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## Regional Autonomy in Order To Realize Implementation of Good Local Government

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### ABSTRACT

*This study examines the impact of decentralization on economic growth in Indonesia, which began after the 1998 reform. The shift from a centralized to a decentralized governance system is regulated through various laws, including Law No. 22 of 1999, which was later amended. The objective of this research is to explore how regional autonomy can simplify investment procedures and maximize regional potential for the welfare of the people. The method used is a qualitative approach with comparative descriptive analysis. The results show that decentralization affects not only the relationship between different levels of government but also between the state and its citizens. Factors such as savings, investment, and demographics influence economic growth, supported by the capacity of local governments and appropriate policies. Fiscal decentralization can support economic growth if implemented well, with innovation being key to more effective and sustainable resource management. Collaboration between the government, society, and the private sector is essential to achieve these goals.*

*Keyword: : Regional Autonomy, Decentralization, Economic Growth*

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## 1. INTRODUCTION

In line with the spirit of reform in 1998, local governance in Indonesia has undergone a change from centralization to decentralization. This change can be seen from the division of authority based on residue and the placement of regional autonomy at the district or city level. This is strictly implemented in Law No. 22 of 1999, which was later amended in Law No. 32 of 2004, Law No. 23 of 2014, and Law No. 9 of 2015. Various authorities previously owned by the central and provincial

governments are transferred to district or city governments. The goal is to strengthen regional autonomy at the district or city level in order to improve participatory democracy and government efficiency. With this authority, districts or cities can determine development priorities according to their respective potentials.

The practice of governance in a country shows that centralization and decentralization are a sustainable spectrum. No country fully implements centralization in its government administration, nor does decentralization. The balance point between these two approaches can be evaluated in several aspects, such as the division of authority, central government intervention at the local level, regional involvement in decision-making at the national level, and the distribution of financial resources (Nuradhawati, 2019).

Decentralization is becoming increasingly important along with the increasing complexity of problems faced by local communities (Saragih, 2014). Globalization, climate change, population migration, and complex socio-economic issues have increased the demands of local governments to provide efficient, sustainable, and future-oriented services (Hermawanto & Anggraini, 2020). In this context, innovation is key to meeting these challenges and ensuring that local governments can better meet the expectations of the community. All regions in Indonesia already have their own regulations that include governance, such as taxation and regional revenue, the application of regional innovations such as tourism, and the use of technology in public services (Azis, 2021).

According to the World Bank, fiscal decentralization has a diverse impact on economic growth through three main mechanisms. First, fiscal decentralization is considered to be able to increase economic efficiency in government spending, which can then encourage economic growth through its dynamic effect. This argument shows a positive relationship between fiscal decentralization and economic growth. Second, decentralization can also cause macroeconomic instability that can interfere with economic growth. Thus, there is a potential negative relationship between fiscal decentralization and economic growth through this mechanism. Third, the impact of fiscal decentralization on economic growth can vary depending on the context and its implementation at the local or regional level. This shows that the influence of fiscal decentralization on economic growth is not uniform and can depend on various other factors. In its conclusion, the World Bank highlights the importance of considering the complexity and variation of the impact of fiscal decentralization on economic growth before making relevant policies (Saputra, 2013).

According to Thanh and Canh (2020) note that although the impact of decentralization growth is still controversial, their analysis supports a second-generation view of fiscal decentralization that focuses on market preservation,

development, and governance structures (Thanh & Canh, 2020). However, market structure and governance can be a very important factor in determining the success of fiscal decentralization. This is reinforced by Jin & Rider (2020), which found that in the case of China and India, limited growth occurred as a result of decentralization, as both countries did not follow the ideal norm of decentralization (Jin & Rider, 2020).

The importance of innovation in the context of decentralization is also related to efforts to build a sustainable local government model. Innovation has helped local governments become more effective in managing resources, reducing negative impacts on the environment, and improving the quality of life of citizens. Innovation to solve problems cannot be done by the government alone, but requires collaboration between various stakeholders both from within and outside the organization (society, the private sector, and data developers). Therefore, the collaborative innovation model aims to solve the problems faced by local governments and their communities. This innovation is carried out to overcome poverty (Rosika et al., 2023).

Various Regional Regulations that previously had to be approved by the central government can now be determined independently by regional heads. The same applies to various investment licensing, where regions can establish and grant permits without approval from the central government. With regional autonomy, it is hoped that the investment procedure will be easier so that the potential of the region can be optimally utilized for the welfare of the people.

## **2. LITERATURE REVIEW**

Research conducted Supeno & Ansari (2022) the era of decentralization encourages economic growth, both in terms of revenue and expenditure, so that it has increased compared to before the era of decentralization (Supeno & Ansari, 2022). However, the influence of fiscal decentralization is much greater through the expenditure side than the regional revenue side. This research method uses library research. Meanwhile, data analysis is descriptive analytical, so the research analysis is carried out qualitatively on both secondary and primary data. The results of the study show that fiscal decentralization has a negative influence on economic growth, which means that the higher the fiscal decentralization, the lower the economic growth.

