



Decentralization and Regional Autonomy in Enhancing the Effectiveness of Regional Financial Management

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Abstract

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Decentralization is a governance mechanism in which authority and responsibility are transferred from the central government to regional governments, enabling them to manage their own administrative affairs independently. Through this policy, regional governments are expected to improve public service quality, accelerate local development, and strengthen fiscal autonomy. This study aims to examine the relationship between decentralization, regional autonomy, and the effectiveness of regional financial management within the framework of fiscal decentralization policy. The research employs a library research method, involving a comprehensive review and analysis of scientific literature and recent empirical studies. The findings indicate that decentralization can enhance budgetary efficiency, improve responsiveness in local policy-making, and facilitate more adaptive governance. However, challenges remain, including high fiscal dependence on the central government and limited human resource capacity in financial management. Strengthening fiscal independence and ensuring transparency in regional financial administration are identified as critical factors to support the sustainable implementation of regional autonomy, enhance accountability, and optimize the allocation of public resources effectively across diverse local contexts.



1. Introduction

Decentralization is one of the main pillars in modern governance that plays a strategic role in bringing public services closer to the community, accelerating the pace of regional development, and increasing the effectiveness and efficiency of government administration. Within the framework of a unitary state, decentralization is not intended as a mechanism to fragment central power, but rather as an effort to create a balance between the authority of the central government and regional governments, so that national development can take place evenly, inclusively, and sustainably. Thus, decentralization provides space for local governments to manage their own household affairs in accordance with the local potential, characteristics, and needs they possess, while encouraging community participation in the development process (Rakmawati et al., 2017).

In Indonesia, the implementation of regional autonomy is based on the principle of fiscal decentralization, which emphasizes the transfer of partial financial management authority to local governments. This allows regions to have the right to plan and manage the Regional Revenue and Expenditure Budget (*Anggaran Pendapatan dan Belanja Daerah/APBD*), and obtain revenue sources from Local Own Revenue (*Pendapatan Asli Daerah/PAD*), General Allocation Fund (*Dana Alokasi Umum /DAU*), and Special Allocation Fund (*Dana Alokasi Khusus /DAK*). The main objective of this policy is to create adequate fiscal autonomy, enabling local governments to carry out sustainable regional development, adjust development priorities to local needs, and reduce dependence on the center (Siregar & Badrudin, 2019). With fiscal autonomy, local governments are expected to be more responsive

to community aspirations, allocate public spending more efficiently, and encourage local economic growth through planned and accountable budget management.

Nevertheless, the implementation of fiscal decentralization in Indonesia is not always smooth. Several empirical studies show that although local governments have autonomy in financial management, dependence on fund transfers from the central government is still quite high, while the regions' ability to explore PAD sources is relatively low (Vidyattama, 2021). Other challenges arise from the limited capacity of human resources in the financial sector, weak transparency mechanisms, and low levels of accountability in regional budget management. In addition, weaknesses in the supervision system, lack of effective coordination between the central and regional governments, and differences in capacity between regions also affect the effectiveness of fiscal decentralization. This condition indicates that regional autonomy in the context of fiscal decentralization is not just a matter of formal authority, but also highly dependent on the institutional and managerial capacity of local governments (Putri & Saputra, 2019).

The effectiveness of decentralization is also highly influenced by the quality of regional governance. Local governments that have good bureaucratic capacity, apparatus professionalism, and a commitment to the principles of transparency and accountability tend to be more capable of utilizing decentralization authority to encourage local economic development and improve community welfare. Conversely, regions with high levels of corruption and weak public oversight often fail to optimize the benefits of regional autonomy, so that the development potential of the region cannot be maximized (Alfada, 2019). Therefore, strengthening

governance, the capacity of government apparatus human resources (HR), and public control mechanisms are absolute prerequisites for the success of fiscal decentralization implementation.

