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## **Fiscal Decentralization: A Comparative Study Between South Korea and Indonesia**

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*Received: July 7, 2023; In Revised: September 23, 2023; Accepted: November 14, 2023*

### **Abstract**

Fiscal, administrative and political devolution from the center to lower levels of government has been widely advocated in both developed and developing countries. Fiscal decentralization implies more informed and more specific public local policies. Because fiscal decentralization can lead to more efficient provision of services and public goods to citizens and promote a better match between local government policies and citizens' needs. This study aims to compare the development of fiscal decentralization in South Korea and Indonesia. In OECD countries, one of which is South Korea, local governments spend more on housing and community development, the environment, culture, recreation and education. Meanwhile in Indonesia, personnel expenditure has the largest portion compared to other types of expenditure. So that the use of regional funds is still not optimal for improving the quality of life of the community.

**Keywords:** Local Government, Fiscal Decentralization, Study Comparative, Indonesia, South Korea.

### **Introduction**

Over the past three decades, decentralization reforms have seen an unprecedented increase. Not only in developed countries but also developing countries have transitioned from centralization to decentralization (Canavire-Bacarreza et al., 2020). Many European countries have experienced a redistribution of authority between different levels of government, and international institutions have promoted decentralization in developing countries by making conditions for the expansion of financial aid. While the extent to which fiscal and political power is devolved from central to local governments varies, most countries have experienced some decentralization, especially in the last decade (Park, 2022).

This fiscal decentralization policy is related to the handover of fiscal authority, including local government revenues and expenditures. The implementation of this policy can encourage local and national economic growth. (Setiawan & Aritenang, 2019). Fiscal, administrative, and political devolution from the center to lower levels of government has been widely advocated in both developed and developing countries. (J. Park, 2022) For most countries, fiscal decentralization has become a means to improve the efficiency of government service delivery to achieve high economic growth. Fiscal decentralization systems can be more efficient in providing local public services, resulting in better social conditions and higher economic growth (Canavire-Bacarreza et al., 2020).

According to Park et al (2019), decentralization can also increase public financial inefficiencies in several ways. First, demand for public services may differ greatly among cities/districts, depending on demographic, cultural, geographical, and socioeconomic conditions, and failure to reflect subnational heterogeneity may increase inefficiencies in

public finances. Second, increased space for local governments in the market because local governments are better positioned than central governments to identify local needs and can respond directly to those needs. Third, increased tax options under a decentralized system can improve the efficiency of public resource allocation by reducing the issue of disclosure of preferences. Fourth, finally, a decentralized fiscal environment can reduce low budget constraints, thus encouraging local governments to be more active in generating revenue and more rational in conducting public spending. In addition, competition at the local level is increasing, triggering opportunities for innovation in programs in the public sector.

From a theoretical point of view, there are various reasons why fiscal decentralization can reduce inequalities between regions. Fiscal decentralization implies more informed and more specific public and local policies. Because fiscal decentralization can generate more efficient provision of public services and goods for residents and advance a better match between local government policies and citizens' needs; in addition, lower-level local governments can have more information about what their citizens need, and local governments can better tailor their local policies to local preferences (Moon, 2018).

Over the past two decades, fiscal decentralization has remained a gradual but noteworthy feature of the public sector. These budgetary and managerial tendencies maximize the flexibility of lower levels of government to respond more effectively to the needs of diverse local populations and to act better in ways consistent with the public interest. In turn, many developing countries in Asia (i.e., China, Malaysia, Indonesia, and South Korea) are also feeling pressure to improve the quality of their public services as they have decentralized their fiscal governance systems (Kim et al., 2022). Looking at the development of fiscal decentralization in several countries, this study aims to compare the effect of fiscal decentralization in South Korea and Indonesia.

## Methods

This research is qualitative research that uses a descriptive approach. Comparative study analysis method, where the analysis carried out compares data between the two objects analyzed, where in this study is the application of fiscal decentralization Nagara South Korea and the State of Indonesia. The study, conducted in 2023, uses literature studies. After being collected, research data is reduced, verified, and reviewed using source triangulation techniques. Source triangulation test, i.e., using various relevant data sources. Then the data is presented in a descriptive form and the form of narration.

