

# The Challenges of Economic Decentralization: A Systematic Literature Review Against Research Trends for 2013 – 2023

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**Abstract:** Based on the research trends among scholars, few investigate how governance, finance, and public policies developed in implementing decentralization in Indonesia. However, bibliometric analyzes are rare to choose from to lay the groundwork for further research on decentralization in Indonesia. This article explores issues related to devolution in Indonesia through various recent literature. The findings in this study are expected to become a consideration for related stakeholders in responding to the decentralization problems. A data search on the Scopus database yielded at least 179 documents; findings in research into the economic impact of decentralization have yielded mixed results, with some studies finding positive effects while others found adverse effects. This suggests that the economic implications of decentralization are complex and context-specific and depend on factors such as institutional capacity, regional gaps, and the effectiveness of coordination mechanisms.

**Keywords:** Decentralization; fiscal; economy; bibliometric analysis; Indonesia.

## 1. INTRODUCTION

Decentralization is an attempt to reconfigure the relationship between various levels of government, where it depends on what is decentralized and how it is carried out (Hooghe et al., 2016; *Making Decentralisation Work*, 2019; Renko et al., 2022). Transfers in decentralization generally take partial political responsibility; fiscal; administrative; and power from the central government to the regional sub-national level and below (Renko et al., 2022; Rodden, 2004; Schneider, 2003). In general, in the various existing efforts to increase decentralization, it is implied that there is a tendency for regional and city leaders toward the requirements of central mechanisms (Hildreth, 2011; Pike et al., 2015). The 'Westminster' model provides for the formation of a central-local government relationship, whereby the central government often conveys its policy priorities through local and regional government actors who come together in a coalition to access specific funding flows, especially for regional economic development (Ayles et al., 2017; Sandford, 2017). Based on the description of the theory, this generates economic benefits through at least two mechanisms. First, bringing government to the people enables preference matching, resulting in responsive policies that stimulate economic growth (Rodríguez-Pose & Ezcurra, 2010; Rodríguez-Pose & Gill, 2003; Treisman, 2007). Second, expand the capacity or ability of the region to form and implement its economic policies (Rodríguez-Pose, 1998; Rodríguez-Pose & Tselios, 2019; Trigilia, 2001; Trigilia & Burroni, 2009). It is not imaginary that in the context of developing countries, the implementation of regional governance is still one of the main areas of development (Fischer & Ali, 2019). The efforts of a-

government in realizing decentralization to strengthen local authority have been seen by many as a means to expand political and economic participation, which is expected to be able to contribute to improving the economic and living conditions of the poor or marginalized populations in all developing countries (*Decentralization and Local Governance in Developing Countries: A Comparative ... - Google Buku*, n.d.).

The return to decentralization is highly dependent on the quality of the government to which power and resources are delegated (Rodríguez-Pose & Muštra, 2022). Efficient transfer of authority and resources to regional and local governments will lead to better adaptation of public policies to local needs. On the other hand, if the delegated local powers are deemed incapable, overall economic efficiency may be disrupted. Although decentralization can provide significant benefits, some available data and research also show that decentralization can pose economic and fiscal challenges that must be handled cautiously and require careful planning and management to address economic and budgetary issues. Sufficiently to lead to success. Empirical results have shown that decentralization in the economic field determines regional expenditure activities that are more responsible and efficient; improve regional performance; and contribute to economic growth (Onofrei et al., 2023). However, not a few also show how economic decentralization has positive spatial effects on the quality of government and public administration, especially public administration procedures, but has adverse spatial effects on participation, transparency, accountability, and corruption control (Dinh Thanh et al., 2023). Not much different from these findings, research on the impact of decentralization in Indonesia has yielded mixed results. On the positive side, the study finds that while decentralization has increased access to public services in many areas, especially in rural and remote areas, it has also

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created significant challenges, particularly in revenue generation and coordination between governments. Local governments in Indonesia continue to rely heavily on transfers from the central government to finance their operations, and revenue collection at the local level remains relatively low (World Bank, 2017).