Considering these various dimensions, it is important to understand how the relationship between decentralization and regional autonomy can affect overall regional financial management. This literature study seeks to explore academic views and empirical findings related to the implementation of fiscal decentralization, focusing on the effectiveness and efficiency of APBD management and the institutional and governance factors that determine the level of regional fiscal autonomy. This analysis is expected to provide a more comprehensive understanding of the mechanisms of fiscal decentralization, as well as present relevant policy recommendations to improve the quality of regional financial management for more equitable community welfare.

2. Literature Review

2.1. Basic Concepts of Decentralization and Regional Autonomy

Decentralization is a mechanism for delegating authority from the central government to local governments, allowing regions to regulate and manage their own household affairs independently. This principle is designed to strengthen regional governance so that it is more responsive to community needs, while increasing the efficiency and quality of public services. In this context, regional autonomy is the concrete manifestation of the decentralization policy implementation, providing space for local governments to innovate in development

planning, financial management, and regional potential development. Yakub et al. (2018) emphasize that the success of decentralization highly depends on regional institutional capacity and the ability to maintain a balance of relations between the central and regional governments, so that fiscal and administrative coordination can run effectively.

For more than two decades of its implementation, decentralization in Indonesia has resulted in significant changes to the structure of regional governance, both in terms of decision-making and resource allocation. Talitha et al. (2020) show that decentralization plays an important role in encouraging more inclusive regional development, allowing regions to adjust development programs to local characteristics and needs. However, there are still disparities between regions in the ability to manage resources and revenue, which affects the effectiveness of autonomy in practice. The principle of regional autonomy fundamentally encourages local governments to be more innovative and independent, but achieving this goal highly depends on the quality of fiscal coordination between the central and regional governments, the capacity of the apparatus, and adequate supervision mechanisms. Thus, decentralization is not only an issue of formal authority, but is also closely linked to governance, accountability, and the ability of local governments to optimize resources for community welfare.

2.2. Fiscal Decentralization and Regional Financial Management

Fiscal decentralization is a crucial aspect of regional autonomy implementation because it concerns the region's ability to manage revenue and expenditure sources independently. According to Siregar and Badrudin (2019), the

level of fiscal autonomy can be measured by the size of the contribution of PAD to the total regional budget. The higher the proportion of PAD, the more fiscally autonomous the region is. However, the majority of regions in Indonesia are still dependent on fund transfers from the center such as the DAU and the DAK.

This fiscal disparity affects the region's ability to prepare and execute development programs. Farida et al. (2021) emphasizes that the implementation of decentralization has not fully improved the quality of public services due to weak fiscal oversight and low capacity for budget management at the regional level. In addition, the fiscal decentralization policy also needs to be supported by good regulatory and transparency mechanisms so that inefficiency and potential corruption do not arise. Other studies show that strengthening fiscal decentralization has the potential to encourage regional economic growth. Ginting et al. (2019) found that regions with a high level of fiscal autonomy tend to have better economic growth compared to regions with high fiscal dependence. However, the factor of public financial governance is a key determinant of success. In this context, strengthening accountability and efficiency of budget allocation is a top priority.

2.3. Challenges and Implications of Decentralization on Fiscal Autonomy

Although decentralization is designed to strengthen regional autonomy, its implementation faces various challenges. Disparity in capacity between regions is still a major problem in the implementation of fiscal autonomy. Yusuf and Afendi (2020) explains that financial transfer policies such as Village Funds or Special Autonomy Funds are often not accompanied by adequate improvement in financial management capabilities at the local level. As a result, the funds received are not

always effectively used to improve community welfare. Yakub et al. (2018) highlight that decentralization is often hampered by the weak synergy between regional development planning and national policy. In addition, fiscal decentralization can also increase the risk of budget misuse if it is not balanced with a strong system of supervision and transparency. Alfada (2019) found that weak regional financial control potentially opens the door to corrupt practices in the management of public funds.

