



Governance Decentralization in The Fiscal of Rural Cooperation in Indonesia, A Literature Review

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ABSTRACT

The district and municipal administrations in Indonesia require support from the central and provincial governments for funding infrastructure projects. The budget of government entities at the district and municipal levels in Indonesia displays a higher proportion of financial assistance from the central government compared to its Own-Source Revenue (PAD), indicating a greater degree of financial reliance on external sources. This issue is of

particular interest as the execution of local fiscal strategies contributes to widening economic gaps among different regions, leading to notable vertical fiscal imbalances. The primary objective of the research is to assess how collaboration influences the efficacy of joint governance in executing local fiscal policies by overseeing the allocation and supervision of financial aid resources based on an extensive examination of existing literature. The analysis reveals that cooperative governance of local fiscal policies is linked to enhanced regional development. Consequently, there is potential for enhancing the management of financial support by engaging diverse stakeholders towards achieving program objectives.

Keywords: Collaborative Governance, Regional Fiscal Policy, Financial Assistance

1. INTRODUCTION

In this research, the enforcement of fiscal decentralization measures in Indonesia as stipulated in Law No. 1 of 2022 concerning the Financial Balance between the Central Government and the Regional Government, led to a heightened financial reliance of regional administrations on financial transfers from the central government, particularly through the General Allocation Fund (DAU). The allocation of DAUs to each district is determined by the fiscal gap, which is calculated as the disparity between the fiscal requirements of the district and the potential revenue of the region. This scenario arises due to the persistent widening of the fiscal gap within the region, necessitating the offsetting of insufficient local financial resources for local expenditure through fiscal transfers from the central government.

According to Mudayen and Maridjo (2018:20), Alexeev et al. (2019:679–717), and Ji and Zhang (2019:103), the augmentation of local government expenditure as a result of fiscal decentralization necessitates a corresponding enhancement in the capacity for local tax collection to uphold principles of fiscal responsibility and accountability (increased tax collection). Nevertheless, the actuality reveals a limited capacity in tax collection as indicated by the role of Regional Real Income (PAD) in financing regional expenditures.

The extensive bestowal of autonomy upon the Territories is designed to expedite the achievement of the populace's well-being with complete accountability through improved service, empowerment, and societal roles. In light of financial limitations, the Districts and Cities Government in West Java has sought support from the West Java Province Government for initiatives and projects intended to be financed by the Province's APBD. (Government Regulation No. 12 of 2019).

The triumph of national progress hinges significantly on the triumph of regional progress. Thus, strategies for national progress must be implemented at the regional level, including the adoption of fiscal decentralization policies. The transfer of central government authority to local government entities is executed under the premise that regional administrations are closer to the populace, thereby enhancing their understanding of regional development priorities. The expansionary fiscal policy through heightened local government expenditures is expected to yield favorable economic outcomes, impacting both Aggregate Demand and Aggregate Supply. Assuming that increased government expenditure is used

to finance sectoral programmes, then sectoral production will increase so that total regional output (GDP) increases. To finance regional development, the local government must have adequate sources of funding (Tan 2020:53–63); (Gandullia and Leporatti 2020:318–328); (Hu et al. 2021:142–161); (Sarjoko et Al. 2022:150–161); (Pattilouw 2023:83–99). However, fiscal transfer allocations occurring in developing countries are more expenditure-based and pay less attention to the capacity to collect taxes (Kapidani 2018:1–9); (Alexeev et al. 2019:679–717); (Behera and Dash 2019:68); (Hu and al. 2021:142–61). As a result, the local tax base (local tax base) is not fully explored and dependency on tax transfers is increasing (Miyazaki, 2020; (Jia, Ding, and Liu 2020:115); (Fan et Al. 2020:806–826); (Buettner and Krause 2021:901–12); (Ortega et al. 2022:639–43).

In the policy of fiscal decentralization in Indonesia, fiscal transfers are carried out through a balance fund mechanism with the DAU component, the Special Allocation Fund (SDF), for tax returns, and for natural resource returns. It shows unconditional transfers increasing local spending for consumption of public goods, but not being a substitute for local tax receipts. The phenomenon known as the fly paper effect is characterized by a condition where the adaptability of regional spending to transfer receipts surpasses the responsiveness of local expenditures to regional tax revenue (Mudayen and Maridjo 2018:20); (Sengaji et al. 2019:104–15); (Aida et al. 2023:30).