Based on the research trends among scholars, few investigate how governance, finance, and public policies developed in implementing decentralization in Indonesia. However, bibliometric analyzes are rare to choose from to lay the groundwork for further research on decentralization in Indonesia. Identifying the primary author; institution; themes in devolution, and study; to is used to track changes in the field from time to time, such as shifts in research focus or the emergence of new research fields, but does not explicitly analyze how decentralization impacts the government (Irawan and Kusuma, 2020; Utomo, 2019). Referring to this background, this article explores issues related to decentralization in Indonesia through various recent literature. The findings in this study are expected to become a consideration for related stakeholders in responding to the decentralization problems.

**2. METHODOLOGY**

The first stage of this research is to identify databases that support the research objectives; therefore, data sources must be reliable and appropriate to complete the analysis and make informed decisions (Khan et al., 2020; Rueda et al., 2007). The material in this study was obtained through a database search on the Scopus platform, which provides information on scientific journals, scientific papers, books,

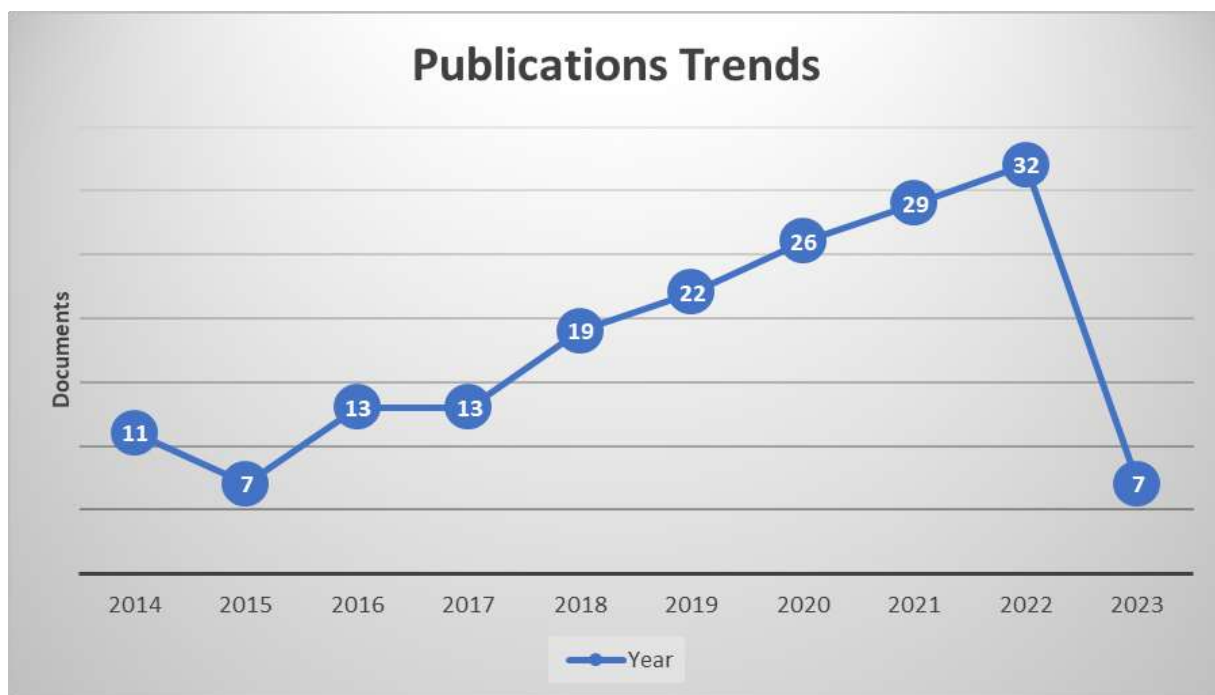
events, and other items. Scopus is one of the primary databases that offer reliable and frequently updated indexing of journal papers, consistent with research objectives (Cao et al., 2021; Gümüş et al., 2020).