On the other hand, Talitha et al. (2020) assert the need for reform in the regional fiscal structure to strengthen the relationship between the central and regional governments. Increasing the capacity of human resources in public accounting and financial management is an important step to improve the effectiveness of fiscal decentralization. Furthermore, Farida et al. (2021) adds that fiscal incentive mechanisms need to be developed to encourage regions to be more productive in exploring their potential local revenue. Thus, the literature shows that the success of fiscal decentralization does not only depend on fund transfers from the center, but also on the strengthening of governance, transparency, and regional institutional capacity. The effective implementation of decentralization requires a balance between fiscal autonomy and public accountability responsibility to achieve sustainable development goals.

3. Method

This research adopts a library research method, which is an approach that focuses on the collection, review, and analysis of data sourced from scientific

literature relevant to the topic of decentralization, regional autonomy, and regional financial management. This approach was chosen because it allows researchers to examine various theories, concepts, and empirical findings from previous studies in depth, thereby generating a comprehensive understanding of the phenomenon studied and the relationship between relevant variables.

The initial step in this research is the identification and collection of appropriate literature sources. Researchers selected scientific journals, academic articles, books, and research reports published in the last five years, with the aim that the study reflects the latest developments related to the practice of fiscal decentralization, regional autonomy, and public financial management. The main sources were obtained through academic databases, including Google Scholar, and only peer-reviewed publications discussing the relationship between decentralization, regional autonomy, and the effectiveness of regional budget management were used as main references.

The next stage is literature evaluation and selection. This process includes analyzing the relevance of the material, the credibility of the sources, the methodology used, and the contribution of each source to the research topic. Thus, only literature with strong academic weight and high relevance is used in the analysis. Furthermore, content analysis is carried out on all collected literature. At this stage, researchers identify recurring main themes, such as the effectiveness of regional budget management, fiscal dependence on the central government, transparency and accountability, and the role of human resources in the success of fiscal autonomy.

The analysis is carried out descriptively and systematically, emphasizing the relationship between variables that have been revealed by various previous studies.

Finally, the results of the literature analysis are integrated to produce a conceptual synthesis, which describes the objective conditions of fiscal decentralization implementation in Indonesia. This synthesis allows researchers to formulate a solid theoretical understanding of how decentralization and regional autonomy policies affect the effectiveness, efficiency, and autonomy of regional financial management. Thus, the library research method allows this study to present a comprehensive picture without having to conduct direct empirical surveys, while providing a strong foundation for the development of policy and public financial management practice recommendations at the regional level.

4. Results

The results of the study indicate that decentralization and regional autonomy have a significant influence on the effectiveness and efficiency of public financial management at the regional level. Based on the analysis results from various scientific literature, the implementation of fiscal decentralization in Indonesia is proven to have a positive impact on increasing regional fiscal autonomy and the quality of financial governance. Nevertheless, the practice of decentralization still faces a number of serious challenges, including fiscal disparity between regions, low capacity of human resources in the field of financial management, and high dependence on fund transfers from the central government.

Conceptually, decentralization is designed to form a government that is more participatory, adaptive, and responsive to local community needs. Rakmawati et al. (2019) emphasizes that decentralization provides opportunities for local governments to formulate financial policies that are aligned with the economic potential and socio-economic characteristics of their respective regions. With regional autonomy, local governments have the opportunity to maximize PAD and adjust budget allocation to community development priorities. However, if decentralization is not supported by effective fiscal oversight mechanisms and improved bureaucratic capacity, the potential for inefficiency and fiscal imbalance between regions will increase, so that the goals of fiscal autonomy cannot be achieved optimally.

In the practice of financial management, the effectiveness of fiscal decentralization can be measured by the region's ability to manage the APBD independently, accountably, and transparently. Siregar and Badrudin (2019) found that the higher the ratio of PAD to total regional revenue, the greater the level of fiscal autonomy achieved by a region. Regions that have strong PAD tend to have greater flexibility in designing development policies oriented towards community welfare. Conversely, regions that are highly dependent on the DAU and the DAK often experience limitations in formulating innovative development policies due to binding central regulations.