## Decentralization in South Korea

Decentralization in South Korea began in the early 1960s when General Chung-Hee Park assumed leadership through a military coup; the South Korean government was highly centralistic. Rezin's authoritarian nature in Korea sought to put local government affairs under his control in pursuit of state-led industrialization. Under authoritarian regimes, regional legislatures were dissolved, and the central power revoked regional autonomy. While Chung-Hee Park's government failed after her assassination in 1979, the so-called "Decentralization Dark Ages" continued in South Korea until the late 1980s (Park, 2022).

Korea has a weak tradition of local autonomy, and public demand for decentralized public finance emerged as a reaction to an undemocratic political system. During its first two administrations (1948 – 1961), Korea had the first opportunity to introduce sweeping changes in the centralized administration system. In the 1950s, a series of local elections were

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conducted, and citizens directly had members of regional legislative councils, provincial governors, and municipal leaders (Park et al., 2019).

In the political and administrative context for decentralization in South Korea, there was a significant shift in the 1960s. In 1961, Korea's military leaders used the country's political turmoil to take over in a military coup, completely abolishing the country's system of local autonomy. All legislatures at the local level were dissolved, while regional autonomy in South Korea hibernated until 1988 or for 27 years. During this time, important political, administrative, and fiscal decisions at the local level are controlled by the central government through appointed representatives in local governments (Koo & Kim, 2018).

Korea began to revive the move towards local autonomy in 1987, when the authoritarian regime was replaced by a democratically elected government and a sixth republic was established. Reforming public institutions is critical to undermining Korea's authoritarian legacy, and a decentralized administrative system is seen to be in line with democratic values. After a series of legal amendments during the first two governments of the Republic (1988–1998), local elections for members of regional legislative councils and local government leaders were revived in 1991 and 1995, respectively. Time spent strengthening local fiscal capacity is an important part of devolution. Many local tax posts, including the county education tax and the county motor vehicle fuel tax, were newly created at various administrative levels, and some national tax posts, such as the tobacco consumption tax, were transferred to local taxes. Thanks to these fiscal reforms, the local government's share of total tax revenue increased to 23.3% at the end of Kim's administration (1998–2003) from 13.7% in 1988 (Park et al., 2019).

### **Fiscal Decentralization in South Korea**

Over the past 25 years, South Korea has slowly promoted decentralization by shifting authority and functions from central to local government. With this gradual trend, fiscal decentralization in South Korea has affected various areas, including the size of the government, economic growth, and trust in the government. Korea, in particular, is also helpful in understanding the consequences of fiscal decentralization in the Asian context, an area that has received less attention in empirical analysis (Park, 2022).

Current issues in decentralization and regional autonomy in South Korea Since the governments of Dae-Jung Kim in 1998–2003 and Moo-Hyun Rho in 2003–2008, more comprehensive decentralization plans such as the Central Authority Transfer Promotion Act of 1999 and the Special Law on the Promotion of Decentralization of 2004 have been enacted. The consequences of such decentralization reforms are integrated with broader administrative and fiscal reform efforts. These efforts are focused on fair relations between central and local governments in administrative and political terms. However, such decentralization efforts have faced critical obstacles as the current regional financial system is not in line with the recent trend of administrative decentralization (Koo & Kim, 2018).

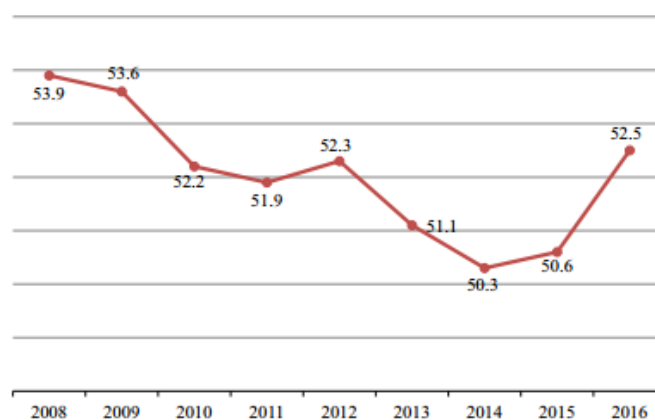
This is reflected in the division between national and local affairs. The central government handles the first, and local governments take the second. The ratio of comparison between national and local happenings is 8:2 in South Korea. Since Moo-Hyun Rho's reign, in which decentralization and regional autonomy became central to political discourse, the share of delegated regional affairs has increased significantly. In particular, many welfare programs were transferred from the central government to the regions without a proportionate transfer of financial resources during this period. However, fiscal decentralization needed to follow a substantial delegation of national affairs to local governments. Thus, this trend contributes to tensions between central and local governments. For example, some local

governments refuse to carry out delegated national affairs because they are supported by decentralized finance. In addition, this problem hinders the development of diverse regions with characteristics that can serve the needs of various citizens (Koo & Kim, 2018).

