

Spanning Interests of Regional Autonomy within the Axiom of 'Fiscality': A Brief Note on the Ideal Financial Relationship between Central and Regional Governments

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Article Info

Received: 2025-05-04

Revised: 2025-06-01

Accepted: 2025-06-

Keywords:

Fiscal, Regional
Autonomy, Government.

Abstract

The implementation of the Regional Autonomy policy is designed through the pattern and style of its implementation which changes according to the dynamics of the times. The implication is that there are ups and downs in the model of relations between the Center and the Regions within the framework of the Regional Government from time to time. This paper is a small note to see the ideal relationship between the Center and the Regions in the future, especially in terms of fiscal axioms. Through normative juridical research methods and several approaches, the results of this study can be described in 3 (three) points. First, the first stone for the founding fathers to choose the design of the Central-Regional relationship was the Proclamation. This is because there is a linearity between the meeting BPUPKI - Proklamasi - PPKI - UUD NRI 1945, with the Proclamation Text as the first formal form that there is an effort to find the ideal constitutional design in Indonesia, one of which is the accommodation of the phrase "Autonomy." Second, the implementation of the chosen relationship scheme leads to a form of Fiscal Decentralization which always experiences "Spanning Interest" and ends at a meeting point called "Conditio Sine Qua non." due to ecological and conditional factors. Third, the first and second conclusions lead to the ideal form of relationship between the Center and the Regions which is free as long as it overcomes the problem of fiscal disparities between regions and takes into account several legal bases including the legal basis of intergovernmental transfer system, Procedures for establishing and modifying intergovernmental transfers, Conditional and unconditional transfers, and Dispute resolution and adjudication.

1. Introduction

The notion of *spanning interests* in regional autonomy essentially converges on the objective of “bringing the government closer to the people.” The implementation of regional autonomy policies has been shaped by varying patterns and approaches over time, reflecting the socio-political dynamics of each era. These variations often stem from differing interpretations of the fundamental question: “What constitutes an ideal relationship between central and regional governments?” This persistent question, frequently raised in academic discourse and policymaking forums, has given rise to a persistent tug-of-war—spanning interests—between the central government, which bears responsibility for national governance, and regional governments, which are entrusted with governance at the local level.¹

The existence of spanning interests in the pursuit of an ideal governmental design within a unitary state framework is by no means anomalous. Policy frameworks that fail to account for regional characteristics and local potential inevitably produce adverse socio-economic and political consequences, alongside substantial social costs.² Consequently, the central-regional nexus must ultimately strive to realize the nation’s constitutional aspirations while minimizing these social costs.³ Clarke and Stewart conceptualize the structure of central-local government relations into three models:⁴ the Relative Autonomy Model, the Agency Model, and the Interaction Model.⁵

Applying Clarke and Stewart’s framework to the Indonesian context reveals that efforts to establish an ideal model of central-regional relations date back to the enactment of the *Desentralisasi Wet* of 1903. This early legal instrument marked the beginning of a long and dynamic evolution of decentralization laws, characterized by cycles of reform that have shaped the nature of regional governance in Indonesia. A pivotal shift occurred with the promulgation of Law No. 32 of 2004, which institutionalized fiscal principles as a central axiom, emphasizing efficiency and effectiveness in the administration of local government. This transition illustrates that regional governance is as foundational as the central

¹ Imam Ropii, “POLA HUBUNGAN PEMERINTAH PUSAT DAN PEMERINTAH DAERAH DALAM OTONOMI DAERAH (Konsepsi dan Dinamikanya),” *Maksigama* 9, no. 1 (11/09 2015), <https://doi.org/10.37303/v9i1.4>.

² Mohamad Fasyehudin, “Protection and Certainty of Social Welfare Law in the Concept of a Welfare State: Perspective of State Administrative Law,” *Pena Justisia: Media Komunikasi dan Kajian Hukum* 22, no. 1 (2023), <https://doi.org/https://doi.org/10.31941/pj.v22i1.2544>.

³ Fadel Muhammad, *Reinventing Lokal Governance: Pengalaman dari* (Jakarta: PT. Elex Media Komputindo, 2008).

⁴ See alsoJazim Hamidi, “Pola Hubungan Pemerintah Pusat dan Daerah ” (Konferensi Asosiasi Pengajar Hukum Tata Negara (HTN) dan Hukum Administrasi Negara (HAN), Hotel Panorama- Jember, Asosiasi Pengajar Hukum Tata Negara (HTN) dan Hukum Administrasi Negara (HAN) Jawa Timur, 27–29 Desember 2009 2009). See also Ropii, “POLA HUBUNGAN PEMERINTAH PUSAT DAN PEMERINTAH DAERAH DALAM OTONOMI DAERAH (Konsepsi dan Dinamikanya).”