The second stage is then carried out by selecting data collection in Scopus, considering that this study looks at global trends related to decentralization in Indonesia. Then, inclusion criteria were set to find scientific works suitable for evaluation, and literature unrelated to the topic of discussion was excluded, as has been done by other researchers (Cao et al., 2021). The search string found a total of 8337 articles. Then to find pieces that discuss in-depth related to decentralization in Indonesia, the authors limit their research to English-language articles; social science subject area; journal type; article document type; and open access with predefined related keywords. The author also only selects pieces that are openly accessible; issuance period from 2013 to 2023; social science subject areas; article document type, which then generates 179 documents.

**3. DATA FINDINGS**

**3.1. Year of Publication**

The table below shows the development of publications related to decentralization in Indonesia, especially in the last ten years, from 2014 to mid-March 2023. From the graph, it can be concluded that the trend of publications related to decentralization in Indonesia, in general, has continued to increase significantly. However, there was a marked decline in 2015 and stagnant from 2016 to 2017.



**Fig. (1).** Trends in decentralization Research publications in Indonesia.

**3.2. Network Visualization**

Literature mapping with clustering is done to determine the category of groups in decentralized research. In keyword

grouping, five different colours indicate the top 5 keyword groups. This cluster describes the main topics academics raised in studying decentralization issues.



Darsono, D.	2
Ewetan, O. O.	2
Ezcurra, R.	2
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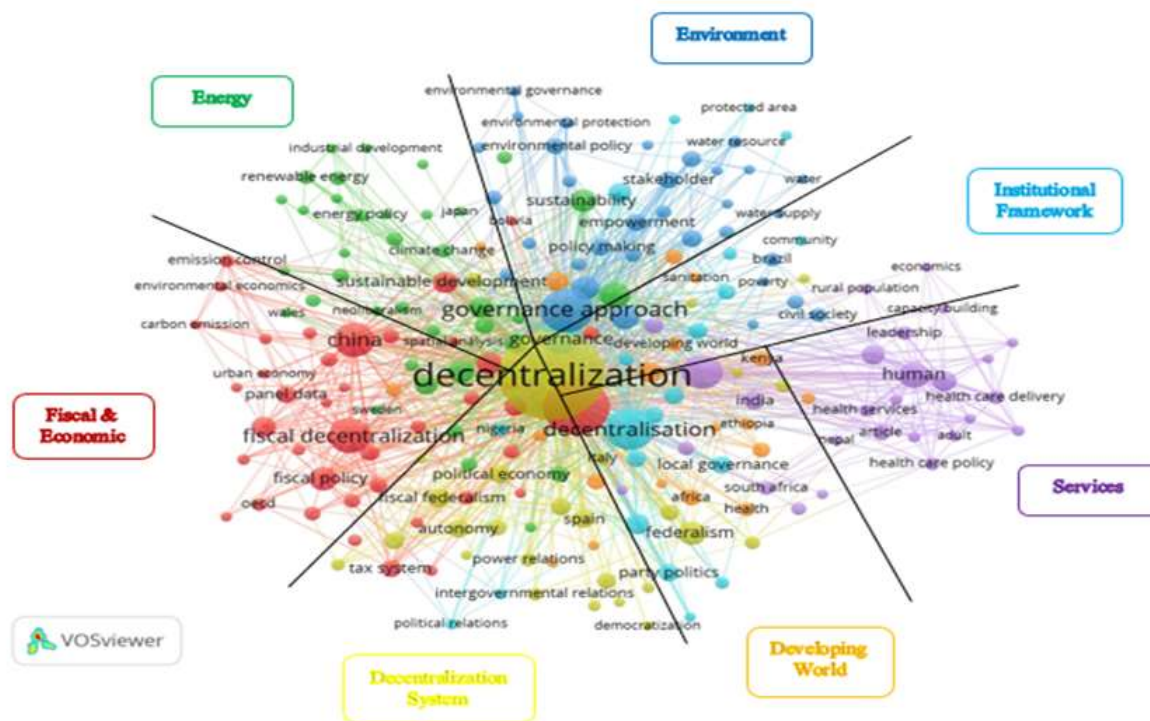


Fig. (3). Visualization of the keyword network on the topic of decentralization based on clusters.