Local governments' financial independence level illustrates the administrative and financial decentralization gap. In 2016, the financial independence rate of local governments in South Korea barely exceeded 50 percent. Figure 1 below shows that South Korea's level of financial independence in the period 2008-2016 never returned to touch 53.9. We can even see that regional autonomy tends to decline from 2008 – 2014. This has implications for consistent fiscal imbalances between central and local governments. Therefore, debates on the issue of fiscal decentralization often occur, such as the transfer of fiscal resources to local governments. Some researchers even reveal that true decentralization cannot succeed if good fiscal decentralization is not implemented. Analyzing the context of fiscal decentralization in Korea must align with the context of administrative decentralization, which is one of the important conditions needed to understand better the problem of decentralization and local autonomy faced by Korea today.

Figure 1

Financial Independence in Korean Local Governments



Source: Koo & Kim (2018)

Three main reasons explain the difference between administrative and fiscal decentralization in South Korea. First, little room is available to expand the tax base in local taxes. As of 2016, local taxes accounted for only 22 percent of total tax revenue. The share of local taxes in South Korea is much lower than in other countries, such as Japan, where local taxes account for almost half the total revenue. However, local governments need the authority to expand their tax base, which rests with the central government's Ministry of Strategy and Finance. Because transfer payments from central to local governments are important for directing local government policy trends, central governments need more incentives to transfer the national tax base to the local level. Moreover, while the lion's share of national tax revenue consists of consumption and income taxes (91 percent), which can still grow according to economic conditions, local tax revenues are largely dependent on property taxes (46 percent), where they are less likely to increase compared to consumption and tax revenues. The regions' average proportion of income and consumption taxes is 20 and 33 percent, respectively. This implies that there may be a relatively low opportunity to increase local governments' total revenue. In addition, this condition also shows that local governments face weaknesses in overcoming regional problems (Koo & Kim, 2018).

Second, the deterioration of the local tax base due to various tax exemptions introduced by the central government has worsened fiscal decentralization and regional autonomy. The central government has the authority to exempt multiple local and national taxes. An example is the increased tax deductions for family members and property owners introduced in 2008. In addition, policy decisions on tax exemptions are politically motivated without serious consideration, given their effect on regional finances. For example, without consulting local governments, the revised National Tax Law of 2008 lowered property acquisition tax rates, which make up a significant share of local tax revenues. The seeming motivation for the tax cuts was a rapid recovery from the global financial crisis. But the figure never recovered, even after South Korea's economy was revitalized following the recession caused by the global financial crisis. So that the decision makes permanent work on the fiscal capabilities of local governments (Koo & Kim, 2018).

Third, increased spending on welfare programs at both the national and local levels have led to significant fiscal problems in decentralization. The current trend of welfare improvement places a very heavy burden on local finances, as many national welfare programs have been diverted to the local level without adequate financial support to make such programs sustainable. Decentralization of welfare programs is often supported because local governments are closer to residents and are believed to have better knowledge of the needs of their residents. The current picture of decentralization in South Korea needs to meet the economic and political reasons in favor of local autonomy. The lion's share of local finances relies on transfers from the central government. There needs to be more room for fiscal discretion for local governments. Local public services may need essential diversity to reflect unique local characteristics. This issue is also related to the failure of political accountability. Local governments will only meet local needs with considerable fiscal discretion, which can be achieved through further fiscal decentralization. For example, although most local governments in South Korea adopt citizen participation budgets to reflect the specific needs of locals, they account for only a small portion of the total budget. Citizen participation budgets in Seoul and Gyeonggi provinces are less than 1 percent of their unlimited budgets (Koo & Kim, 2018).

### **Korean Tax System**

The Korean tax system consists of national and local taxes. All domestic taxes in Korea are charged to every level of government. For example, national governments' main revenue sources are internal taxes, customs duties, and allocated taxes. Local taxes can be divided into provincial, municipal, and county taxes. Taxation for every level of government (Cho, 2018).

