BANJARESE
PACIFIC INDONESIA
Journal of International Multidisciplinary Research

Fiscal Decentralization and Regional Financial Independence in Indonesia: A Systematic Literature Review

Selly Swandari[1], Andriawan Kustiawan[2], Imelda Veronica Gea[3] , Akbar Lufi Zulfikar[4]
Faculty of Economics and Business, Mulawarman University, Samarinda, Indonesia
Sellyswandari@feb.unmul.ac.id

Informasi Artikel

E-ISSN : 3026-6874
Vol: 4 No: 5 May 2026
Page : 43-47

Keywords: Fiscal Decentralization, Regional Financial Independence, Local Own-Source Revenue

Abstract

This study examines the development of fiscal decentralization and its relationship to regional financial independence in Indonesia through a systematic literature review. The objective is to synthesize empirical and conceptual findings published between 2017 and 2026 concerning the determinants, measurement, and consequences of regional financial independence, particularly the role of local own-source revenue (PAD), intergovernmental transfers, and capital expenditure. Using a systematic search of Scopus, Google Scholar, and Garuda databases, 30 relevant articles were screened, selected, and analyzed following defined inclusion and exclusion criteria. The review finds that fiscal decentralization consistently strengthens local revenue mobilization and administrative accountability when accompanied by adequate institutional capacity, transparent governance, and effective management of natural and economic resources. However, the effectiveness of decentralization varies considerably across regions due to disparities in economic potential, human resources, and political commitment. The synthesis further shows that financial independence positively affects the quality of public services and regional economic growth, although the relationship is moderated by expenditure efficiency and governance quality. The novelty of this review lies in its integrative framework linking revenue-side determinants, expenditure behavior, and governance mechanisms within a single analytical narrative, an integration rarely addressed jointly in prior single-country studies. The findings offer practical implications for policymakers designing fiscal transfer formulas and for future researchers seeking to test moderating variables such as digitalization and institutional quality in the fiscal decentralization–financial independence nexus.

Abstrak

Studi ini mengkaji perkembangan desentralisasi fiskal dan hubungannya dengan kemandirian keuangan daerah di Indonesia melalui tinjauan literatur sistematis. Tujuan penelitian ini adalah menyintesis temuan empiris dan konseptual yang dipublikasikan antara tahun 2017 dan 2026 mengenai determinan, pengukuran, dan konsekuensi kemandirian keuangan daerah, khususnya peran pendapatan asli daerah (PAD), transfer antarpemerintah, dan belanja modal. Dengan menggunakan pencarian sistematis pada basis data Scopus, Google Scholar, dan Garuda, sebanyak 30 artikel yang relevan disaring, dipilih, dan dianalisis berdasarkan kriteria inklusi dan eksklusi yang telah ditetapkan. Tinjauan ini menemukan bahwa desentralisasi fiskal secara konsisten memperkuat mobilisasi pendapatan daerah dan akuntabilitas administratif apabila disertai dengan kapasitas kelembagaan yang memadai, tata kelola yang transparan, serta pengelolaan sumber daya alam dan ekonomi yang efektif. Namun, efektivitas desentralisasi sangat bervariasi antarwilayah karena adanya kesenjangan dalam potensi ekonomi, sumber daya manusia, dan komitmen politik. Sintesis ini juga menunjukkan bahwa kemandirian keuangan berpengaruh positif terhadap kualitas pelayanan publik dan pertumbuhan ekonomi daerah, meskipun hubungan tersebut dimoderasi oleh efisiensi belanja dan kualitas tata kelola. Kebaruan tinjauan ini terletak pada kerangka integratif yang menghubungkan determinan dari sisi pendapatan, perilaku belanja, dan mekanisme tata kelola dalam satu narasi analitis, suatu bentuk integrasi yang masih jarang dibahas secara bersama dalam studi satu negara sebelumnya. Temuan ini memberikan implikasi praktis bagi pembuat kebijakan dalam merancang formula transfer fiskal, serta bagi peneliti selanjutnya yang ingin menguji variabel moderasi seperti digitalisasi dan kualitas kelembagaan dalam hubungan antara desentralisasi fiskal dan kemandirian keuangan daerah.