This study examines the relationship between average city size, fiscal decentralization containing economic growth indicators, average city size, fiscal decentralization indicators in 33 OBCD member countries from 1975 to 2015 in a five-year interval, for analysis. The findings of this study found that i) countries with larger average city sizes had higher economic growth, i) countries with greater

fiscal decentralization larger weighted average size with greater decentralization had lower economic growth rates (Clifford et al., 2023).

### **Research Design**

This research method, which is qualitative with comparative descriptive analysis, reflects analytical, meticulous, and objective nature and characteristics. This research requires the ability to understand the context in depth, systematically compare various conditions, and produce relevant conclusions. Traits such as curiosity, openness to data, and the ability to think critically and reflectively are indispensable for the success of this method.

### **Participants/Sample Selection and Data Sources**

This research involves participants relevant to the implementation of regional autonomy such as executive and legislative members, state civil servants (SCS) who are in charge of implementing autonomy policies, community leaders and citizens who are active in public supervision or participation, academics or experts who understand the context of regional autonomy and good governance. The type of data is in the form of policy documents, official government reports, scientific articles.

### **Data Collection**

The data collection process is carried out through secondary data related to decentralization and local government innovation, obtained from the official website. The discussion and preparation of the research was carried out with a literature study approach using literature from relevant scientific journals and online information.

### **Data Analysis**

This research uses source triangulation, which is verifying data by comparing information from various sources, such as official documents, academic literature, and data from official websites.

## **3. METHOD**

This study uses a qualitative method with comparative descriptive analysis, which compares similar conditions. The data collection process is carried out through secondary data related to decentralization and local government innovation, obtained from the official website. The discussion and preparation of the research was carried out with a literature study approach using literature from relevant scientific journals and online information. According to Miles and Huberman (1992), data analysis is carried out in three stages: data reduction, data presentation, and drawn conclusions (Miles & Huberman, 1992).

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#### 4. RESULT AND DISCUSSION

Decentralization is not only about regulating the relationship between different levels of government, but also includes the relationship between the state and its people. The policy of decentralization is not only the responsibility of the central or regional government, but also the responsibility of the community as the party who has the main right to the implementation of life.

Decentralization is basically the handover of government affairs from the central government to autonomous regions based on the Principle of Autonomy (Article 1 number 8 of Law Number 23 of 2014 concerning Regional Government). The main goal of the decentralization policy is to free the central government from unnecessary burdens in handling domestic affairs, so that it can focus more on studying, understanding, and responding to various local trends and benefiting from the situation. It is hoped that the central government can concentrate more on the formulation of strategic national macro policies. Experiencing a significant empowerment process in the region. Regional initiatives and capabilities in addressing domestic issues will increase, strengthening its capacity.

In this context, regional heads must be able to manage the authority received effectively and efficiently for the development and empowerment of local communities. This view is the most appropriate to explain the relationship between regional heads and regional autonomy (J. Kaloh, 2003). However, the implementation of regional autonomy still faces two main problems: First, the procurement of sources of funds that are considered to be beyond the ability of the regions to implement them. Second, the readiness of regional apparatus in the implementation of autonomy which is considered inadequate (Gafar, 2022).

Local regulations that were canceled because they were considered a source of problems. This is because regional regulations are considered problematic both in terms of procedures and substance. This problem is often associated with the lack of competent and expert human resources in formulating regional regulations. This has become a hot topic in national discussions. The problem is, on the one hand, the regions need to form a regulatory apparatus to carry out the task of regional autonomy and assistance in accordance with the constitution and the direction of the central government. However, on the other hand, the regions are hampered because they have to conduct research first to ensure that the resulting regulations can be scientifically accounted for and meet the legal needs of the community. The results of this research were then used as the basis for the formulation of the Draft Regional Regulation (Draft Regional Regulation) Article 1 number 11 of Law Number 12 of 2011 concerning the Formation of Laws and Regulations as a solution to existing problems. It is common knowledge that many local regulations are not preceded by research, although they end up suddenly having an academic manuscript.

Public involvement in every public policy-making process is important as a reflection of the principles of democracy in a country. This becomes very relevant when community participation is one of the principles that must be carried out by the government in an effort to realize good governance. This principle of participation is applied through public services, where the government is responsive to public input and aspirations considered in accordance with the view to improve public services. In this context, people are not only seen as customers (customers) but also as citizens who have the right to prosper in their country.

The term good governance began to be widely known after the reform era took place. Good governance is the best practice in the process of applying state power. In order for good governance to become a reality and run as it should, the commitment and involvement of all parties, namely the government and the community, is needed. Good and effective governance requires good coordination, integrity, professionalism, as well as a high work ethic and morale. The principles of good governance include: the principle of legal certainty, the principle of proportionality, the principle of professionalism, and the principle of accountability (Rohmah, 2023). While the Principles the implementation of local government as regulated in Law Number 23 of 2014 article 58 which consists of: The principle of legal certainty, the principle of orderly state administration, the principle of public interest, the principle of openness, the principle of proportionality, the principle of professionalism, the principle of accountability, the principle of efficiency, the principle of effectiveness and the principle of justice (Algiffary et al., 2020).