After implementing the local autonomy system in Korea, the share of national and local taxes is set at approximately 8:2. To deal with this low local tax ratio; local governments have demanded an increase in their share of local taxes as the high proportion of national taxes leads to low accountability of local government spending. One reason to argue for expanding local taxes is that the financial autonomy of local governments weakens when they rely on grants from the central government. In addition, large subsidies from the central government can cause moral hazard because local governments only provide a small portion of financial resources to support subsidized programs (Cho, 2018).

Before introducing the local consumption tax in 2011, Korea's local tax consisted mostly of property tax. Tax revenue growth needs to be stronger and more sensitive to the real estate market, leading to unstable local government tax revenue. The logic of the central finance department has stated that increasing local government taxes will deepen the fiscal gap among local governments. Therefore, the ratio of national and local taxes remains 8:2.

### Intergovernmental Grants

There are two main classes of intergovernmental grants, namely, conditional and unconditional. Conditional grants are grants that stipulate how grants should be spent, while unconditional grants, such as local profit-sharing taxes in Korea, impose no explicit requirements. Korea has various intergovernmental grants to deal with fiscal imbalances between local governments. The national government uses unconditional government grants, and local profit-sharing taxes, to address fiscal gaps between local governments. The central government distributes 19.24 percent of internal taxes to local governments as local revenue-sharing taxes. The national government also distributes conditional grants to achieve the national goal of providing public goods or at least national public services. Local profit-sharing tax is a better form of intergovernmental grant than conditional grants; high-level local governments provide unconditional grants for fiscal gap adjustment between low-level local governments (Cho, 2018).

Provincial-level governments also use unconditional grants, which are distributed based on population, the amount of taxes collected in a jurisdiction, and the fiscal capacity of low-level governments. Although high-level local governments provide conditional grants to low-level local governments, they are not an important source of revenue for low-level local governments because they are relatively small in number. We can say the same about unconditional grants from high-level local governments because some are small (Cho, 2018).

### Financial Relations of Central and Local Governments in Korea

Table I shows the budget distribution between Korea's central and local governments. The central government contributes about 55% of the total budget, while the local government accounts for 35% of the budget, and the budget of the local education board reaches 10% (Cho, 2018).

Table 1  
 Central and Local Government Budget Allocation in Korea 2004 - 2017

Year	National government budget		Local governments budget		Local boards of education budget		Total
2004	1,594,343	57.8%	872,840	31.7%	290,578	10.5%	2,757,761
2005	1,673,186	57.6%	923,673	31.8%	306,370	10.6%	2,903,229
2006	1,753,882	57.0%	1,013,522	32.9%	311,484	10.1%	3,078,888
2007	1,767,561	54.8%	1,119,864	34.7%	336,309	10.4%	3,223,734
2008	1,951,003	54.5%	1,249,666	34.9%	378,524	10.6%	3,579,193
2009	2,174,723	55.1%	1,375,349	34.8%	400,030	10.1%	3,950,102
2010	2,259,413	55.5%	1,398,565	34.4%	410,954	10.1%	4,068,932
2011	2,355,574	56.0%	1,410,393	33.5%	439,214	10.4%	4,205,181
2012	2,486,125	55.6%	1,510,950	33.8%	477,034	10.7%	4,474,109
2013	2,636,038	55.9%	1,568,887	33.2%	514,496	10.9%	4,719,421
2014	2,746,673	55.9%	1,635,793	33.3%	529,028	10.8%	4,911,494
2015	2,862,938	55.7%	1,732,590	33.7%	543,341	10.6%	5,138,869
2016	2,957,207	55.1%	1,845,825	34.4%	561,349	10.5%	5,364,381
2017	3,031,432	54.6%	1,931,532	34.8%	590,660	10.6%	5,553,624

Source: Cho (2018)

Table 2  
Total Actual Expenditure Between Central and Local Governments in Korea