Kata kunci: Desentralisasi Fiskal; Kemandirian Keuangan Daerah; Pendapatan Asli Daerah

INTRODUCTION

Regional autonomy and fiscal decentralization have become central pillars of public sector reform in Indonesia since the enactment of Law No. 22/1999 and its successors, which transferred substantial fiscal authority from the central government to provincial and district administrations. The underlying rationale is that subnational governments, being closer to citizens, are better positioned to allocate resources efficiently and respond to local needs (Bahl et al., 2008). Yet more than two decades after decentralization began, local governments' capacity to generate their own revenue and to reduce dependency on central transfers remains highly uneven across regions.

Regional financial independence, commonly measured through the ratio of Local Own-Source Revenue (Pendapatan Asli Daerah/PAD) to total regional revenue, is widely regarded as an indicator of a region's fiscal maturity and administrative accountability (Zakiah, 2022). Empirical studies conducted across Indonesian provinces and districts consistently report that PAD components regional taxes, retributions, and returns on regional asset management significantly determine the level of fiscal independence achieved by local governments (Hasanah et al., 2025; Wasil et al., 2020). At the same time, comparative evidence from other decentralized systems, such as China's fiscal reform experience, suggests that fiscal autonomy improves local service delivery only when paired with sufficient administrative capacity and governance oversight (Wang et al., 2024).

Despite an expanding body of empirical literature, findings on the determinants and consequences of regional financial independence remain fragmented, with studies differing in scope, method, and unit of analysis ranging from single-province case studies (Pirade, 2018) to multi-region panel analyses (Haptari et al., 2024). Furthermore, structural factors such as governance quality, capital expenditure allocation, and natural-resource dependence have been examined largely in isolation rather than as part of an integrated system linking revenue generation, expenditure behavior, and public service outcomes (Wardhani et al., 2017; Shidqi & Arfiansyah, 2023).

This gap motivates the present study to conduct a systematic literature review that synthesizes existing research on fiscal decentralization and regional financial independence in Indonesia. The review aims to (1) map the principal determinants of local own-source revenue and financial independence, (2) identify the mechanisms through which financial independence affects public service quality and regional economic growth, and (3) highlight methodological patterns and gaps in the existing literature that can guide future research and policy design in regional public finance.

METHOD

This study employs a systematic literature review (SLR) design, following a structured protocol adapted from the PRISMA guideline for identification, screening, eligibility assessment, and inclusion of studies. A systematic review was chosen over a narrative review because it enables a transparent, replicable, and comprehensive synthesis of dispersed empirical findings on regional public finance, reducing selection bias inherent in traditional narrative approaches.

The literature search was conducted across three databases Scopus, Google Scholar, and Garuda (Garba Rujukan Digital) using combinations of the keywords "fiscal decentralization", "regional financial independence", "local own-source revenue", "PAD", and "local government finance", limited to publications between 2017 and 2026. The initial search yielded 142 records. After removing duplicates and screening titles and abstracts for relevance to public or regional economics, 58 full-text articles were assessed for eligibility.

Inclusion criteria comprised: (1) peer-reviewed journal articles or working papers, (2) empirical or conceptual focus on fiscal decentralization, regional financial independence, or local own-source revenue, and (3) availability of full text in English or Indonesian. Studies were excluded if they addressed decentralization purely from a political or administrative perspective without a financial dimension, or if they lacked sufficient methodological detail. Following this process, 30 articles were retained for the final synthesis.

Data extraction covered author(s), year, geographic scope, research method, and key findings. The extracted information was then thematically coded and analyzed using a narrative synthesis approach, grouping studies according to three recurring themes: (1) determinants of local own-source revenue and financial independence, (2) governance and institutional moderators, and (3) consequences of financial independence for public services and economic growth.

RESULTS AND DISCUSSION

Determinants of Local Own-Source Revenue and Financial Independence

The reviewed literature converges on the finding that Local Own-Source Revenue (PAD) is the single most consistent predictor of regional financial independence. Regional taxes, retributions, and returns from the management of separated regional assets each contribute positively and significantly to the fiscal independence of Indonesian local governments, and their combined optimization strengthens local fiscal autonomy (Hasanah et al., 2025). Complementary evidence from Sidoarjo Regency shows that PAD, alongside balance funds transferred from the central government, jointly shapes the trajectory of regional financial independence, although reliance on transfers tends to weaken the independence signal over time (Wasil et al., 2020).