The concept of inequality extends beyond poverty as it encompasses the entire population rather than just focusing on the impoverished (Bouzarovski and Simcock 2017:640–648); (Atkinson et al. 2017:303-323); (Papada and Kaliampakos 2019:761–771); (Institute of Socioeconomic Studies of Population, Federal Center of Theoretical and Applied Sociology of the Russian Academy of Sciences, Moscow et al. 2020:179–184). Inequality serves as a metric of relative poverty, reflecting the impact of development strategies that fail to benefit all segments of society, resulting in uneven income distribution (BPS, 2008). The Gini index, formulated by Gini (1912) based on the Lorenz curve, is the most widely utilized measure of variance. This curve, a cumulative frequency graph, compares the distribution of a specific variable (e.g. output) to a uniform distribution representing perfect equality or perfect inequality. The Gini index ranges from 0 (total equality) to 1 (complete inequality). Nevertheless, empirical evidence suggests that Gini coefficients computed from per capita output data typically fall between 0.3 and 0.5 (Sarabia et al. 2017:5311–5326); (Sitthiyot and Holasut 2021:268).

2. LITERATURE REVIEW

The notion of Collaborative Governance is continuously being strengthened conceptually as scholarly research and academic journals further elaborate on this new variant of governance. According to Ansell & Gash (2008), Collaborative Governance is defined as a framework that oversees the interaction of one or more public entities with non-public stakeholders in formal, consensus-driven collective decision-making processes and negotiations. These processes are aimed at developing and implementing public policies, as well as managing public programs or resources. Ansell & Gash (2008) have outlined a model of collaborative governance comprising four key systems: initial conditions, institutional framework, leadership, and the collaborative process. The success of Collaborative Governance is evaluated through these four systems, with the collaborative

process being identified as the central component influenced by the other three systems: initial conditions, institutional design, and facilitative leadership.

According to Agranoff and McGuire (2003), collaborative processes are impeded by the interdependence within an organization when striving to achieve a goal that is challenging to accomplish independently.

According to Zavala et al. (2017:202-215), collaboration is characterized as a type of cooperation, interaction, and compromise involving various elements that include individuals, institutions, and parties directly and indirectly impacted by the consequences and benefits. The fundamental principles of collaboration encompass a shared purpose, mutual understanding, readiness to engage, reciprocal advantages, transparency, goodwill, and community orientation.

Silayar (2021:859) and Pujileksono & Siregar (2022:139) add that in collaborative cooperation principle-agency relations do not apply because the cooperation that occurs is cooperation between principle with principle. There's no hierarchy in collaboration. In the 21st century, collaboration is the primary approach that can replace hierarchical approaches. The hierarchy approach is considered obsolete because it requires a long and gradual process (Fathorrahman, 2021:73-90; Fitriani & Cahyadini, 2022:33-39) Moreover, when there is a shift in the designation of government to governance, the term collaborative governance prevails. According to Ansell and Gash (2008:543-571), collaborative governance entails the direct participation of non-governmental stakeholders in decision-making processes, characterized by an orientation towards consensus-building and inclusion of dissenting voices. This approach aims to facilitate the development and implementation of public policies and programs, with a focus on fostering consensus among stakeholders.

Emerson, Nabatchi, and Balogh (2012:1-29) further described collaborative governance more flexibly by incorporating forms of cross-governmental collaboration, informal collaborations, hybrid collaborations such as public-private partnerships, and private-community partnerships.

Moreover, Riyanta and Kurniati (2019:2) expounded on the endeavor to implement collaborative governance as a response by governments worldwide to the escalating challenges in national affairs. This collaborative governance represents a governmental innovation and commitment to the populace, who typically perceive the government as extravagant and lacking in representing their interests (Sørensen & Torfing, 2021:127; Mukhlis & Perdana, 2022:4077; Bradley et al., 2022:155-166; Merlin-Brogniart et al., 2022:121-826; the Regional Development Planning Agency of Banten Province and Environmental Engineering Department of University of Banten Jaya, Indonesia, Muhlisin, and Budiarto 2023:64-69).