Year	National government budget		Local governments budget		Local boards of education budget		Total
2004	1,059,118	48.4%	826,354	37.7%	304,518	13.9%	2,189,990
2005	1,085,522	47.2%	888,928	38.6%	327,642	14.2%	2,302,092
2006	1,111,272	46.1%	976,066	40.5%	324,699	13.5%	2,412,037
2007	1,048,450	42.3%	1,080,497	43.6%	350,831	14.1%	2,479,778
2008	1,105,467	40.3%	1,235,229	45.1%	399,919	14.6%	2,740,615
2009	1,327,124	42.9%	1,339,061	43.3%	427,326	13.8%	3,093,511
2010	1,362,357	43.7%	1,335,584	42.8%	421,205	13.5%	3,119,146
2011	1,373,856	42.8%	1,364,800	42.5%	473,857	14.8%	3,212,513
2012	1,460,915	42.8%	1,440,069	42.2%	509,792	14.9%	3,410,776
2013	1,525,707	42.6%	1,509,228	42.1%	549,625	15.3%	3,584,560
2014	1,579,905	42.3%	1,600,229	42.8%	558,879	14.9%	3,739,013
2015	1,669,023	42.5%	1,694,587	43.2%	563,503	14.3%	3,927,113
2016	1,722,733	41.9%	1,808,523	44.0%	582,628	14.2%	4,113,884
2017	1,691,075	40.0%	1,907,660	45.1%	629,893	14.9%	4,228,628

Source: Cho (2018)

Table 2 shows the realities of the budget. Central government expenditure reaches 40% of total expenditure, while local government expenditure is 45% of the total budget, and 15% is for regional education. The budget and expenditure amounts differ because the central government subsidizes local governments and regional education boards.

### Korea's Fiscal Decentralization in the Middle of OECD Countries

The World Bank has developed one of the decentralization indicators in the section on national taxes against local taxes to examine how Korea's fiscal decentralization compares to OECD countries. In 2001, the World Bank used the IMF's government finance statistics (GFS) to publish a decentralized fiscal index of 46 countries. One indicator of decentralization is the ratio of local government expenditure minus transfers to other governments to all government expenditure minus transfers to other governments. Table 3 below shows that many countries have lower indicators than Korea and that Korea's fiscal decentralization rate is still better than the average OECD country

Table 3  
Local Expenditure in Several OECD's Countries

Countries	2010 (%)	2011 (%)	2012 (%)	2013 (%)	2014 (%)	2015 (%)
Australia	38.1	37.9	38.3	37.6	37.8	
Austria	34.2	33.7	33.6	34.2	33.3	34.1
Belgium	43.7	43.1	42.7	43.4	43.4	49.1
Czech Republic	27.5	28.2	25.6	26.9	27.6	27.2
Denmark	45.9	45.6	45.0	45.9	45.9	45.9
Estonia	22.1	22.5	22.4	23.5	21.9	21.3
Finland	44.2	45.0	45.4	45.4	45.5	45.1
France	31.3	33.0	33.4	34.1	33.8	33.2
Germany	56.6	59.1	59.6	60.9	61.9	62.1
Greece	8.8	7.0	7.2	6.4	7.9	7.4
Hungary	27.4	25.2	21.6	16.8	17.9	18.6
Ireland	7.9	9.7	9.7	8.8	7.5	7.3
Israel	13.1	13.2	13.3	13.7	13.7	13.8
Italy	35.1	34.4	33.7	33.9	33.2	32.9
Japan	46.7	45.4	46.0	45.7	46.6	46.8
Korea	41.8	38.7	39.0	40.5	40.8	40.8
Latvia	31.1	32.4	31.6	32.6	30.7	29.2
Lithuania	28.4	25.3	28.2	25.8	25.7	24.6
Luxembourg	14.0	14.1	13.3	13.7	13.7	13.1
The Netherlands	35.3	36.0	35.5	35.4	34.3	34.8
Norway	29.5	29.3	29.5	29.7	29.3	28.8
Poland	35.2	35.0	34.8	35.3	36.9	35.8
Portugal	16.0	15.5	14.7	15.0	13.1	13.9
Slovak Republic	20.9	19.9	19.3	19.6	20.1	20.1
Slovenia	24.2	22.4	24.0	18.7	23.1	22.2
Spain	54.3	55.2	48.5	49.2	50.2	51.6
Sweden	43.8	44.6	45.0	45.0	45.2	45.7
UK	23.0	22.7	22.9	21.8	21.4	21.7
USA	42.7	42.7	43.3	44.1	44.1	44.6

Source: Cho (2018)



When we compare the proportion of local government expenditure to gross government expenditure to the proportion of local government revenue to total government revenue, OECD member countries and Korea, on average, decentralize the expenditure side more than the revenue side. In OECD member countries, decentralization generally continues to grow, but in some countries, fiscal budgets have been centralized, and vertical fiscal inequality has deepened.

