The Impact of Fiscal Decentralization Policy on the Sustainability of Regional Development

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Abstract

Fiscal decentralization is a critical component of the concept of regional autonomy that has been embraced since the Reform period. With fiscal decentralization, it is envisioned that every regional government can impose development in its territory. However, the fiscal decentralization strategy in the field cannot be applied in all areas owing to political concerns. Then, each local authority has had solid financial potential since 2001 since it got very high transfer funds from the central government, but the allowance for growth was minimal. E.g., there are still many roads that are destroyed. This may be attributed to the fact that much of the transfer funds from the central government are reserved towards staff spending. The purpose of this analysis is to provide a general overview of the impact on the stabilization of regional growth of the fiscal decentralization policy in effect since 2001. For literature review, this study uses a qualitative approach. The study shows, however, that the fiscal decentralization policy has not affected all growth sectors because much of the Central Government allocation funds continue to be used for regular spending and salary payments such that capital expenditure funding, including infrastructure development funding, is modest and even budget-free.

Keywords: *Policy, Fiscal Decentralization, Regional Autonomy, Development. Continuous.*

A. INTRODUCTION

Until now, fiscal decentralization and municipal sovereignty have become perennially interesting subjects of debate. This is because the study of fiscal decentralization is closely linked to other aspects such as national, institutional, and regional dimensions (Ebel & Yilmaz, 2002). Additionally, fiscal decentralization as a tool for growth is not limited to developed countries. Nonetheless, it has arisen and has been the primary objective of a number of OECD nations (Martinez-Vazquez & McNab, 2003). Rapid adoption of the decentralization agenda would result in power and accountability being delegated to municipal councils. The transition of power and responsibilities for functions to local governments, with the exception of six particular areas, including foreign policy, defense, stability, justice, national monetary-fiscal policy, and faith, demonstrates the board of management and transparency. This is consistent with World Bank analysis, which shows the gradual transition in decentralization as a result of a big bang decentralization (Booth, 2014).

Decentralization, in theory, is the polar opposite to a centralized government system. In other words, while authoritarian political structures aim to concentrate political power in the hands of the central government, decentralization advocates for the distribution of political and/or administrative authority between the central and regional governments (Zulyanto, 2010). Additionally, Haris (2005) asserts that the rise of interest in decentralization is related to the lack of centralized planning, the success of equity-oriented growth models (growth with equality), and the recognition that progress is a dynamic and unpredictable phenomenon that cannot be accomplished. Control and planning are simple from the front. As a result, the proponents of decentralization confidently advanced a lengthy list of explanations and points demonstrating the critical nature of decentralization in planning and governance in third world countries.

The granting of regional autonomy is an effort to empower regions to manage development in their areas. Creativity, innovation and independence are expected to be owned by each part to reduce the extent to which one is reliant on the Central Government (Winarno, 2004). And what is more important is that with regional democracy exists, the quality of services provided by the government to the community will increase, both services that are directly offered to the community and services that are not directly provided, such as the construction of public facilities and other social facilities. In other words, the provision of public goods and service goods can be more secure (Lonti, 2005).

Regional autonomy is supposed to boost the public sector's productivity, effectiveness, and transparency in Indonesia. Regional control requires regions to pursue new sources of growth funding while maintaining guarantees of support and a share (sharing) from the Central Government while using public funds in accordance with the community's goals and ambitions. Private spending and regionally held businesses are likely to be the key drivers of regional economic growth and prosperity under these circumstances (the engine of growth). Additionally, the regions are likely to draw buyers, which will spur expansion (Nurhemi & Suryani, 2015). Regional control has resulted in decentralization, which includes the compilation of regional growth projects and other proposals moved from the center to the provinces (Setiaji & Adi, 2007). Regional control has resulted in a division of power between the Central Government and Regional Governments in Indonesia (national monetary and fiscal sectors decentralized to the regions) (Christia & Ispriyarso, 2019).

As a constitutional outcome, fiscal decentralization and provincial sovereignty have reached a point of no return in Indonesia. The factors emphasized are increased capability development and quality management. Thus, fiscal decentralization and regional autonomy are projected to contribute to Indonesia's equitable and sustainable development in the future (Haryanto, 2017). Both of the government's efforts and work must be actively endorsed by all parties concerned and interested in the effective introduction of fiscal decentralization and autonomy in Indonesia. Without the cooperation of both sides, the government will be unable to carry out its mandate optimally, and the pendulum of autonomy will frequently swing toward negative and disruptive consequences. Coordination and a desire to help one another became the primary buzzwords both within the Central Government and between the Central Government and Regional Governments (Azhari & Negoro, 2019). All of these are dynamic problems in an ambiguous political setting, raising the question of whether Regional Autonomy is effectively decentralizing the Indonesian context (Talitha et al., 2002).