Oktavilia et al. (2020:136-143) and Kim & Chung (2022:1796) have highlighted the potential of collaborative management in enhancing the effectiveness of bureaucratic systems. They outlined various benefits associated with this approach, including the development of enhanced problem-solving capabilities, the facilitation of knowledge and information exchange leading to greater progress, conflict mitigation and prevention, the cultivation of a stronger sense of justice and mutual trust, the promotion of sustainable problem-solving efforts, as well as the capacity to overcome regional and sectoral biases.

Governments worldwide are commencing the adoption of collaborative governance to address conflicts, eliminate obstacles to inter-agency cooperation, and facilitate public involvement in the development of public policies (Clark, 2021:199-212; G. Liu et al., 2021:105-640; Göransson et al, 2021:376-391; Bennett and al., 2022:952242). Some scholars contend that collaborative planning has been effectively executed in certain nations, such as for tackling environmental, security, and water management issues that involve multiple stakeholders and span across regional administrations (Zarei, 2020;81-94; Allan et al., 2021:710-722; Nkiaka et al., 2021:1552; Quandt et al., 2022:4).

Collaboration within the realm of collaborative governance plays a crucial role in ensuring alignment among central, provincial, and regional fiscal strategies. The significance lies in the fact that cohesive and synchronized strategies possess a higher capacity to narrow fiscal disparities compared to individual strategies. Engaging in Collaborative Governance entails the participation of various stakeholders such as the central government, provincial government, local government (district and city), the private sector, and civil society in the process of decision-making. Given the backdrop of fiscal discrepancies among regions, this cooperative effort encompasses activities related to the formulation, enhancement, and execution of fiscal measures. (Liu et al. 2022:102; Zhang et al., 2023:69; Etiaba et al., 2023:2).

3. METHODOLOGY

To support the validity of the results of the study, the study uses qualitative research methods by collecting data through the study of literature. The authors compare literature through previous research journals that test the same factors. Through the study literature, the authors obtain relevant and responsible journal information from the Scopus journal as many as 2,000 journal. After validation of the Journal that is relevant to the study and research carried out 10 years ago there are 41 journal, but eventually the author filters for the open source journal and concludes the results.

4. DISCUSSION

Economic growth serves as a metric for assessing the level of prosperity within a nation's economy. It is commonly characterized as a rise in the aggregate production of goods and services generated by a country within a certain timeframe, relative to the preceding year. Todaro (2009) said that economic growth in a country is influenced by the accumulation of capital i.e. investment in land, equipment and machinery, means, natural resources, human resources both quantity and quality level of its population, technological advances in access to information, innovation and self-development capabilities and a culture of work.

According to Mardiasmo (2021), fiscal decentralization in Indonesia is a government policy instrument that encompasses several principles and objectives. These include: (1) Mitigating fiscal disparities between central and regional governments, as well as inter-regional governments; (2) Enhancing the quality of public services within the region and reducing disparities in public services across regions; (3) Enhancing the efficiency of national resource allocation; (4) Ensuring effective governance, transparency, and

accountability in the implementation of transfer allocation activities to suitable target areas; and (5) Promoting fiscal continuity in macroeconomic policies. Inequality serves as a metric for assessing relative poverty, wherein poverty circumstances are characterized by the consequences of development strategies that fail to encompass all strata of society, resulting in an uneven distribution of income (BPS, 2008). The Gini index, invented by Gini (1912), is widely employed as a measure. It is derived from the Lorenz curve, a cumulative frequency curve that represents the distribution of certain variables, such as expenditure, in relation to a uniform distribution that signifies equality.

To date, fiscal decentralization has been implemented in all districts and cities of Indonesia as a means to uphold regional autonomy. The current state of affairs indicates that the local government has not achieved full autonomy from the federal government in its regulation of local families. This phenomenon is not solely observed within the scope of political interactions and regional authorities, but also extends to the financial relations between the central government and the regional entities. The substantial finance requirements associated with the implementation of fiscal decentralization in the preservation of regional autonomy have significant immediate repercussions. PAD serves as the primary source of money for local government, mostly allocated for capital expenditures and development purposes.

