralization, and the implementation of accrual-based public accounting. This process was then strengthened by comparative analysis to compare similarities, differences, and identify research gaps that remain open.

The analysis method used is descriptive qualitative, which emphasizes in-depth interpretation of the concepts and policies that are the focus of the study. This approach allows the researcher to extract the conceptual relationship between decentralization policy and national financial stability, and to identify the key factors influencing the success of its implementation. The validity of the research results is maintained through source triangulation by comparing cross-literature findings and ensuring the consistency of arguments with established theories. Thus, this literature review is expected to provide an objective and comprehensive understanding of the impact of regional autonomy and fiscal decentralization on public financial governance and national econonomy

4. Results

The results of this study indicate that the relationship between regional autonomy, fiscal decentralization, public financial governance, and national financial stability is complex, interconnected, and mutually influential. Based on the synthesis of various scientific literature, it can be concluded that the success of regional autonomy implementation is highly determined by fiscal capacity and the quality of financial management carried out by the regional government. The stronger the regional financial governance, the greater its ability to contribute to national fiscal stability. Literature findings consistently emphasize that the effectiveness of regional autonomy cannot be separated from the region's ability to manage financial resources efficiently, accountably, and transparently.

Conceptually, regional autonomy is designed to encourage independence and increase the efficiency of local government administration. However, the results of the study show that many regions have not been fully able to achieve this independence due to persistent fiscal disparity and low PAD. Most regions still rely on central government transfers through the DAU, DAK, and Revenue Sharing Fund (*Dana Bagi Hasil*/DBH). This dependence illustrates that the implementation of fiscal decentralization has not been optimal. Lamba et al. (2019) found that fiscal disparity between regions with strong economic bases and regions with limited resources remains one of the main obstacles to the success of regional autonomy. Regions with higher fiscal capacity tend to achieve fiscal independence faster than regions with limited economic potential.

Furthermore, the results of the literature analysis confirm that regional fiscal performance is not solely determined by the size of the budget allocation but depends more on the effectiveness of the financial governance applied. Regional governments that consistently implement the principles of good governance in budget management tend to have higher levels of efficiency and demonstrate better public transparency and accountability. Adrian Sutedi (2022) affirm that good public financial governance is positively correlated with increased public trust in the government and influences national fiscal stability. Transparency in the budget preparation and reporting process not only increases government legitimacy but also strengthens the fiscal discipline needed to maintain long-term economic stability.

Another important finding indicates that the application of accrual-based accounting plays a strategic role in improving the quality of public financial governance. This accounting system allows regional governments to present financial statements that are more accurate, comprehensive, and reflect the true financial position. Jati (2019) shows that accrual-based accounting is able to improve the quality of regional financial reports and strengthen public accountability. These results are also in line with Triwibowo (2019), who asserts that accrual accounting supports a more rational fiscal decision-making process because it provides a more realistic picture of the regional government's fiscal capacity.

In the context of budget allocation, the study results show that most regions still face problems in budget structure that do not fully support long-term economic growth. Personnel expenditure remains the largest component in the regional budget (*Anggaran Pendapatan Belanja Daerah*/APBD) structure, while capital expenditure, which functions as an engine for economic growth, is relatively small. This condition has negative implications for efforts to develop basic infrastructure and improve public services. Asih (2019) shows that regions that allocate a larger proportion to capital expenditure tend to have higher and more stable rates of economic growth. Thus, the effectiveness of regional fiscal policy is not only related to the amount of budget available but also to how that budget is directed toward productive activities capable of strengthening the region's economic foundation. Besides fiscal and accounting aspects, Human Resource (HR) capacity at the regional government level is also a determining factor for the success of fiscal decentralization (Siregar & Badrudin, 2019).

The research results mention that many regions still experience technical obstacles in budget planning, financial statement preparation, and managing regional financial information systems. A lack of technical capability and minimal training for officials leads to low quality of budget preparation and weak oversight of expenditure realization. Moonti (2019) asserts that the success of regional autonomy is highly determined by the bureaucracy's ability to manage financial resources and its commitment to improving the competence of government officials. In addition to internal factors, the literature results also highlight the significant influence of external factors on the effectiveness of fiscal decentralization, including national fiscal policy, macroeconomic stability, and central government transfer policies. Inconsistency between central policy and regional needs often triggers distortions in resource allocation.