Between 2000 and 2012, in OECD countries, local governments spent more on housing and community development, environment, culture, recreation, and education. In the same period, spending on education was fiscally decentralized, while local government spending in economic areas such as transportation increased rapidly. On the other hand, the central government is becoming more responsible for the medical sector (Cho, 2018).

In OECD member countries, about 42 percent of revenue comes from local taxes, 44 percent from intergovernmental transfers, and 14 percent from non-tax revenue. While local taxes in financially centralized countries rely heavily on real estate taxes, those countries have instead increased the weight of taxes related to income and consumption due to the difficulty of raising such taxes. More financially decentralized countries rely on income and consumption taxes due to the problem of growing real estate taxable standards, declining manufacturing, and the negative economic effects of property tax increases. In OECD member countries, there has been an increase in consumption-related taxes in the form of income-related taxes and tax sharing (Cho, 2018).

### **Fiscal Decentralization in Indonesia**

Indonesia began a period of regional autonomy since the enactment of Law No. 5 of 1974 concerning the Principles of Regional Government, which has replaced Law No. 18 of 1965 concerning the Principles of Regional Government. Law No. 5 of 1974, in its application, began to recognize Regional Governments as autonomous regions that have been given the authority to be able to implement regional autonomy and are responsible for implementing regional development. Due to the implementation of regional autonomy, there is a delegation, delegation, and division of duties between the central and regional governments based on decentralization, deconcentration, and assistance duties. (Puspita et al., 2021). With the implementation of decentralization, it is expected to reduce the burden and responsibility of the central government and can provide quality services to improve community welfare (Maria et al., 2019).

The turmoil of reform and democracy after the fall of the New Order regime 1998 gave rise to a desire for an increase in the role of regions and wider community contributions. The government at that time responded with the enactment of Law No. 22 of 1999 concerning Regional Government and Law No. 25 of 1999 concerning Financial Balance between the Central and Regional Governments. The law's enactment marks the beginning of a new period of regional autonomy through the handover of wider authority to regional governments and the handover of financing, infrastructure, and human resources. The handover of all these powers is a big thing in implementing fiscal decentralization in Indonesia (Puspita et al., 2021).

The policy set for decentralization in Indonesia consists of four main pillars, namely: (1) politics; (2) administration; (3) fiscal; and (4) economics. Political decentralization is implemented by delegating political authority to local governments by electing regional heads and members of the Regional People's Representative Council (DPRD) directly from the provincial to district/city levels. Decentralization of administration is implemented by



transferring government authority from the central government to local governments to carry out most community services. Economic decentralization is implemented by giving responsibility to local governments to handle regional economic problems and optimize their economic potential to improve community welfare. Fiscal decentralization is realized by devolving authority to local governments to manage their regional finances in revenue and expenditure (Puspita et al., 2021).

**Table 4**  
**Decentralization Pre and Post Deployment**

Jenis Desentralisasi	Sebelum UU No.22 dan 25/1999	Pasca UU No.22 dan 25/1999
Desentralisasi Politik	Pemilihan kepala pemerintahan di level nasional dan daerah dilakukan secara tidak langsung melalui legislatif.	Pemilihan kepala pemerintahan di level nasional dan daerah serta pemilihan anggota legislatif dilakukan secara langsung oleh masyarakat.
Desentralisasi Administrasi	Sentralistis dimana Kewenangan Pemerintah Pusat sangat luas, kewenangan kab/kota terbatas.	Kewenangan pemerintah daerah lebih luas sedangkan pemerintah pusat terbatas.
	Pada tahun 1999 jumlah PNS Daerah ) sebesar 0,7 juta orang.	Jumlah PNS Daerah tahun 2020 sangat besar yaitu mencapai 3,3 juta orang.
	Jumlah wilayah relatif tetap. Sampai dengan tahun 1999 terdapat 292 kabupaten/kota dan 27 provinsi.	Terjadi pemekaran wilayah yang sangat besar. Pada tahun 2020 jumlah wilayah menjadi 514 kabupaten/kota dan 34 provinsi.
Desentralisasi Fiskal	Transfer belanja APBN ke daerah sangat terbatas yang pada tahun 2000 sekitar 14,93% dari belanja negara.	Transfer belanja APBN ke daerah terus meningkat dan sejak tahun 2001 hingga 2020 porsinya mencapai rata-rata 32,06% dari belanja negara.
	Terbatasnya kewenangan memungut pajak bagi daerah termasuk objek pajaknya	Peningkatan kewenangan daerah dalam memungut pajak dan pelimpahan beberapa objek pajak dari pusat ke daerah
Desentralisasi Ekonomi	Penguasaan sumber ekonomi masih terpusat dan rentan terhadap <i>conflict of interest</i>	Peningkatan peran sektor swasta dan daerah dapat menggali potensi ekonomi lebih luas untuk meningkatkan PAD
	Praktik monopoli usaha	Terbentuknya Komisi Pengawas Persaingan Usaha untuk meningkatkan persaingan usaha yang sehat