The research of Jarvenpa and Essén (2023) emphasizes the importance of data sustainability in data infrastructures aimed at long-term knowledge discovery (Jarvenpaa & Essén, 2023). Data sustainability refers to the ability of data to survive through different generations of technology and people, addressing problems in the data governance literature from a temporal perspective. The move from an organizational environment to a more complex inter-organizational environment highlights the gap between normative data governance models and organizational practices. The sustainability of data across generations of technology and people needs to navigate complementary and competing temporal demands: data must be able to transition between socio-technical regimes over time, remaining embedded in social and material networks to remain meaningful. Historical and current data must also remain available and accessible in both the short and long term, to enable trace ability and identification of new data linkages and combinations. We argue that data sustainability is critical to ensuring progress in social and environmental sustainability. This perspective on data sustainability offers insights into sustainability challenges seen from an individual's perspective, as well as when one perspective influences another.

The analysis showed several important findings related to the relationship between average city size, decentralization of local tax revenues, and national economic growth, firstly the weighted average size coefficient of cities is positive and significant, showing that countries with larger average city sizes have higher GDP per capita growth rates. This shows that the larger the average size of a city in a country, the faster the rate of economic growth, supporting the first hypothesis of this study, both the decentralization of regional tax revenues also has a positive and significant relationship with national economic growth. This confirms that countries with higher levels of decentralization tend to have higher rates of economic growth, in accordance with the second hypothesis of this study, when the coefficient of interaction between the average size of cities and fiscal decentralization on incomes is negative and significant. These findings support the third hypothesis that countries with larger average city sizes and higher levels of decentralization have lower national economic growth. The study shows that larger urban agglomerations can provide economic benefits but are likely to face challenges in managing large cities in a more decentralized system. These findings are consistent with previous research linking economic growth to strong urban agglomeration (Clifford et al., 2023).

The success of China's progressive reforms began with the transfer of excess labor, which focused on how high savings, high investment, demographic dividends, industrialization, urbanization, and other factors together achieved China's rapid economic growth over the past 40 years. The logic of the analysis is as follows: the above factors work synergistically and timely to provide a positive boost to China's economic growth. First, increasing the savings rate is considered an important condition and a necessary foundation. This increase was driven by the explosive expansion of the financial system at the beginning of the reforms, as well as the establishment of positive incentives for the community, companies and governments at all levels. The expansion of the financial system and the establishment of positive incentives are the implementation of China's progressive reform policy. Thus, the success of China's progressive reforms can be seen in how various economic and policy factors have supported each other to achieve impressive economic growth over the past four decades (Li, 2019).

Fiscal decentralization is expected to accelerate public services, develop regional potential, improve the economy and people's welfare. However, this situation does not apply in every province in Indonesia. The situation in Papua and West Papua Provinces with above-average capital expenditure and a high economic growth rate, but regional development indicators are still far from national development indicators (Fitriana & Agustina, 2019).

Decentralization is not only about regulating the relationship between different levels of government, but also includes the relationship between the state

and its people. Decentralization policy is not only the responsibility of the central or regional government, but also the responsibility of the community as the party that has the main rights in the implementation of local life. The role of decentralization in the consolidation of democracy comes from the existence of a democratic process that motivates local governments to answer the aspirations and needs of their constituents. One of the reasons for the implementation of decentralization is the belief that democratic institutions will better understand and respond to the aspirations of local communities. Due to the close distance between the institution and the local community, they have better access to information and can be more effective in meeting the needs and desires of the community.

## 5. CONCLUSION

The impact of decentralization on economic growth is influenced by various factors such as labor, savings, investment, demographic dividends, industrialization, urbanization, and the sustainability of data infrastructure. All these factors collectively contribute to achieving stable economic growth. Additionally, the capacity of local governments, national coordination, and effective policy planning are also crucial determinants. Fiscal decentralization has the potential to support economic growth if implemented correctly, considering the aspects that affect regional economic performance. The application of innovation in the context of decentralization and the development of a sustainable local government model also plays a crucial role, as these innovations help local governments become more efficient in managing resources, reducing negative environmental impacts, and improving citizens' quality of life.

In conclusion, decentralization can support economic growth if implemented while considering factors that influence regional economic performance and involving collaboration between various stakeholders. Therefore, future research could focus more on the application of innovative models for sustainable local governance and further analyze the role of collaboration between the public and private sectors in promoting local economic growth. Further studies are also needed to assess the effectiveness of fiscal decentralization policies in different regions to identify the most influential factors for the success of decentralization in achieving optimal economic goals.

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