For example, a transfer fund distribution formula that does not consider inter-regional fiscal disparity can actually widen the development gap. The literature findings emphasize that fiscal coordination between the center and regions must be strengthened through an integrated budget planning system so that the goals of decentralization can be optimally achieved. In relation to national fiscal stability, the study results indicate that regional financial governance has significant implications for the country's fiscal condition as a whole. Regions capable of managing their finances efficiently and transparently can help reduce aggregated national fiscal risk (Adekunle et al., 2023). Conversely, regions experiencing budget deficits due to weak governance have the potential to cause fiscal pressure for the central government. In this context, the transparency of regional financial reports is an important indicator for assessing national fiscal stability. Accurate financial reports allow the central government to take appropriate and quick policy steps if fiscal imbalances are found at the regional level.

From a macroeconomic perspective, well-executed fiscal decentralization can contribute positively to national economic growth through increased efficiency in resource allocation and strengthening the local economy (Bilali, 2022). When regions are given the flexibility to regulate their fiscal policies based on local potential, they can support leading sectors and create a conducive economic environment for investment. This condition ultimately creates more equitable and inclusive economic growth. However, the study also warns that fiscal decentralization without strong oversight can create new fiscal risks, especially in the form of corruption and budget deviations. Therefore, the implementation of integrated oversight mechanisms between central and regional oversight institutions is crucial.

The results of the literature review affirm that the success of regional autonomy and fiscal decentralization is not only determined by the amount of funds available but also heavily relies on the quality of public financial governance, the effectiveness of the accounting system, the strength of fiscal coordination, and human resource capacity. Regions that successfully implement the principles of transparency, accountability, and efficiency in financial management have proven capable of achieving better levels of fiscal independence and directly contributing to national economic stability. This finding indicates that continuous reform in public financial management, increased competence of officials, and the strengthening of modern accounting systems are important prerequisites for creating sustainable national financial stability.

5. Discussion

The literature review reveals that the implementation of regional autonomy and fiscal decentralization contributes significantly to improving the quality of public financial governance and national fiscal stability. Nevertheless, the effectiveness of both policy frameworks is highly determined by institutional capacity, human resource competence, and the effectiveness of the financial oversight system at the regional level. Regional autonomy is essentially designed to broaden the space for public participation and accelerate equitable development through greater delegation of authority to regional governments. In some cases, this authority can be optimally utilized to improve the quality of public services and increase fiscal independence. However, generally, many regions still show high dependence on fiscal transfers from the central government, reflecting the uneven distribution of fiscal capacity across regions.

This disparity in fiscal capability indicates that the implementation of fiscal decentralization has not fully achieved its normative goals, especially in promoting regional independence. Siburian (2020) asserts that regions with low economic potential often fail to maximize the opportunities of decentralization due to limited local own-source revenue and weak fiscal managerial capacity. This condition leads to a sharper gap between regions with a strong economic base and those that still rely on central transfers. Thus, fiscal imbalance not only affects regional development performance but also has implications for national fiscal stability.

In addition to fiscal capacity issues, the issue of public financial transparency and accountability remains a crucial challenge limiting the effectiveness of regional government governance. The implementation of accrual-based accounting has indeed improved the quality of financial reporting, but the level of understanding among regional officials of this system is still inconsistent. Jati (2019) shows that the quality of public accounting system implementation is highly influenced by adequate training, internal supervision mechanisms, and the commitment of officials to the principle of transparency. Inconsistency in implementing this system has the potential to weaken the oversight process and create room for inefficiency and budget misuse.

Further study affirms that the quality of public financial governance has a close relationship with national fiscal stability. Regions capable of managing their finances efficiently can lower aggregate fiscal risk and strengthen the macroeconomic foundation. Conversely, governance weaknesses have the potential to cause structural deficits and disrupt public trust in the government. Adrian Sutedi (2022) suggest that fiscal transparency and public accountability are fundamental pillars in supporting the sustainability of long-term fiscal policy. In this context, the human resource factor is a strategic element determining the success of decentralization policy. Moonti (2019) emphasizes that the professionalism of the regional bureaucracy is an important prerequisite for realizing quality fiscal management.

Therefore, strengthening the capacity of officials through education, technical training, and the utilization of digital technology in public financial systems is a necessity that must be prioritized (Amaglobeli et al., 2023). This discourse confirms that regional autonomy and fiscal decentralization are not merely administrative agendas but strategic instruments for strengthening national fiscal stability and enhancing public legitimacy. The success of this policy demands continuous synergy between the central and regional governments, increased institutional capacity, and the application of governance that is transparent, accountable, and adaptive to contemporary economic dynamics.