⁵ Suryani Suryani, “Nilai Moralitas dalam Pembentukan Peraturan Perundang-Undangan,” *Pena Justisia: Media Komunikasi dan Kajian Hukum* 19 (10/01 2020), <https://doi.org/10.31941/pj.v19i2.1147>.

government itself in achieving national development goals—namely, the cultivation of natural and social capital and the advancement of public welfare.⁶

As a consequence of the quarter-century enforcement of Law No. 5 of 1974 on Regional Government—and in the aftermath of the collapse of the New Order regime—the Indonesian government undertook a fundamental reset in defining the intersection of regional character and potential. This reset was marked by the repeal of the 1974 statute and its replacement with Law No. 22 of 1999 on Regional Government. A historical review of Law No. 5 of 1974, particularly in relation to the evolution of legal frameworks supporting regional autonomy, underscores the necessity for legal reform. The promulgation of Law No. 22 of 1999, published in State Gazette No. 60 of 1999, laid the juridical foundation for the formal implementation of regional autonomy, aligning it with the constitutional mandate to enhance the welfare of the people.⁷

Since the institutionalization of the concept of regional autonomy—particularly through Law No. 22 of 1999—Indonesia has embraced the notion of *fiscal decentralization* as a primary instrument for development governance.⁸ This fiscal strategy was envisioned to elevate both public service delivery and the economic performance of regions and the nation as a whole. Of notable interest is the enduring *spanning interest*—a structural tension—between the central government and local governments, which has significantly influenced the architecture of public administration, especially in the realm of fiscal complexity. The central dilemma, whether to favor decentralization or centralization, inevitably shapes the operational meaning of the “fiscal axiom.”

As illustrated in the conceptual diagram presented earlier, Indonesia’s post-1999 orientation has clearly favored decentralization and institutional renewal to promote greater efficiency and effectiveness. Within this context, decentralization implies not only administrative delegation but also the devolution of authority over revenue and financial utilization. Consequently, fiscal decentralization can be interpreted as a deliberate process of intensifying regional roles and empowering local authorities to spearhead development.⁹

This journal serves as a modest contribution to the ongoing discourse on conceptualizing an ideal central-regional relationship, especially within the framework of fiscal autonomy.

⁶ Rif'an Moh et al., "Law as General Rule or Law as Conglomeration of Legal Decision," *Jurnal Hukum Lex Generalis* 1, no. 7 (2020 2020), <https://doi.org/10.56370/jhlg.v1i7.231>.

⁷ Amiruddin, *Kompleksitas Persoalan Otonomi Daerah di Indonesia* (Yogyakarta: Pustaka Pelajar, 2003).

⁸ Haryanto Haryanto, "Masa Depan Politik Desentralisasi di Indonesia: sebuah Studi Awal," *Jurnal Administrasi dan Kebijakan Kesehatan Indonesia* 9, no. 2 (2016/7// 2016).

⁹ W.E. Oates, *Fiscal Federalism* (New York: Harcourt Brace Jovanovic, 1972). As cited in Azwar Iskandar, "ANALISIS DINAMIS DAMPAK DESENTRALISASI FISKAL TERHADAP EFISIENSI BELANJA KESEHATAN DAN KESEJAHTERAAN: STUDI KASUS KABUPATEN/KOTA DI SULAWESI SELATAN," *INFO ARTHA* 6 (07/16 2022).

As noted by Djohermansyah Djohan, the quest for an optimal model of regional governance has been a defining feature of Indonesia's post-independence legal trajectory, beginning with Law No. 1 of 1945 on the Status of Regional National Committees.¹⁰ Since then, a succession of laws and regulations have been enacted, culminating in the promulgation of Law No. 23 of 2014, which replaced Law No. 32 of 2004.¹¹ Each new iteration of regional governance legislation represents either a constructive refinement or a radical reengineering of its predecessors, shaped by constitutional exigencies and contemporary challenges. These legislative shifts underscore a dual responsiveness: to the practical demands of local stakeholders and to the overarching priorities of the central government as the principal shareholder. The cumulative effect of this dynamic is a policy landscape replete with experimentation in the implementation of regional autonomy.

2. Research Method

This study adopts a normative legal research methodology with a prescriptive orientation. The author examines statutory regulations pertinent to the issue of the ideal relationship between central and regional governments. The research is supported by primary, secondary, and tertiary legal materials, analyzed through a combination of methodological approaches.

Drawing on the theoretical framework articulated by Peter Mahmud Marzuki, legal research typically engages with multiple analytical lenses. The present study employs four principal approaches:¹² First, the statutory approach, which involves the systematic examination of legislation relevant to the central issue under investigation. Second, the comparative approach, through which the author analyzes and contrasts related legal instruments to identify patterns, divergences, and normative implications. Third, the conceptual approach, which considers foundational theories and constructs associated with the principle of regional autonomy. Fourth, the historical approach, which traces the legal and institutional evolution of decentralization policies in Indonesia through documentary mapping and archival review.¹³

In processing legal materials, the study applies three interpretative techniques: grammatical interpretation, focusing on the textual and linguistic structure of legal provisions; comparative interpretation, to discern insights through cross-referencing parallel legal frameworks; and futuristic interpretation, aimed at projecting the implications of legal norms within evolving governance contexts.