The motivation for decentralization adoption in developed countries in general, and especially in Indonesia, is driven by a number of factors, for example, (1). Country background or experience; (2). The role of these countries in world globalization; (3). There was a setback in economic development; (4). Demands for changes in the level of community services; (5). There is a potential for state disintegration; (6). The many failures experienced by centralistic governments in providing adequate public services. In addition, there is an argument from Tiebout quoted by Litvack et al. (1998), that the most efficient public services should be provided by areas that have the least geographic control because 7 (1). Local (local) government lives up to the needs of its people; (2). Local communities' decisions are highly sensitive to neighborhood needs, which encourages local councils to make effective use of funds raised locally; (3). Competition between regions in delivering municipal services would enable local councils to innovate.

B. METHOD

This study employs the literature review approach to express philosophical concepts by examining different works relevant to the title. The study is defined by qualitative analysis, which entails pouring analysis from the literature into the research through sentences. Qualitative analysis is used to investigate the states of natural objects, with the observer serving as a critical tool (Sugiyono, 2005). According to Moleong (2005), the qualitative analysis aims to comprehend the phenomenon encountered by research participants, such as actions, cognition, inspiration, and action, holistically and thorough explanations in the form of terms and vocabulary, throughout a background. The qualitative analysis aims to thoroughly describe a phenomenon by collecting as much data as possible, demonstrating the critical nature of the depth and detail of the information being analyzed.

C. RESULT AND DISCUSSION

1. Fiscal Decentralization

According to Litvack et al. (1998), decentralization shifts planning, decision-making, and regulatory power from the central government to its field agencies, municipal administrative units, and semi-autonomous organizations, as well as local governments (regional) and non-governmental organizations. Fiscal decentralization is a byproduct of the interaction between the federal and state governments. This is in accordance with the provisions of Law No. 25 of 1999 on Central and Regional Financial Balancing (PKPD). The Fiscal Decentralization Scheme has been stipulated in this legislation to require the distribution of the General Allocation Fund (DAU) as a means of funding for regional government administration, the Revenue Sharing Fund (DBH), which is the exploitation of Natural Resources (SDA) from the area concerned and delegated jurisdiction. City government-specific taxes.

Fiscal decentralization is a critical aspect of the principle of decentralization (Scheneider, 2003). Assume that state (local) councils carry out their duties efficiently and are granted discretion over the procurement of public services. In that situation, they must be backed up by ample financial resources, including taxes, tax sharing, and non-tax revenue sharing. Taxes, Regional Loans, and Central Government Special and General Subsidies. Fiscal decentralization efforts are motivated by fiscal policy goals, including capital utilization efficiency, income redistribution, and macroeconomic management. 11 Musgrave has also described this as a feature of expenditure, delivery, and stability in light of these three objectives. Finally, the fiscal decentralization agenda should be implemented for the following reasons: to close the fiscal deficit and for political reasons. 3. To improve the efficiency of government spending (Musgrave, 1997).

To explore fiscal decentralization as a component of the public policy mechanism, it is necessary to look at the insiders who make these policies, according to Public Policy Experts Grindle & Thomas, who clarified that two requirements must exist, namely macro and micro politics. Macro politics refers to problems that concern the regime's authority, strategic objectives, and economy in the long term, on a national level. Meanwhile, micro politics is typically not a problem, since it is driven by parochial requests from those parties, the use of policy tools to sustain relationships with political clients, the exchange of policy resources to achieve political power, and short-term elite interests (Grindle & Thomas, 1989). Thus, the extent of local democracy has an impact on the fiscal decentralization agenda and its execution. Local government can thrive in an economically and socially homogeneous society. Devolution of jurisdiction in the taxation market, on the other hand, would generate vertical externalities.

Additionally, many developed countries have adopted fiscal decentralization strategies in order to avoid falling into the traps of government inefficiency, macroeconomic volatility, and insufficient economic growth that have plagued them in recent years. Meanwhile, Ebel & Yilmaz (2002) state that the fiscal decentralization strategy in place seeks to: 1. Divide duties and obligations across levels of government. 2. Strengthening the regional tax structure or establishing a regional public service system. 3. Transfers between governmental ranks. 4. Privatization of state-owned enterprises. 5. The establishment of a social safety net.