The failure of the local government in the efficiency and effectiveness of the regional budget is caused by several factors, among others: (1) expenditure is not oriented to performance and public interest; (2) expenditures are conducted in the region is oriented in the short term; (3). Local governments are reactive, not proactive to eliminate sources of local financial waste; and (4). Lack of adequate knowledge of the nature of costs (Mardiasmo, 2021). The percentage of financial assistance from year to year is irregular and varies significantly between districts/cities (interval between 0.46% - 16.01%), this also implies that the allocation of financial aid given to district/city has a fairly significant range. (Kharisma, 2022 : 33).

The review results of 41 journals are indexed scopus with keywords Collaborative Governance, Regional Fiscal Policy, and Financial Assistance. The mapping author using the VOSviewer application gives an overview, as follows:



Source : VOSviewer Application Output, 2024

Figure 1: Development of the Collaborative Governance Study Fiscal Policy Financial

From Figure 1, it can be that collaborative governance is very high in influencing program cooperation and activities to enhance interregional cooperation involving various stakeholders.

Table 1: Previous Studies

No	Title	Authors	Methodology	Results
1.	Fiscal Decentralization in Indonesia: Does Discretionary Policy on Tax Facilities Remain Urgent?	Kus Pratiwi, D., Rahma Novikasari, S., Ayuningtyas Harahap, N., & Wahyuningsih, A. (2023)	✓ Conceptual and statutory approaches ✓ Examination and harmonization of 56 Head of the Region Regulations	✓ The paper found differences in the material substances of the Head of the Region Regulations on tax facilities.

No	Title	Authors	Methodology	Results
				<ul style="list-style-type: none"> ✓ The discretionary power of the Regional Governments in providing tax facilities must be maintained.
2.	Analysis of fiscal decentralisation, human development, and regional economic growth in indonesia	Sofilda, E., Zilal Hamzah, M., & Kusairi, S. (2023).	<ul style="list-style-type: none"> ✓ Panel data method used for analysis ✓ Sample data comprised 484 county-level in Indonesia 	<ul style="list-style-type: none"> ✓ Central government grant, locally generated revenue, and human capital development positively influence regional economic growth. ✓ Degree of decentralisation
3.	Fiscal Decentralization and its Effect on Poverty Alleviation: Case Study of Indonesia	Anggraeni, R. M., Khusaini, M., & Prasetyia, F. (2023)	<ul style="list-style-type: none"> ✓ Empirical analysis using data from 505 districts/cities in Indonesia. ✓ Fixed effect model used to estimate the effect of fiscal decentralization on poverty alleviation. 	<ul style="list-style-type: none"> ✓ Fiscal decentralization has a significant role in reducing poverty in Indonesia. ✓ Pro-poor fiscal decentralization is recommended to alleviate poverty.
4.	Legal Politics in the Implementation of Regional Autonomy	Master of Law, Faculty of Law, UPN Veteran Jakarta, Kaban, M. C., Ramadani, M., & Master of Law, Faculty of Law, UPN Veteran Jakarta. (2023)	<ul style="list-style-type: none"> ✓ The paper uses a democratic, constitutional, and institutional approach. ✓ The paper also refers to Law Number 23 of 2014 concerning Regional Government. 	<ul style="list-style-type: none"> ✓ Implementation of regional autonomy in Indonesia requires confidence from central government, local government, and the community. ✓ Regional autonomy opens up opportunities
5.	The Link between Fiscal Decentralization and Unemployment Evidence from Indonesia	Maryanti, S., Handra, H., & Yonnedi, E. (2022)	<ul style="list-style-type: none"> ✓ Panel data analysis ✓ Examination of fiscal decentralization and unemployment relationship 	<ul style="list-style-type: none"> ✓ Fiscal decentralization has a relationship with unemployment in Indonesia. ✓ The level of civility and