3. Results and Discussion

¹⁰ Ridwansyah Muhammad, "Upaya Menemukan Konsep Ideal Hubungan Pusat-Daerah Menurut Undang-Undang Dasar Negara Republik Indonesia Tahun 1945," *Jurnal Konstitusi* 14, no. 4 (2017 2017).

¹¹ Lili Romli, *Potret Otonomi Daerah dan Wakil Rakyat di Tingkat Lokal* (Yogyakarta: Pustaka Pelajar, 2007).

¹² Peter Mahmud Marzuki, *Penelitian Hukum* (Jakarta: Kencana, 2007).

¹³ Johnny Ibrahim, *Teori dan Metodologi Penelitian Hukum Normatif* (Malang: Bayumedia, 2007).

Broad Regional Autonomy: "Spanning Interest" Leading to "Conditio Sine Qua Non"

The issue that arises when the government or policymakers are confronted with the phrase "as broadly as possible" in Article 18, Paragraph (5) of the 1945 Constitution of the Republic of Indonesia, after the second amendment, is: *"What constitutes the ideal form of the central-regional relationship capable of manifesting the phrase in this article?"* This question serves as the foundational basis for efforts to identify or develop the ideal relationship between the central government and local governments. Looking back to the past, the references to the central-regional relationship can still be found in the General Guidelines for National Development (GBHN) from 1978, 1983, and 1988. This emphasizes the statement in the GBHN.¹⁴

The necessity of considering "as broad autonomy as possible" because, in several countries, decentralization has led to greater participation in development activities, more effective and efficient administration of local and rural development programs (a concept now annulled by the current Local Government Law in Indonesia), and the expansion of administrative capacity beyond the capital city. Despite efforts in nearly all countries to implement decentralization, serious implementation issues arise, leading to a reversion to a centralized model.¹⁵ Several problems stem from inadequate political and bureaucratic support at the central level, compounded by a deeply ingrained centric attitude among those in power, both at the central and regional levels, as well as within institutional bodies (agencies/ministries). In some countries, decentralization policies and programs have been designed, regulated, and implemented inadequately, which has led to the weakening of decentralization and the failure to transfer sufficient financial resources to the organizations to which responsibilities have been delegated (autonomy).¹⁶

History has recorded that fiscal decentralization, or more specifically fiscal decentralization, emerged as a new insight in state policy in the 1970s.¹⁷ It is noted that growing attention to fiscal decentralization was driven by two factors: the failure of centralized planning, most notably the "growth with equity" strategy; and the recognition that development is a complex and uncertain process that cannot be easily controlled and planned from the center.

Since 2001, the government has significantly increased transfer funds in the State Budget

¹⁴ TAP No. II/MPR/1988 tentang Garis-Garis Besar Haluan Negara.

¹⁵ Seperti Indonesia pada masa Orde baru, atau Kenya, Tanzania, Sudan yang sampai sekarang tetap berpegang teguh terhadap sifat Sentralistik.

¹⁶ Dennis A. Rondinelli, John R. Nellis, and G. Shabbir Cheema, *Decentralization in Developing Countries A Review of Recent Experience*, (Washington, D.C: The International Bank for Reconstruction and Development / THE WORLD BANK, 1983).

¹⁷ Mudrajat Kuncoro, "Desentralisasi fiskal sebagai alternatif menggali sumber dana pembangunan dan mewujudkan otonomi daerah," *Economic Journal of Emerging Markets* 6, no. 1 (10/19 2016), <https://doi.org/10.20885/ejem.v6i1.6640>, <https://journal.uui.ac.id/JEP/article/view/6640>.

(APBN), amounting to 145.06%, from Rp33.07 trillion (2000) to Rp81.05 trillion (2001). Over two decades, the transfer fund amount continued to increase from Rp81.05 trillion (2001) to Rp812.97 trillion (2019), with a slight decrease in 2020 to Rp762.54 trillion due to the COVID-19 pandemic. The transfer funds are expected to reduce the fiscal gap between the central and local governments (vertical gap) and between local governments (horizontal gap), thereby accelerating development and improving community welfare in the regions. The transfer funds from the APBN have since become the main source of revenue for the Regional Revenue and Expenditure Budget (APBD), with an average share of 66.81% of total regional income over two decades. Additionally, the role of Regional Own Revenue (PAD) as a source of APBD income has continuously increased, as evidenced by the increase in the PAD ratio to total regional income from 14.69% (2001) to 23.67% (2020).¹⁸ However, unfortunately, the anecdotes surrounding Fiscalization in Indonesia have not been able to shift the "Java-centric" paradigm. Fiscal autonomy is a key indicator in measuring the capacity of local governments to finance their own regional governmental activities, without relying on external assistance, including from the central government. With this indicator, the vertical fiscal imbalance between the central and local governments can be identified. In the framework of fiscal decentralization, to enhance local fiscal capacity and support the implementation of local government autonomy, Law No. 28 of 2009 on Regional Taxes and Levies was enacted. This law granted local governments broader authority to collect Regional Own Revenue (PAD) through the expansion of local tax objects, regional levies, and the granting of discretion in setting tax rates as an essential source of regional income to fund local governance.