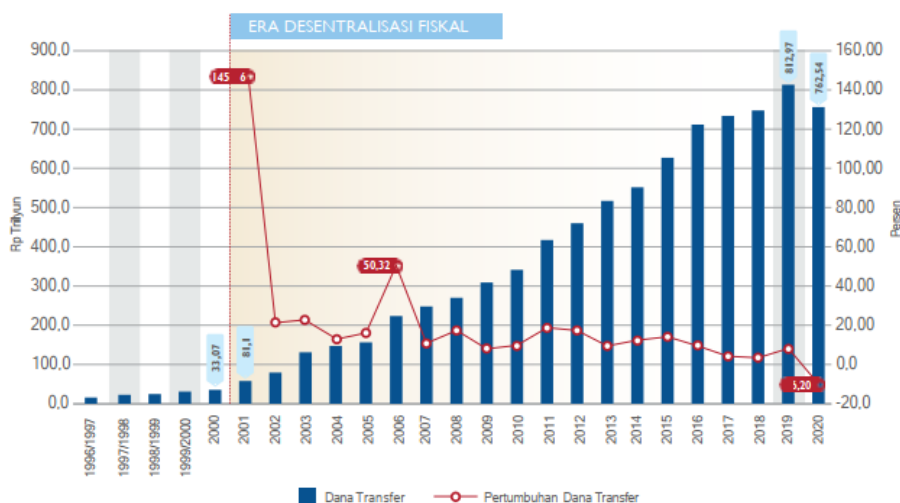
Source: Puspita et al (2021)

In implementing fiscal decentralization, the essence of regional financial management autonomy is focused on the freedom given to local governments to manage their budgets to meet regional needs and national priorities (Puspita et al., 2021). However, this condition also raises consequences because there must be changes in the regional financial system where regional fiscal needs increase. In contrast, regional fiscal capacity does not increase, except for regions with abundant natural resources (Negara & Khoirunurrofik, 2021).

To be able to overcome fiscal gaps in the regions, the central government applies block grants to regions in the form of profit-sharing funds (DBH) in the form of tax or non-tax, general allocation funds (DAU), and Special Allocation Funds (DAK). This is done by transferring funds from the State Budget to realize fiscal sustainability and stimulate people's economic activities. The fiscal decentralization policy is expected to create an equal distribution of financial capacity between regions balanced with authority over government affairs handed over to regional governments (Christia & Ispriyarso, 2019). The transfer funds are also carried out to ensure the implementation of local government and public services in the regions by established standards. So that local governments, through adequate APBD, can

direct and ensure the sustainability of development and improve the quality of life of people in the regions (Negara & Khoirunurrofik, 2021).

**Figure 2**  
**Development of Transfer Funds in Indonesia 1996 - 2020**



Source: Puspita et al (2021)