No	Title	Authors	Methodology	Results
				regional dependence has a negative impact on reducing unemployment.
6.	Regional Autonomy and Poverty in Indonesia: A Literature Review	Bahasoan, A. N., Muhammad, & Marsudi. (2023)	<ul style="list-style-type: none"> ✓ Literature review research method ✓ Collect and analyze various reference sources related to the topic 	<ul style="list-style-type: none"> ✓ Regional autonomy has the potential to reduce poverty in Indonesia. ✓ Successful implementation depends on factors such as human resources and governance.
7.	Analysis of The Impact of Fiscal Decentralization on Economic Growth in Indonesia	Suprianik, S. (2023)	<ul style="list-style-type: none"> ✓ The Compare method was used for data analysis. 	<ul style="list-style-type: none"> ✓ Fiscal decentralization has a positive and significant effect on economic growth. ✓ Fiscal decentralization has a negative and significant effect on economic growth.
8.	Regional cooperation of development in local government (case in the province of east java, indonesia)	Januar Mahardhani, A., Suwitri, S., Zauhar, S., & Purnaweni, H. (2021)	<ul style="list-style-type: none"> ✓ Descriptive exposure with exploration models ✓ Research library to gather data and information 	<ul style="list-style-type: none"> ✓ Inadequate cooperation in East Java has a negative impact on development progress. ✓ Interregional cooperation is essential for effective development planning.
9.	Fiscal balance between the centre and the district	Anwar, K. (2022)	<ul style="list-style-type: none"> ✓ Implementation difficulties due to the regulations of the Regional Ministry of Finance cannot accept taxes in full due to limited provisions 	<ul style="list-style-type: none"> ✓ Difficulty in implementing fiscal balance between the centre and the district. ✓ The district cannot accept taxes fully, hindering the

No	Title	Authors	Methodology	Results
				prosperity of the district.
10.	Does Fiscal Decentralization Increases Regional Income Inequality in Indonesia	Ashfahany, A. E., Djuuna, R. F., & Rofiq, N. F. (2020)	<ul style="list-style-type: none"> ✓ Dynamic panel data analysis using GMM two-step system ✓ Comparison of first differences between GMM and GMM systems 	<ul style="list-style-type: none"> ✓ Fiscal decentralization increases regional income inequality in Indonesia. ✓ Rich provinces suffered very high income inequalities during fiscal decentralization.

The analysis of table 1 reveals that the examination of regional cooperation holds considerable importance in the execution of regional fiscal policy in Indonesia. The aforementioned factors contribute to the mitigation of both vertical and horizontal fiscal disparities, the enhancement of local tax authority, and the alignment of central and regional expenditure. The newly implemented regulations, exemplified by Law No. 1 of 2022, have the objective of enhancing fiscal decentralization and fostering regional fiscal autonomy. Furthermore, regional cooperation plays a crucial role in enabling the allocation of financial resources to various regions, hence enabling capital investment and enhancing the overall quality of life for individuals. Additionally, it promotes the optimization of regional earnings through resource exploitation by local governments, thereby enhancing their spending capability and patterns. In general, the collaboration among regions contributes to the improvement of regional financial planning and budgeting systems, resulting in enhanced regional development outcomes.

5. CONCLUSION AND RECOMMENDATION

In allocating expenditure on sources of revenue related to the decentralization function, the district has full policy to determine the size and sectors to be spent (except for transfers of DAK used for special needs) allocated in the APBD. The APBD basically contains the financial plan obtained and used by the local government in the exercise of its authority forining government affairs and public service for a budget year. The authority in this area of finance must be followed by preparing good management i.e. management of receipts as well as management of expenditure of the region. Furthermore, the management of the financial expenditure of the district is carried out with the performance budget approach, which is a system of preparation and management of regional budgets that is oriented towards achievement of results or performance.

In order to mitigate the mismatch in funding requirements and tax control between the central and regional levels, it is recommended to allocate a minimum of 26% of the net domestic revenue to the DAU area (Ndadari & Adi, 2008). The DAU needs of a region (province, district, city) are determined using the idea of fiscal gap and basic allocation, as

outlined in Act No. 1 of 2022 on the financial balance between the central government and the local government.

To effectively address fiscal decentralization or economic decentralization, local governments must prioritize the development of governance and capacity-building mechanisms to ensure the successful execution of all public policies formulated. According to Wibowo and Oktivalerina (2022), capacity development and governance may be categorized into various dimensions, namely credibility, accountability, involvement, predictability, and transparency.

Fiscal decentralization in Indonesia has thus far yielded favorable outcomes in terms of regional autonomy, fostering regional economic growth, facilitating regional economic activity, and establishing a foundation for future legislative measures pertaining to fiscal decentralization. The implementation of fiscal decentralization should afford regional administrations greater opportunity to harness the economic power of their respective regions in order to autonomously address challenges.

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