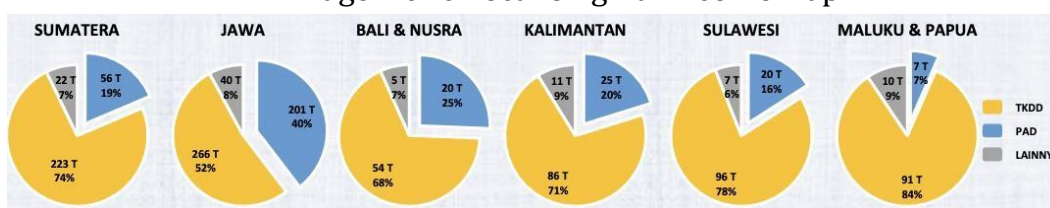
As previously mentioned, fiscal decentralization also has consequences for local governments, which must now take responsibility and exercise authority over resources such as personnel, funding, and other aspects transferred from the central government.¹⁹ Meanwhile, the implementation of regional autonomy policies essentially represents a response to various aspirations from regions in Indonesia, which have long sought to increase their role and independence in managing their authority and responsibilities for public services and regional development. The implementation of fiscal decentralization is based on the objective of achieving regional independence, particularly in supporting the execution of development and regional growth, as well as delivering excellent public

¹⁸ Ubaidi S Hamidi and Dewi Puspita, *Dua Dekade Implementasi Desentralisasi Fiskal di Indonesia* (Badan Kebijakan Fiskal Kementerian Keuangan: Jakarta, 2022). See also Tim Penyusun, *Kerangka Ekonomi Makro Dan Pokok-Pokok Kebijakan Fiskal: Pemulihan Ekonomi dan Reformasi Struktural* (Jakarta: Badan Kebijakan Fiskal Kementerian Keuangan, 2022).

¹⁹ Oates, *Fiscal Federalism*.

services.²⁰ As stated at the outset, the form of fiscal decentralization implementation can be observed in the general volume of Local Government Transfer (TKD/TKDD) spread across each island, illustrating that the success of decentralization and fiscal policies over the past 20 years has not been optimal, and has instead become concentrated in the Java region.

Image. 2020 Local Original Income Map



The aforementioned conditions have led to the view that fiscal autonomy in Indonesia is a long journey, and we are only at the beginning of this path through the policy of fiscal decentralization post the enactment of the Regional Government Law in 1999, which, until 2014, saw changes that were characterized as "upgrades/modifications" of policies rather than a complete deconstruction of them.

The substantial transfer funds (TKD/TKDD) as noted by KPPOD (2021) indicate that several regions are still not autonomous or are dependent on the TKDD within the State Budget (APBN). The high fiscal capacity of regions is evident from the larger PAD (Regional Own Revenue) compared to transfer funds from the central government. This financial autonomy allows local governments to be more resilient to shocks when central government finances contract. Issues such as the imbalance between local governments have decreased, but disparities between individuals have not improved.²¹ The Fiscal Capacity Map in the annex of the Minister of Finance Regulation No. 116 of 2021 shows that only four provinces are classified as having very high fiscal capacity, namely Central Java, DKI Jakarta, West Java, and East Java. The rest fall under high, medium, or low categories. This situation is supported by constraints in the existing management of the Regional Revenue and Expenditure Budget (APBD), including duplication of authority, inconsistency in funding activities, and the lack of preparedness of local governments in planning their APBD.

Although there has been an increase in APBD values over recent years of fiscal

²⁰ J. K Haryanto, *Kebijakan Pembiayaan Perubahan Iklim: Suatu Pengantar: Analisis Kapasitas Fiskal dan Belanja Fungsi Lingkungan Hidup Studi Kasus: Province di Indonesia* (Bogor: Penerbit IPB Press, 2019). See also Iskandar, "ANALISIS DINAMIS DAMPAK DESENTRALISASI FISKAL TERHADAP EFISIENSI BELANJA KESEHATAN DAN KESEJAHTERAAN: STUDI KASUS KABUPATEN/KOTA DI SULAWESI SELATAN."

²¹ Rendy Alvaro, "GAMBARAN KEMAMPUAN KEUANGAN PROVINSI DI WILAYAH BARAT INDONESIA DAN KEBIJAKAN PADA TRANSFER KE DAERAH TAHUN 2010-2020," *Jurnal Budget Pusat Kajian Anggaran* 7, no. 1 (2022).

decentralization implementation, development in many regions still feels insignificant. Some of the causes include the lack of readiness of local governments in planning an APBD aimed at achieving high economic growth. Local governments seem to only implement policy delegations from the central government, and their funding is still heavily reliant on the central government. The lack of initiative by local governments in developing key sectors to increase regional own revenue is also a cause of stagnant economic growth, prompting the central government to frequently provide stimulus and incentives to encourage regions to develop their potential, which inadvertently creates a dependency on such stimuli.²²