6. Conclusion

This research concludes that regional autonomy and fiscal decentralization play a strategic role in strengthening public financial governance and realizing national financial stability. The delegation of authority to regional governments allows for the creation of a governance system that is more adaptive and participatory to community needs. However, the effectiveness of this policy still faces constraints in the form of fiscal disparity between regions, high dependence on central transfer funds, and limited human resource capacity in public financial management. The implementation of good financial governance, especially through accrual-based accounting and the principle of transparency, is proven to be able to increase accountability and efficiency in regional budgets.

The success of public financial system implementation is highly influenced by the professionalism of officials, strong oversight, and coordination between the central and regional governments. Furthermore, budget allocation oriented towards productive spending is an important factor in strengthening the fiscal foundation and encouraging sustainable economic growth. Fiscal decentralization is not merely an administrative instrument but also a mechanism for achieving community welfare and national economic stability. Therefore, public financial reform must be carried out comprehensively through increasing HR capacity, optimizing regional revenue, and implementing the principles of good public financial governance. Thus, regional autonomy can function effectively as a pillar of equitable and sustainable national development.

References

Adekunle, B. I., Chukwuma-Eke, E. C., Balogun, E. D., & Ogunsola, K. O. (2023). Developing a digital operations dashboard for real-time financial compliance monitoring in multinational corporations. *International Journal of Scientific Research in Computer Science, Engineering and Information Technology*, *9*(3), 728-746.

Adrian Sutedi, S. H. (2022). *Hukum keuangan negara.* Jakarta: Sinar Grafika.

Amaglobeli, D., de Mooij, R. A., Mengistu, A., Moszoro, M., Nose, M., Nunhuck, S., ... & Uña, G. (2023). *Transforming public finance through GovTech.* Washington: International Monetary Fund.

Asih, S. (2019). The effect of the contribution of local taxes, local original income, regional levies and tax revenue sharing on regional spending with economic growth as a moderating variable government and district government. *Accounting and Business Journal*, *1*(2), 36-50.

Bilali, J. B. (2022). Small/medium sized enterprises (SMEs) competitiveness: A global perspective competitiveness of small and medium-sized enterprises. *Journal of Enterprise and Business Intelligence*, *2*(2), 109-119.

Jati, B. P. (2019). Pengaruh penerapan Standar Akuntansi Pemerintahan berbasis akrual terhadap kualitas laporan keuangan pemerintah daerah. *Wahana: Jurnal Ekonomi, Manajemen dan Akuntansi*, *22*(1), 1-14.

Lamba, A., Allo, P. K., & Lamba, R. A. (2019). Effect of fiscal decentralization policy of regional economic imbalances towards economy growth in Eastern Indonesia. *International Journal of Social Sciences and Humanities*, *3*(2), 112-127.

Moonti, R. M. (2019). Regional autonomy in realizing good governance. *Substantive Justice International Journal of Law*, *2*(1), 43-53.

Nur, S., Arifin, A., & Anam, S. (2023). Analysis of the Influence of Fiscal Capacity and Economic Growth on the Human Development Index. *Atestasi: Jurnal Ilmiah Akuntansi*, *6*(2), 877-894.

Nurmandi, A., Lutfi, M., Sumardi, S., & Qodir, Z. (2021). Kualitas Pelayanan Publik Melalui Pendekatan Model Demokrasi pada Era Otonomi Daerah. *Journal of Government Insight*, *1*(1), 49-61.

Purbadharmaja, I. B. P., Ananda, C. F., & Santoso, D. B. (2019). The implications of fiscal decentralization and budget governance on economic capacity and community welfare. *Foresight*, *21*(2), 227-249.

Siburian, M. E. (2020). Fiscal decentralization and regional income inequality: evidence from Indonesia. *Applied Economics Letters*, *27*(17), 1383-1386.

Siregar, B., & Badrudin, R. (2019). The Evaluation of Fiscal Decentralization in Indonesia Based on the Degree of Regional Autonomy. *Journal of Reviews on Global Economics*, *8*, 611-624.

Triwibowo, S. (2019). Public financial management and corruption In Indonesia: a panel cointegration and causality analysis. *Journal of Indonesian Economy and Business*, *34*(3), 267-279.