### 3.4. Co-Occurrence Map Visualization Based on Text Data

This map aims to visualize frequently occurring terms by title and abstract fields. The results of this visualization will help identify research gaps and find new things or research topics that have not been and are still rarely done. Of the 179 journals collected in CSV format, 3162 terms were found with a minimum of 5 occurrences, and at least 208 were found to be the most relevant. The set of keywords then forms 7 clusters represented by several colours.

The number of links is 4130, with a total link strength of 7949. The occurrence with the visualization of the map indicates that the greater the number of publications, the stronger the relationship between terms. This joint event map can determine which research topics have been over-researched and which are still under-studied or over-studied. For example, "local government" has one of the highest occurrences, with 178 occurrences, 147 links with other terms, and 755 total joint strengths. According to Rodríguez-Pose & Muštra (2022), the return to decentralization is highly dependent on

the quality of the government to which power and resources are delegated. Efficient transfer of authority and resources to regional and local governments will lead to better adaptation of local policies to local needs. Meanwhile, several still under-researched topics have the lowest incidence and number of links.

### 4. RESULTS

Decentralization refers to the transfer of power and decision-making authority from the central government to lower levels of government, such as regional or local governments. While decentralization can provide benefits such as improving local governance and service delivery, it can pose several economic challenges. Lower levels of government, which are not equipped to manage their finances effectively, may face financial instability or even bankruptcy if the central government retains control over specific primary sources of revenue, such as natural resources or large infrastructure projects. Undoubtedly, lower levels of government may be unable to fund their initiatives or meet their needs.

**Table 2. Terms with the Lowest Keyword Occurrences and Associations.**

No.	Keyword	Occurrences	Total Link Strength
1.	Taxation	5	22
2.	Economic Policy	6	27
3.	Economic	5	26
4.	Fiscal Decentralization	10	31
5.	Financial Management	5	32

## 4.2. Revenue Generation

One of the main economic challenges of decentralization is ensuring that lower levels of government have the financial resources to carry out their new responsibilities. It is unimaginable that later on, it will require decentralizing revenue sources, such as taxes or fees, to lower levels of government. Research shows that many local governments in developing countries cannot generate sufficient revenue to finance their operations. A World Bank report found that only about 10% of sub-Saharan African countries create more than 10% of their income, while the rest rely heavily on transfers from the central government (World Bank, 2018). This condition is not only found in several low-income countries and developing economies. A study also shows that there are not a few countries that are already well-established in the existing government and economic systems; similar practices are still often encountered. Take Australia, for example, where local governments still rely on federal revenue support (Broadhurst et al., 2023). It can also lead to differences in income and resources between regions or municipalities, especially if particular areas are more economically developed.

Decentralization often involves changes to the taxation system, which can have significant economic impacts. Tax rates vary widely between regions, which has implications for the choice of businesses to move to areas with lower taxes, which causes uneven economic development. It is not imaginary that economic decentralization will then influence how the government determines the structure of tax schedules and social transfer programs (Berset & Schelker, 2023). Studies have yielded mixed results on the effects of tax competition between regions. While some studies have found that tax competition can lead to lower tax rates and reduce income, others have found that it can stimulate economic growth and encourage innovation (Feld & Kirchgässner, 2001). Decentralization is also seen as increasing revenue collection in some cases. For example, a study by the IMF found that decentralization in Colombia resulted in significant increases in revenue collection, especially in small towns (International Monetary Fund, 2008). However, other studies have found that decentralization can lead to economic imbalances, especially in countries with weak institutional capacity (Bardhan & Mookherjee, 2006).

## 4.3. Regional Revenue and Expenditure Imbalance

Infrastructure investment is essential for economic growth, but it may be difficult for local governments to finance large-

scale projects without support from the central government. These conditions, such as transport networks and water systems, often result in a lack of. Research shows decentralization can lead to underinvestment in critical infrastructure, particularly in developing countries. A study by the Asian Development Bank found that local governments in Asia face significant challenges in financing infrastructure projects, including limited access to finance and inadequate institutional capacity (ADB Institute, 2019).