The author's premise is reinforced by the fiscal autonomy review condition that results in the Fiscal Autonomy Index (IKF), which ranges from 0 (where all spending is funded through transfer funds with no role of PAD) to 1 (where all spending is funded by PAD with no transfer funds). The lower the IKF value, the less autonomous the region is. Conversely, the higher the IKF value, the more autonomous the region becomes.²³ Based on financial reports up to 2020, several categorizations of the IKF values in Indonesia were found as follows:

Table. IKF Classification in Indonesia (Per-Province) until 2020

No	Government Name	2016	2017	2018	2019	2020
1	Province Aceh	0,166 6	0,158 6	0,163 5	0,1713	0,1780
2	Province Sumatera Utara	0,474 6	0,432 2	0,443 9	0,4405	0,4282
3	Province Sumatera Barat	0,424 7	0,351 8	0,361 6	0,3609	0,3541
4	Province Riau	0,448 0	0,425 2	0,429 2	0,4088	0,3866
5	Province Jambi	0,363 4	0,366 5	0,375 4	0,3609	0,3489
6	Province Sumatera Selatan	0,386 8	0,369 9	0,385 9	0,3765	0,3589
7	Province Bengkulu	0,310 6	0,286 9	0,305 9	0,2818	0,2556

²² Tim Penyusun, *Naskah Akademik Rancangan Undang-Undang (RUU) tentang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintah Daerah* (Jakarta: Badan Pembinaan Hukum Nasional Kementerian Hukum Dan Hak Asasi Manusia, 2021).

²³ Badan Pemeriksa Keuangan Republik Indonesia, *Laporan Hasil Pemeriksaan Atas Laporan keuangan Pemerintah Pusat Tahun 2020, Laporan Hasil Reviu Atas Kemandirian Fiskal Pemeirntah Daerah Tahun 2020* (Jakarta: BPK RI, 2021).

No	Government Name	2016	2017	2018	2019	2020
8	Province Lampung	0,423 9	0,403 7	0,403 5	0,4086	0,4049
9	Province Bangka Belitung	0,294 5	0,315 3	0,332 6	0,3068	0,2844
10	Province Kepulauan Riau	0,370 3	0,336 6	0,348 8	0,3330	0,3402
11	Province DKI Jakarta	0,681 6	0,666 9	0,668 1	0,7106	0,6365
12	Province Jawa Barat	0,615 4	0,562 2	0,579 1	0,5895	0,5140
13	Province Jawa Tengah	0,587 9	0,529 4	0,555 1	0,5583	0,5383
14	Province Daerah Istimewa Yogyakarta	0,429 3	0,364 2	0,374 9	0,3654	0,3344
15	Province Jawa Timur	0,633 7	0,579 4	0,580 2	0,5767	0,5671
16	Province Banten	0,631 1	0,593 1	0,613 3	0,6269	0,5290
17	Province Bali	0,579 4	0,567 2	0,594 1	0,6054	0,5367
18	Province Nusa Tenggara Barat	0,344 3	0,331 4	0,336 0	0,3477	0,3509
19	Province Nusa Tenggara Timur	0,256 8	0,222 9	0,229 1	0,2351	0,2097
20	Province Kalimantan Barat	0,370 3	0,360 4	0,387 8	0,3874	0,3802
21	Province Kalimantan Tengah	0,326 4	0,327 5	0,345 5	0,3559	0,3294
22	Province Kalimantan Selatan	0,479 1	0,506 6	0,539 6	0,5178	0,4532
23	Province Kalimantan Timur	0,504 6	0,562 5	0,543 6	0,5568	0,5220
24	Province Kalimantan Utara	0,217 7	0,216 2	0,237 2	0,2513	0,2290
25	Province Sulawesi Utara	0,340	0,307	0,331	0,3217	0,2425

No	Government Name	2016	2017	2018	2019	2020
		0	3	7		
26	Province Sulawesi Tengah	0,2957	0,2634	0,2619	0,2642	0,2677
27	Province Sulawesi Selatan	0,4816	0,4063	0,4267	0,4323	0,3776
28	Province Sulawesi Tenggara	0,2685	0,2281	0,2388	0,2708	0,2466
29	Province Gorontalo	0,1964	0,1964	0,2136	0,2233	0,2227
30	Province Sulawesi Barat	0,1566	0,1538	0,1657	0,1697	0,1550
31	Province Maluku	0,1830	0,1529	0,1515	0,1553	0,1694
32	Province Maluku Utara	0,1385	0,1439	0,1440	0,1587	0,1728
33	Province Papua Barat	0,0503	0,0666	0,0628	0,0427	0,0558

In 2020, no local government (pemda) achieved the status of IKF 4 (Highly Autonomous). The classification of IKF for the 503 local governments analyzed, based on the level of government at each tier,²⁴ revealed the following:

- At the IKF 1 status (Not Autonomous), the proportions from smallest to largest were: Provinces (30%), Cities (70%), and finally, Districts (98%).
- At the IKF 2 status (Towards Autonomy), the proportions from largest to smallest were: Provinces (49%), Cities (28%), and finally, Districts (2%).
- At the IKF 3 status (Autonomous), the proportions from largest to smallest were: Provinces (21%), Cities (2%), and finally, Districts (0.26%).