In addition, fiscal decentralization has significant implications for the efficiency of regional budget use. Vidyattama (2021) explains that with autonomous authority, local governments can more easily adjust development programs and

activities to local economic and social conditions. This adjustment increases the effectiveness of resource allocation, so that every rupiah spent can provide optimal benefits for the community. However, there are still many regions that have not been able to optimize public spending efficiently due to weaknesses in the planning system, low transparency, and weak internal accountability mechanisms. Fiscal efficiency is a major challenge, because without adequate oversight mechanisms, regional expenditure is at risk of not providing maximum benefits to the community.

Regional financial performance is also highly influenced by the quality of governance in each region. Alfada (2019) affirms that the implementation of decentralization that is not balanced with an increase in apparatus integrity, accountability, and public control mechanisms can open up opportunities for budget misuse or corrupt practices. In some cases, fiscal decentralization policies are actually used to strengthen local political patronage networks that hinder the effectiveness of development. Therefore, public financial governance reform is a crucial aspect to ensure that regional autonomy is not merely an administrative symbol, but a real instrument in improving community welfare.

In addition to governance factors, the capacity of human resources (HR) in local government has a very large influence on the effectiveness of fiscal decentralization. Talitha et al. (2020) note that many regions still experience difficulties in designing and implementing fiscal policies due to a shortage of experts in planning, public accounting, and financial management. This condition leads to the region's low ability to absorb the budget, as well as failure to achieve established development targets. Therefore, improving regional bureaucratic capacity is a

strategic priority in strengthening the implementation of fiscal autonomy in the future.

Other findings show that fiscal decentralization encourages increased public participation in regional development planning and budgeting. With the autonomy mechanism, the community can play an active role through the development planning consultation forum (Musrenbang) and other public forums. This participation is in line with the principles of good governance that emphasize transparency, accountability, and public involvement at every stage of policy. Putri and Saputra (2019) emphasize that community involvement in the budget decision-making process not only increases public trust in local government, but also reduces the risk of public fund misuse. Thus, decentralization not only provides fiscal authority, but also encourages social control and public accountability.

Nevertheless, fiscal disparity between regions remains a structural problem in the implementation of decentralization in Indonesia. Some regions with high economic potential are able to collect large PAD, while other regions with weak economic bases still rely on central fund transfers. This disparity directly impacts the quality of public services between regions. Farida et al. (2021) highlights the need for reform of fiscal transfer policies so that this gap can be reduced through a fairer redistribution mechanism, based on regional performance, and taking into account local economic capacity.

In the context of budget use efficiency, the literature shows that decentralization has the potential to increase efficiency if supported by transparent governance and adequate long-term planning mechanisms. Efficiency is measured

by the region's ability to use minimal resources to achieve maximum results. However, some regions still experience budget waste due to weak planning and suboptimal legislative oversight. Internal oversight mechanisms such as the regional inspectorate often do not function effectively in detecting financial irregularities early, thereby reducing the effectiveness of budget allocation.

The financial relationship between the central and regional governments also affects the effectiveness of fiscal autonomy. Within the framework of fiscal decentralization, the central government plays a strategic role in maintaining fiscal balance between regions through fund transfer policies. However, excessive dependence on central funds can weaken the motivation of regions to explore the potential of PAD. Therefore, fiscal system reform is needed so that regions are encouraged to be more innovative and productive in managing their own revenue sources. The results of the literature synthesis show that the effectiveness of fiscal decentralization is not only determined by the amount of fund allocation, but more importantly by how the funds are used and overseen. Transparency, accountability, and public participation are crucial elements in determining the success of this policy.

Good coordination between the central and regional governments is also needed to ensure that regional fiscal policy is aligned with national development goals. Thus, the implementation of decentralization and regional autonomy in financial management is not just an administrative matter, but is closely related to institutional development and HR capacity building. Regional fiscal policy must be able to balance fiscal autonomy and public responsibility. Without strengthening governance, decentralization risks widening the fiscal gap between regions.