2. Fiscal Decentralization and Regional Autonomy

According to David Held's thought, the partnership between the central and regional governments remains unclear in terms of the state power system's aspects. In Held's thought, the state is positioned as an arena for social struggle, manifested in the form of organization, administration and resulting policies (Held, 2013). Meanwhile, according to Ribot & Oyono (2012), the characteristics of the state often show that the regional struggle to obtain more appropriate autonomy is an inevitable reality. Although the centralization project has been implemented for a long time, basically sub-national (provincial) territories still show resilience in maintaining the expression of their respective socio-economic and cultural organizations against homogenization efforts.

Even when the concept of decentralization is implemented, the pattern of sharing power and responsibility cannot be static. Shifts in power and responsibility can change shape due to a change in orientation towards centralization or decentralization. This is reinforced by various studies that show that conflict is not the only means that can be used in the process of power struggle but can also use bargaining and negotiation modes.

Therefore, according to Haris (2005), it explains that regional autonomy is generally followed by fiscal policy as an instrument that supports local governments in public services through the transfer of funds to the regions. Furthermore, local governments must take fiscal decentralization seriously to implement development, support economic growth both at the local (regional) and national levels. It is worth noting that fiscal decentralization in Indonesia during the era of regional autonomy, specifically fiscal decentralization on the spending side, is funded largely by regional transfer funds. Thus, fiscal decentralization, as the essence of fiscal management autonomy, must be oriented towards the freedom to spend funds according to the priorities and needs of each regional government.

Then, Rondinelli et al. (1983) explain that a critical characteristic of an autonomous organ is its financial resources for carrying out its responsibilities. According to them, one of the concepts that must be understood and applied in order to implement fiscal decentralization is the concept of money follows functions. Regional autonomy without fiscal decentralization will not support the achievement of effectiveness in government administration and public services. Finally, according to Rondinelli et al. (1983) to support the administration of this government, it can be realized through the concept of a financial balance between the center and the regions.

The form of the administrative system and the financial arrangement between the central and local governments are believed to have an impact on fiscal decentralization. However, often differences in institutional structures do not affect or have nothing to do with the shape of a country. The mode of federalism and unity are not inextricably linked to the introduction of fiscal decentralization. In many descriptions of a country about state finances, the dimensions of the constitution do not reflect the fact of the relationship between governments. Thus, Smoke (2001) offers two types of fiscal relations between government and regions, including: (1). Fiscal federalism (fiscal federalism); (2). Federal finance. Fiscal federal represents a normative model in which the central government is the one who can best interpret the aspirations of the people and therefore should be given the authority to formulate institutional rules in relations between levels of government so that local government agencies act according to what the central government wants. With this approach, local government is seen as an extension of the national government authority or some federal-state part government, and they are not fully autonomous. For developed countries such as Britain, France is an example of fiscal federalism. Meanwhile, examples of developing countries are Indonesia before 1999, Colombia, Morocco, and Tunisia, including Vietnam, which is undergoing a politico-economic transition. However, political considerations are more likely to affect the financial arrangement between the central and regional governments. This can be seen in the lack of urgency in which Law No. 5 of 1974 on Regional Government Principles has been implemented. Meanwhile, when viewed from the historical dimension of Indonesia, the concept of regional autonomy, including the concept of fiscal decentralization, is nothing new for Indonesia. Then, evidence of the government's lack of seriousness in implementing the principle of regional autonomy occurred in the 1990s with the failure of superior projects for 50 districts and/or cities to grant more authority to local governments. This failure stems from giving more authority to local governments without being matched by granting authority in the financial dimension. Thus, it is clear that the government does not follow the principle of money follow functions.

Thus, learning from the results of Leonardi et al.'s research on the implementation of Devolution in Italy in the 1960s and 1970s shows that the struggle of the regions to get their needs is the key to a more meaningful relationship. The Christian Democratic government in 1972 did not implement decentralization like which are expected. As a response to these conditions, many regions gathered the strength to oppose central government policies. Finally, this struggle bore fruit, namely the promulgation of Law No. 382 of 1975, which gave more authority to regions in Italy.

Meanwhile, in Indonesia, the promulgation of Law no. 22 of 1999 concerning Regional Government and Law no. 25 of 1999 concerning Central and Regional Financial Balance which was later refined into Law No. 32 of 2004 concerning Regional Government and Law no. 33 of 2004 concerning Central and Regional Financial Balance. Based on the principle that money follows functions, the implementation of decentralization of authority must be followed by implementing fiscal decentralization. However, the degree of decentralization of authority and fiscal decentralization is not always at the same level because it depends on the conditions of a country or region. However, what must be emphasized is that the degree of fiscal decentralization is very dependent on the need for the implementation of decentralization of authority. In other words, the effectiveness of the implementation of authority decentralization depends on the support provided through fiscal decentralization.