Ultimately, Fiscal Decentralization, as brought about by various laws and regulations, will always raise two fundamental questions: "What is to be achieved through the activities of the Central-Local Government relationship?" and "How should the relationship between the central and local governments be designed to achieve these goals?" As outlined in various legislative acts, such as Law No. 32 of 2004, which was later amended by Law No. 1 of 2022 concerning the Financial Relations between the Central Government and Local Governments, this law regulates two key factors in financial relations: the relationship

²⁴ Indonesia, *Laporan Hasil Pemeriksaan Atas Laporan keuangan Pemerintah Pusat Tahun 2020, Laporan Hasil Reviu Atas Kemandirian Fiskal Pemeirntah Daerah Tahun 2020*.

between the central government and local governments, and the relationship between local governments themselves. The financial relationship between the central and local governments is structured in five ways: the provision of local revenue sources such as taxes and levies; the management of transfer funds (TKD); management of local expenditures; the granting of authority to undertake regional financing; and the implementation of national fiscal policy synergies.²⁵

At a minimum, Law No. 1 of 2022 on the Financial Relations between the Central Government and Local Governments has designed the central-local government relationship under the framework of decentralization, based on four main pillars: (1) Developing a tax system that supports the efficient allocation of national resources, (2) Enhancing financial relations between the central government and local governments to minimize vertical and horizontal disparities through transfer policies (TKD) and regional debt financing, (3) Promoting improvements in the quality of local expenditures, and (4) Harmonizing fiscal policies between the central government and local governments to ensure optimal public service delivery and fiscal sustainability. Through these four pillars, the regional management structure can be depicted to relate the implementation of decentralization to the achievement of decentralization goals (based on the Vision and Mission).²⁶

Although the Central Government, through various policies, has established minimal service standards to maintain equal access to basic services while still considering discretion for local governments, the concept of decentralization will always face weaknesses. This is due to the need for adjustment to local preferences, which can potentially lead to imbalances in access to and quality of standardized public services.²⁷ As a result, implementing "broad regional autonomy" through the fiscal decentralization scheme will encounter "Spanning Interest," ultimately leading to a "Conditio Sine Qua Non." This is because the ecological²⁸ and conditional²⁹ factors will always haunt the standard government system in Indonesia, which is marked by extreme heterogeneity.

²⁵ Dalam Pasal 2 Undang-Undang Nomor 1 Tahun 2022 tentang Hubungan Keuangan antara Pemerintah Pusat dan Pemerintahan Daerah

²⁶ Jorge Martinez-Vazquez, Jameson Boex, and Gabe Ferrazzi, "Linking expenditure assignments and intergovernmental grants in Indonesia," *International Studies Program, Andrew Young School of Policy Studies, Georgia State University, International Studies Program Working Paper Series, at AYSPS, GSU* (01/01 2004). See also Bambang Brodjonegoro, "The Indonesian Decentralization after law revision: Toward a better future."

²⁷ Isabelle Jourard and Claude Giorno, "Getting the Most Out of Public Sector Decentralisation in Spain," (08/21 2005).

²⁸ Donald S. Van Meter and Carl E. Van Horn, "The Policy Implementation Process: A Conceptual Framework," *Administration & Society* 6, no. 4 (1975), <https://doi.org/10.1177/009539977500600404>, <https://journals.sagepub.com/doi/abs/10.1177/009539977500600404>.

²⁹ Samuel P. Huntington and Joan Nelson, *Partisipasi Politik di Negara Berkembang*, trans. Sahat Simamora (Jakarta: Rineka Cipta, 1994).

Ecological factors, such as social, economic, and political conditions, will impact policy implementation, meaning these factors will influence the design and effectiveness of the central-local government relationship as regulated in Law No. 1 of 2022 on Financial Relations between the Central Government and Local Governments. Similarly, conditional factors, such as the effectiveness of policy implementation, also depend on the real support from the public, which is reflected in the form of public participation.

"Conditio sine qua non" is a well-known legal theory, first introduced by Von Buri, a legal scholar and former president of the Reichsgericht (Supreme Court) of Germany in 1873. This theory is also known as the theory of equivalence, as according to its foundation, every condition holds equal value. It is also referred to as *Bedingungstheorie*, because for its founder, there is no distinction between conditions and causes.³⁰

The author's analysis, which claims that the central-local government relationship is a "Conditio sine qua non," implies that there is no one-size-fits-all formula for the ideal relationship between the Central and Local governments that can be applied consistently over time. This is due, in part, to ecological and conditional factors (causes), meaning the design of the central-local government relationship and the fiscal decentralization scheme will inevitably change over time (effects). In principle, this condition cannot be detached from the national commitment that embraces the decentralization principle within the Unitary State of the Republic of Indonesia, which signifies that the organization and administration of the state should not solely be based on the principle of centralization. Instead, it also incorporates decentralization and regional autonomy as its manifestations. Therefore, at the very least, the framers of the 1945 Constitution and the organizers of Indonesia's state organization have accepted and embraced the fundamental idea that centralization and decentralization are not opposing (dichotomous) principles, nor are they separate (separating); rather, they represent a continuum that is unified (unity).³¹

Another implication of this analysis is that the paradigm built within the process of implementing decentralization policies in Indonesia is always shifting, creating a spanning interest pattern between decentralization and centralization. This condition is recognized as "Conditio sine qua non," but with the caveat that it is constrained by the design that is limited to the objectives of the state. Several key aspects that require attention include the following:

- a) The selection of a decentralization model tends to be symmetric, while regional characteristics vary; ideally, an asymmetric model should be chosen.