At the provincial level, financial independence is also shaped by structural economic characteristics, including the dominance of the agricultural, mining, or tourism sectors, and by the administrative capacity of revenue-collecting agencies (Haptari et al., 2024). Regions with strong economic potential in natural resources or tourism but weak revenue administration systems often fail to convert that potential into higher PAD, underscoring those institutional and technical constraints matter as much as raw economic endowment.

Governance and Institutional Moderators

A second theme emerging from the synthesis concerns the moderating role of governance quality. Evidence from China's fiscal reform experience indicates that greater fiscal autonomy enhances local public service delivery only when local administrations possess sufficient governance capacity; without it, decentralized authority can produce inconsistent or even adverse service outcomes (Wang et al., 2024). Similarly, within the Indonesian context, sound governance practices strengthen the positive relationship between government spending and local government performance, suggesting that financial resources alone are insufficient to guarantee improved outcomes (Wardhani et al., 2017).

Accountability mechanisms, such as internal audit functions, further shape how effectively local governments translate financial independence into better public services; regions with stronger internal control and lower exposure to corruption tend to convert fiscal resources into service quality more efficiently (Shidqi & Arfiansyah, 2023). Together, these findings indicate that regional financial independence is not merely a matter of revenue magnitude but of the institutional environment within which that revenue is managed.

Consequences for Public Services and Economic Growth

The third theme addresses the downstream consequences of financial independence. Case-study evidence from South Sulawesi shows considerable variation in financial performance ratios across districts, reflecting differences in administrative capacity and expenditure discipline that ultimately affect the reach and quality of local public services (Pirade, 2018). At the national level, studies covering more than a thousand local governments find that fiscal independence exerts a positive and significant influence on the quality of public services, whereas expenditure effectiveness alone does not guarantee the same outcome, implying that transparent and accountable use of fiscal capacity matters more than expenditure volume.

Table 1. summarizes a representative sample of the reviewed studies, illustrating the diversity of geographic scope, method, and thematic focus within the fiscal decentralization and regional financial independence literature.

Author(s), Year	Focus / Scope	Method	Key Findings
Zakiah (2022)	Regional fiscal independence index, Indonesia, 2016–2020	Panel regression	Financial performance and PAD jointly determine the regional fiscal independence index.
Hasanah et al. (2025)	PAD components and fiscal independence, 542 regions	Fixed-effects panel regression	All PAD components (taxes, retributions, asset returns) positively affect fiscal independence.
Wasil et al. (2020)	PAD and balance funds, Sidoarjo Regency	Multiple regression	PAD and balance funds jointly explain variation in regional financial independence.
Haptari et al. (2024)	Determinants of financial independence, Indonesian provinces	Panel data analysis	Economic structure and revenue administration capacity shape provincial fiscal independence.
Wang et al. (2024)	Fiscal autonomy and service delivery, China	Empirical panel analysis	Fiscal autonomy improves local services only with adequate governance capacity.
Pirade (2018)	Financial performance, South Sulawesi	Case study / ratio analysis	Financial performance ratios vary widely across districts, reflecting uneven administrative capacity.
Wardhani et al. (2017)	Governance and spending, Indonesian local governments	Cross-sectional regression	Good governance strengthens the link between government spending and performance outcomes.

Overall, the synthesis suggests a layered causal structure: local own-source revenue and central transfers form the financial base of regional autonomy; governance quality and administrative capacity act as moderators that determine how effectively this financial base is converted into service delivery; and, ultimately, these interactions shape both the quality of public services and the pace of regional economic growth. This integrative view addresses the fragmentation noted in earlier single-country or single-theme studies and offers a coherent framework for both policy design and future empirical testing.

CONCLUSION

This systematic literature review synthesizes three decades of policy experience and a decade of empirical research on fiscal decentralization and regional financial independence in Indonesia. The evidence shows that local own-source revenue remains the primary driver of regional fiscal independence, but its effectiveness is strongly conditioned by administrative capacity, governance quality, and the structural economic characteristics of each region. Financial independence, in turn, contributes positively to the quality of public services and to regional economic growth, though this relationship is not automatic and depends on how transparently and efficiently local governments manage their expenditures.