3. Fiscal Decentralization and Sustainable Regional Development

Since 2001, every regional government has had good financial resources, among others; first, Transfer Funds from the central government in the form of General Subsidies or General Allocation Funds (DAU) and Special Subsidies or Special Allocation Funds (DAK); Second, Regional Original Income (PAD) which can be obtained from the income of Regional Taxes, Levies, and Profits from Regional Owned Enterprises (BUMD). Therefore, each regional head has the convenience of implementing development programs in his region. Moreover, the enthusiasm for implementing the development program is to gain sympathy and praise from the community and other parties. Build existing roads so that they are always good and comfortable for road users such as passing vehicles. Existing road facilities should be cared for so that it is comfortable and safe for the community.

In 2018, Indonesia introduced fiscal decentralization by Transfers to Regions and Village Funds (TKDD). TKDD is one of the components of State Expenditure that plays a critical role as a fiscal policy instrument in accelerating regional growth by reinforcing the implementation of budgetary decentralization with the primary goal of enhancing the quality of public services (public service delivery) and social welfare. TKDD is divided into two main components in the APBN's system of State Expenditures: Transfers to Regions (TKD) assigned to counties, municipalities, and towns, and Village Funds distributed to villages. TKDD is composed of four (four) primary components, namely The first is the Balancing Fund, which consists of I General Transfer Funds (DTU), which are transfer funds allocated to finance the administration of government affairs that fall under regional authority, while taking into account autonomy, as well as the balance and even distribution of regional financial capacities, namely the General Allocation Fund (DAU) and the Revenue Sharing Fund. Second, the Regional Incentive Fund (DID) is used to offer benefits while also spurring regional performance enhancements in financial management, policy, growth, basic public services, and community welfare. Third, the Special Autonomy Fund, the Additional Infrastructure Fund (DTI), and the Privileges Fund (Dais), which are all forms of allocation funds that are directly assigned to regions that implement the law's asymmetric autonomy scheme, including Papua Province, Papua Province West, and Aceh Province, as well as DI Yogyakarta Province. Fourth, the Village Fund is distributed to villagers as a source of village revenue from the APBN in accordance with the legislation in order to fund village growth and community empowerment.

People do not always imagine that the existing road has to be as smooth as an aero plane runway or a toll road. People only ask for road conditions that are not potholes, not bumpy, good road markings, or street lights that function correctly, not to endanger road users. These good roads are not limited to roads leading to the houses of mayors and/or regents, roads in provincial or municipal and district capitals, only protocol roads. Roads in villages should be better built, especially roads that make access to agricultural production centers easier.

But the big expectations from society are far from reality. The road will be repaired if it has claimed many victims and becomes a political issue. Moreover, the slowness of development in each local government often used as a scapegoat is budget constraints. The question that arises is why this can happen even though every regional government has been given broad, responsible, absolute authority and responsibility in local government management, including the financial sector.

Most of the regional transfer funds are allocated for personnel expenditure or paying employee salaries. As a result, funds for the capital budget, including funds for infrastructure development and road maintenance, are small and lack funding. Don't expect any new road construction. The existing road is difficult to maintain, repair. This problem is often encountered even though the location of the damaged roads is not far from the mayor's office and/or regent or the houses of local officials. Data from Kompas states that only 1 per cent (7 districts) of 497 districts and cities have a capital budget of more than 50 per cent. And 18 per cent of all towns or neighborhoods spend their capital above 30-49 per cent, while 81 per cent have a capital expenditure of 0-30 per cent.33 Therefore, do not expect any development even though regional autonomy has been implemented for twelve years, even the concept of fiscal decentralization area.

D. CONCLUSION

Fiscal decentralization plays an essential role in the sustainability of regional development in Indonesia because fiscal decentralization is one of the tools that local governments can use to accelerate the creation of community welfare independently following regional potential. However, this great hope is very far from reality. So far, development in various regions has been prolonged and has even tended to run in place. Again, budget constraints are always the main reason for the slowness of growth in the areas. Funds for transfers from the centre to the sites are generally only allocated for personnel expenditure costs or paying employee salaries. This should be a common problem so that in the future, the allocated funds from the central government can be used more optimally for sustainable development in the regions.

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