³⁰ Moeljatno, *Asas-Asas Hukum Pidana* (Jakarta: Rineka Cipta, 2009).

³¹ Wasisto Raharjo Jati, "Inkonsistensi Paradigma Otonomi Daerah di Indonesia: Dilema Sentralisasi atau Desentralisasi," *Jurnal Konstitusi* 9, no. 4 (05/20 2016), <https://doi.org/10.31078/jk947>, <https://jurnalkonstitusi.mkri.id/index.php/jk/article/view/947>.

- b) Fiscal decentralization is more focused on expenditures, but the rights and powers related to taxation need to be reconsidered.
- c) The organizational structure and functions of local governments in Indonesia tend to follow a "one size fits all" approach. As a result, services in regions, especially outside Java, cannot be delivered equitably.
- d) The determination of local tax and levy objects has not fully relied on real feasibility studies of income potential. Consequently, taxes or levies may not be collected, or if they are, it is not done optimally.
- e) Fiscal decentralization is inseparable from the formation of autonomous regions, but in its establishment, the financial capacity of the region has not always been fully considered, which results in the region heavily depending on central government transfers, as its PAD (Regional Own Revenue) is insufficient.

The Ideal Relationship Between the Central and Local Governments: Everything Depends on the Goals Understood and Implemented.

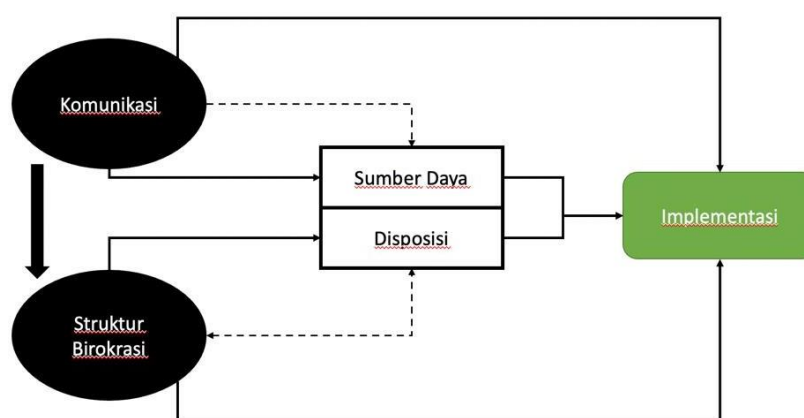
To examine the ideal relationship between the Central and Local governments, it has already been discussed in previous studies that the form of this relationship in Indonesia is constantly changing as a pattern of spanning interests between decentralization and centralization. The format of the ideal relationship will always be interpreted as "Conditio sine qua non." This is because, inevitably, implementing broad regional autonomy through the fiscal decentralization scheme will encounter "Spanning Interest," ultimately leading to "Conditio Sine Qua Non." This is due to ecological and conditional factors that continuously affect Indonesia's standard government system, which is marked by the extreme heterogeneity it brings. As mandated in Article 18, Paragraph (5) of the 1945 Constitution of the Republic of Indonesia, it states: "Regional government shall exercise autonomy as broadly as possible, except in matters of government that are determined by law to be the responsibility of the Central Government." Thus, the standardized format of the central-local relationship will always be inseparable from the quest to define the broadest possible autonomy.

This standardized format is then offered through policies framed within Regional Autonomy and Fiscal Decentralization. From the outset, fiscal decentralization policies in Indonesia have been aimed at becoming an instrument for achieving the nation's goals, namely equitable and prosperous society across all corners of the archipelago. As a fiscal instrument, fiscal decentralization policies serve as a funding tool for carrying out functions and authorities that have been delegated to local governments, while maintaining alignment and fiscal sustainability at the national level. Therefore, the framework for funding to local governments has been structured with considerations to allow regions the discretion and responsibility to prioritize managing their finances in a

disciplined, efficient, productive, and accountable manner. As previously mentioned, the implementation of fiscal decentralization is regulated under Law No. 33 of 2004 on Financial Balance Between the Central Government and Local Governments, which is further complemented by Law No. 28 of 2009 on Regional Taxes and Levies, placing Transfer Funds to Local Governments (TKD), regional debt financing, and local tax collection authority on a proportional basis in the implementation of regional autonomy. These two laws were subsequently amended by Law No. 1 of 2022 on Financial Relations Between the Central Government and Local Governments.