Therefore, performance-based fiscal policy reform, improving HR quality, and optimizing PAD are key to strengthening the effectiveness of decentralization and realizing sustainable, community-welfare-oriented regional autonomy.

5. Discussion

The results of the literature review indicate that decentralization and regional autonomy significantly contribute to increasing the effectiveness and efficiency of public financial management at the regional level. The implementation of decentralization allows local governments to make fiscal decisions that are more appropriate to local needs, while providing flexibility in allocating resources for development. However, the implementation of fiscal autonomy in Indonesia still faces quite complex structural and institutional constraints, which affect financial performance and the region's capacity to organize public services optimally. One of the fundamental issues that is a major challenge is the high fiscal dependence on the central government. Many regions still rely on fund transfers from the central government, especially the DAU and the DAK, as the main source of development financing.

This dependence shows that fiscal autonomy, which is the main goal of decentralization, has not been fully realized. Fiscal capacity disparity between regions is also a serious problem. Regions with a strong economic base, such as those with developed industrial and tourism sectors, tend to be able to collect high PAD. Conversely, regions with limited economic resources experience difficulties in increasing revenue, thereby creating unevenness in the ability to provide public

services (Suprayitno & Pradipto, 2017). In addition to the factor of fiscal dependence, the quality of regional governance is a key determinant of the success of fiscal autonomy. Regions that have a strong internal oversight system, professional bureaucracy, and adequate transparency mechanisms tend to be more effective in managing public budgets. Conversely, weaknesses in internal oversight and lack of accountability can open up opportunities for budget deviation or corrupt practices at the local level. Alfada (2019) emphasizes that decentralization without strengthening the accountability system has the potential to expand corrupt practices and damage public trust in local governments.

The aspect of Human Resources (HR) also plays a central role in the effectiveness of fiscal decentralization implementation. Many regions face limitations in the number of experts in budget planning, public accounting, and fiscal analysis. Talitha et al. (2020) note that the low capacity of HR causes inefficiency in the preparation and implementation of the APBD, as well as weak evaluation of the impact of development. Strengthening bureaucratic capacity through education, training, and providing experts is key to ensuring that regional autonomy can tangibly improve community welfare. Considering these challenges, the direction of fiscal decentralization policy needs to emphasize a performance-based and transparency approach.

The central government is expected to strengthen oversight mechanisms while providing incentives to regions that are able to increase PAD and reduce dependence on transfer funds. Good synergy between the central and regional governments through adaptive fiscal policies is expected to encourage equitable

development, strengthen local economic competitiveness, and improve the quality of public services evenly across all regions. This strategy affirms that fiscal decentralization is not just a delegation of authority, but a strategic instrument to encourage more inclusive and sustainable development.

6. Conclusion

Based on the results of the literature review, it can be concluded that decentralization and regional autonomy play a strategic role in strengthening governance and increasing the effectiveness of public financial management. The delegation of authority to local governments provides greater space for regions to determine development priorities and optimize local resources. Through fiscal decentralization, regions have the opportunity to manage PAD and allocate the budget according to community needs. Nevertheless, the effectiveness of this policy still faces significant challenges. Fiscal dependence on the central government, disparity in capacity between regions, and weak financial governance are the main obstacles in realizing fiscal autonomy.

Improving the capacity of human resources in financial management and budget transparency is an important step to improve the implementation of decentralization. Effective regional autonomy not only demands fiscal autonomy, but also public responsibility and accountability. The synergy between the central and regional governments needs to be strengthened so that the implementation of fiscal policy can run more efficiently, transparently, and be oriented towards community welfare. By strengthening governance, improving fiscal capacity, and

fostering regional innovation, decentralization can become the main instrument in realizing inclusive and sustainable development in Indonesia.

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