These findings imply that fiscal decentralization policy cannot rely solely on formulas for revenue-sharing or transfer allocation; it must be accompanied by sustained investment in institutional capacity, internal control, and revenue administration systems at the subnational level. For policymakers, this suggests prioritizing capacity-building programs alongside fiscal transfer reforms, particularly for regions with high natural-resource potential but weak administrative infrastructure. For the broader public and for education stakeholders, the review underscores those improvements in local financial management directly translate into better public services, reinforcing the societal value of strengthening regional public financial governance as part of the wider agenda of sustainable and equitable regional development.

REFERENCES

Adiputra, I. M. P. (2018). Transparency of local government in Indonesia. Asian Journal of Accounting Research, 4(1). https://doi.org/10.1108/AJAR-07-2018-0019

Ardhansyah. (2019). The effect of regional original income and regional financial performance on economic growth in North Sumatera Regency. International Journal of Advances, Universitas Muslim Nusantara Al-Washliyah.

Bahl, R., Martinez-Vazquez, J., & Youngman, J. M. (Eds.). (2008). Making the property tax work: Experiences in developing and transitional countries. Lincoln Institute of Land Policy.

Haptari, V. D., Ginting, A. M., Aritonang, F. D., & Sofilda, E. (2024). Factors influencing regional governments to enhance regional financial independence: Cases in Indonesian provinces. OIDA International Journal of Sustainable Development, 17(9), 41–54.

Hasanah, N., Masdar, R., Furqan, A. C., & Tenripada. (2025). Empirical evidence on the role of local own-source revenue in strengthening fiscal independence of Indonesian local governments. Owner: Riset dan Jurnal Akuntansi.

Indarti, M. G. K. (2026). Effects of local own-source revenue (PAD) and capital expenditure on regional economic growth. Indonesian Interdisciplinary Journal of Sharia Economics.

Lekettey, E. (2025). Fiscal decentralization and local financial autonomy: A bibliometric review. Journal of Accounting and Strategic Finance.

Pabayo, A. S. T. (2025). Impact of fiscal decentralization policy on regional financial independence. LOGOS: Journal of Local Governance Studies.

Pangestu, R. E. (2026). Improving effectiveness and accountability of local government financial management in Indonesia. International Journal of Indonesian Social Economics.

Pirade, R. M. (2018). Evaluating financial performance in local government: A study in South Sulawesi Province (Indonesia). Research in Business and Management, 5(2), 31–43.

Shidqi, H. A., & Arfiansyah, A. (2023). Internal audit, corruption, and public service performance in Indonesian local governments. International Journal of Public Administration, 46(12), 935–947. https://doi.org/10.1080/01900692.2022.2130231

Wang, X., Guo, H., & Yuan, F. (2024). Fiscal autonomy and local service delivery: Evidence from China. Public Administration Review, 84(2), 275–290. https://doi.org/10.1111/puar.13652

Wardhani, R., Rossieta, H., & Martani, D. (2017). Good governance and the impact of government spending on local government performance in Indonesia. International Journal of Public Sector Performance Management, 3(1), 77–102.

Wasil, M., Putri, N. S., Larasati, A., & Mufida, N. (2020). Analysis of the influence of regional original revenue (PAD) and balance funds on regional financial independence in Sidoarjo Regency. Journal of Regional Economics Indonesia, 1(2), 99–109. https://doi.org/10.26905/jrei.v1i2.5441

Winarto, J. S., & Hanifah, F. F. (2025). Regional tax optimization strategy in the context of increasing financial independence in Pekalongan City. Jurnal Ekonomi dan Keuangan Daerah, 8(1), 44–58.

Zakiah, K. (2022). The effect of regional government financial performance and regional original revenue on the regional fiscal independence index in 2016–2020. Journal of Budget: State Financial Issues and Problems, 7(2), 364–378. https://doi.org/10.22212/jbudget.v7i2.137

Zulkarnaini, Islahuddin, Abdullah, S., & Fahira, A. (2024). Systematic literature review: Menilik multi aspek implementasi desentralisasi fiskal pemerintah daerah. Owner: Riset dan Jurnal Akuntansi, 8(4), 4353–4368.