Meanwhile, other studies have found decentralization can increase infrastructure investment, particularly in transport and water systems. For example, a study by the World Bank found that decentralization in India led to increased investment in rural roads (*Development Projects: Rural Access Improvement and Decentralization Project - P083923*, n.d.). However, under-investment in critical infrastructure is a common problem in many decentralization initiatives (Khundrakpam & Goyal, 2009).

## 4.4. Growth Disparities and Economic Opportunities

Decentralization can create competition between regions for investment, leading to a "race to the bottom" regarding tax rates and regulatory standards. Such conditions can lead to a decline in overall economic well-being as regions try to attract investment by weakening each other. Research has shown that competition between areas can negatively impact the economy, reducing overall well-being and increasing income inequality. For example, a study by the European Commission found that tax competition between EU member states led to a reduction in corporate tax revenues of up to €70 billion per year (European Commission, 2016).

Studies have yielded mixed results on the effects of inter-regional competition on economic well-being. While some studies have found that competition can lead to increased efficiency and economic growth, others have found that it can lead to a "race to the bottom" regarding regulatory standards and social welfare (Rodden, 2004).

## 5. DISCUSSION

Indonesia is an interesting case study on decentralization, inseparable from the massive reform process 1999. Before decentralization, Indonesia was highly centralized, with most decision-making and revenue collection at the central government level. Decentralization reforms aim to transfer significant political, administrative, and fiscal power to local

governments, including provinces, districts, and municipalities. Under the new system, local governments are given more control over policy-making and service delivery in health, education, and infrastructure areas.

According to data from the Indonesian Ministry of Finance, local government revenues in 2020 were IDR 707.7 trillion (approximately USD 49.7 billion), with transfers from the central government accounting for the majority of these revenues (72.6%) (*Final-APBN-KITA-DES-2021*, n.d.). Research has found that local governments in Indonesia are highly dependent on transfers from the central government and have limited capacity to generate revenues. A study by the World Bank found that only 4% of local government revenues in Indonesia come from local taxes and user charges, compared to 20-30% in other countries in the region (Safitri et al., 2020). This is seen as a common challenge found by many other developing countries in the Southeast Asia Region, including the Philippines and Cambodia, where the regional income of these countries is also low (Safitri et al., 2020). However, some exceptions exist, such as Vietnam and Thailand, where local governments generate a higher share of their revenues.

Significant regional disparities can also be seen in Indonesia regarding income, infrastructure, and access to public services. Data from the World Bank shows that the poverty rate in eastern Indonesia is more than double that in the western region, and access to electricity and water is lower in rural areas than urban areas (World Bank, 2018). Intergovernmental coordination is also an ongoing challenge in coordinating policy and service delivery between different levels of government in Indonesia. A study by the Asian Bank Development found that there are often conflicting policies and regulations between different levels of government, which can hinder effective service delivery (ADB Institute, 2019).

Overall the data shows that Indonesia continues to face significant challenges in implementing effective decentralization, particularly in income generation, regional disparities, and intergovernmental coordination. Indonesia's experience shows that decentralization can have positive and negative results and that effective implementation requires careful attention to issues such as institutional capacity, revenue generation, and coordination between governments. Research results by Sudarno Sumarto from the SMERU Research Institute and Bambang Brodjonegoro from the University of Indonesia (Ketimpangan et al., n.d.) highlight the challenges facing the decentralization system in Indonesia, including the need to increase local revenues, strengthen intergovernmental coordination, and promote more inclusive development and sustainable. They have also provided recommendations for policy reforms, such as increasing the share of locally generated revenues, targeting intergovernmental transfers, and strengthening the local government's capacity to deliver services effectively.

## CONCLUSION

Findings in research into the economic impact of decentralization have yielded mixed results, with some studies finding positive effects while others finding adverse effects. These findings suggest that decentralization's economic impact is complex and context-specific and depends on factors such as

institutional capacity, regional gaps, and the effectiveness of coordination mechanisms. It is not imaginable that some challenges are shown. Efforts are needed to increase local revenues, strengthen intergovernmental coordination, and promote more inclusive and sustainable development.

## DECLARATION OF CONFLICT OF INTEREST

The authors declare no potential conflict of interest concerning this article's research, authorship, or publication.

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