In the author's view, the standardized format for the central-local government relationship can be seen in the communication patterns related to the design of decentralization being developed. As emphasized in the section on national fiscal policy synergy in Law No. 1 of 2022 on Financial Relations Between the Central Government and Local Governments, communication and understanding at each level of local government regarding the fiscal policies being implemented have become urgent to comprehend. One such implementation scheme is through providing digital channels for communication, as mentioned in Article 178 of the HKPD Law, which states that the Government shall develop a regional development information system, regional financial management, and other information through digital platforms interconnected with the national fiscal policy consolidation information system to monitor the implementation of TKD and the execution of APBD. The urgency of communication in policymaking is also theoretically affirmed by George C. Edwards, who later formulated four key factors as essential prerequisites to assess and study policy implementation.³² These four factors are as follows: Communication; Resources; Disposition; Bureaucratic structure.

Chart. Implementation of Public Policy, According to George C. Edwards III



Through the above view, it is clear that communication plays an important role in the

³² Edward, Edwards III, and George C, *Implementing Public Policy* (United States of America: Congressional Quarterly Inc, 1980).

central-local government relationship format. It is used to synchronize the governmental apparatus (ministries, agencies, and local governments) in providing substantive data for priority programs, planning coordination, preparation, and implementation. Fiscal equalization programs are practiced by many countries worldwide, both federal and unitary states. This approach is aimed at addressing fiscal disparities among regions at the same level. For example, in federal countries, there are fiscal equalization programs between states and programs between regions within each state. The same applies to unitary states. This program can be considered an effort to place regions in the same fiscal position to carry out their tasks. Fiscal equalization programs are carried out in various ways based on certain principles and objectives that the country seeks to achieve.

In Canada, for instance, the goal of the federal government is to empower each province to provide public services at a relatively similar level to all its citizens, with the imposition of relatively similar tax rates.³³ Similarly, in Australia, the declared goal is to correct fiscal imbalances between regions (horizontal fiscal imbalance), meaning the inability of states to provide services to their populations at a certain national standard at relatively equal tax rates. The fiscal equalization policy in Japan aims to equalize the fiscal capacity of local governments so they can meet basic fiscal needs and achieve uniform local service levels. The program in Japan focuses on equalizing fiscal capacity between local governments, while in Canada and Australia, the focus is on fiscal equalization between states/provinces, whereas fiscal equalization between regions within a state is the responsibility of each state.³⁴

Political economy related to fiscal matters in federal countries highlights the importance of legal design concerning central-local financial relations. As seen in the experience of federal countries, as exemplified above, the legal design of fiscal policies that ideally reflect central-local financial relations in the context of "equalization" is minimal. Several key legal designs to note include: the legal basis of the intergovernmental transfer system; procedures for establishing and modifying intergovernmental transfers; conditional and unconditional transfers; and dispute resolution and adjudication.³⁵

³³ Russell Matthews, *Fiscal Equalisation: Political, Social and Economic Linchpin of Federation (Federalism Research Centre)* (Canberra: Australian National University, 1994). See also Robin Boadway and Andwar Shah, *Public Sector Governance and Accountability Series: Intergovernmental Fiscal Transfer Principle and Practice* (Washington D.C: The World Bank, 2007).

³⁴ Teresa Ter-Minassian and Dubravko Mihaljek, *Fiscal Federalism in Theory and Practice*, 12 Japan, (International Monetary Fund, 10 Sep. 1997, 1997).

<https://www.elibrary.imf.org/view/book/9781557756633/9781557756633.xml>

<https://www.elibrary.imf.org/view/book/9781557756633/ch012.xml>. See also Ichiro Aoki, "Decentralization and Intergovernmental Finance in Japan," (01/01 2008).

³⁵ Keempat prinsip telah disesuaikan juga dengan kondisi praktik penyelenggaraan di Negara Berkembang dengan sistem common law seperti India, Afrika Selatan serta negara maju dengan sistem civil law seperti Jerman dan

In a simple example, any form of central-local government relationship is beneficial as long as it strengthens local institutions, making them an essential instrument to continue building trust and solidarity that the existence of local governments is critical in achieving prosperity and welfare and ensuring national integration.³⁶ Therefore, the existing policy design at the central government level shows that the current policies generally enable and encourage local governments to meet the fiscal decentralization review criteria set by the central government. Policies that play a vital role in fulfilling the four pillars of fiscal decentralization are available and adequate, namely: delegation of expenditure responsibilities; allocation of revenue sources; design of intergovernmental transfers; and the use of loans.

4. Conclusion

The first cornerstone for the founding fathers in choosing the design of the central-local government relationship was the Proclamation. In its implementation, the relationship scheme chosen took the form of Fiscal Decentralization, which has always experienced "Spanning Interest," ultimately leading to a point of convergence known as "Conditio Sine Qua Non," due to ecological and conditional factors. Therefore, examining how the ideal relationship format between the Central and Local governments evolves is flexible, as long as it addresses fiscal disparities among regions and considers several legal bases, including: the legal basis of the intergovernmental transfer system, procedures for establishing and modifying intergovernmental transfers, conditional and unconditional transfers, and dispute resolution and adjudication.

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³⁶ Hj. Sedarmayanti, *Desentralisasi dan Tuntutan Kelambagaan Daerah* (Bandung: Humaniora, 2005).

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