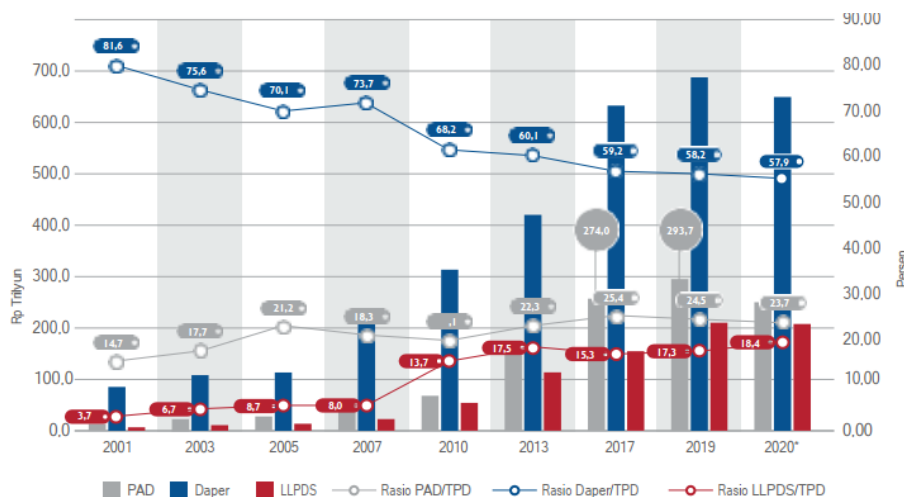
Transfer funds for local governments have been allocated to the state budget. The type and amount of transfer funds have improved and increased, especially since the implementation of fiscal decentralization in 2001. The development of transfer funds can be seen in Figure 2. At the beginning of the implementation of fiscal decentralization in 2001, there was a very high increase in the number of transfer funds, amounting to 145.06% from Rp33.07 trillion in 2000 to Rp81.05 trillion in 2001. The number of transfer funds before 2001 was still very small, averaging Rp24.77 trillion (1996-2000), while since 2001, the amount of transfer funds has gradually increased. In two decades of implementation of fiscal decentralization, the amount of transfer funds increased significantly from Rp81.05 trillion in 2001 to Rp812.97 trillion in 2019. They decreased in 2020 to Rp762.54 trillion due to the Covid-19 pandemic. (Puspita et al., 2021)

In addition to transferring funds, the implementation of fiscal decentralization cannot be separated from the role of the regional budget as the basis for budgeting for development implementation in the regions. The performance of APBD management is very influential on regional development achievements. Until 2020, regulations regarding regional revenue structure are contained in Government Regulation Number 58 of 2005 concerning Regional Financial Management as further regulated in the Regulation of the Minister of Home Affairs (Permendagri) Number 13 of 2006 concerning Guidelines for Regional Financial Management and several amendments.

The development of regional revenue so far shows that the main source of regional revenue comes from the balancing fund, a transfer fund from the State Budget, which is an average of 66.81% of total regional revenue. However, the movement tends to decrease as the PAD increases. Since 2001, the number of PAD has continued to grow and reached the highest amount of Rp293.66 trillion in 2019 and slightly decreased in 2020 due to the decline in regional economic activity due to the Covid-19 pandemic. The increase in PAD is mainly a result of the policy of strengthening local taxing power with the enactment of Law Number

28 of 2009, which gives wide regions wider authority to optimize their PAD potential, especially those sourced from regional taxes and regional levies.

**Figure 3**  
**Growth in Regional Revenue Realization in 2001 - 2020**



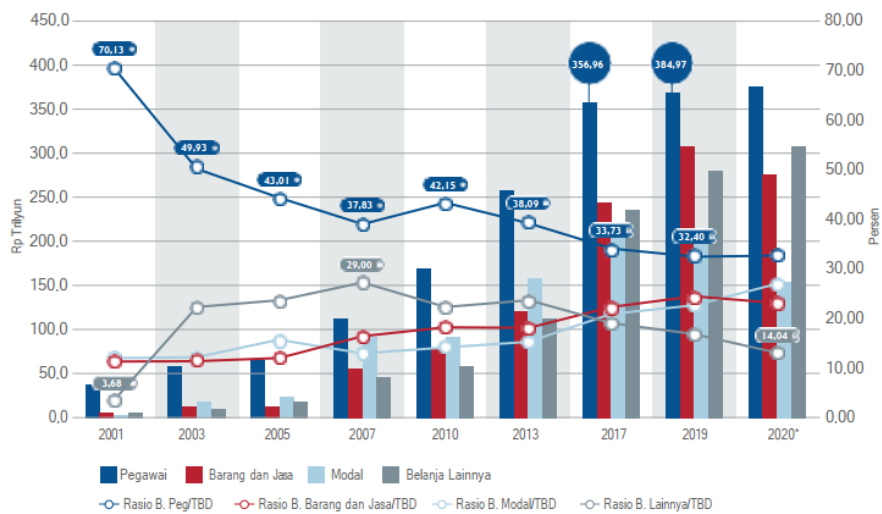
Source: Puspita et al (2021)

Similar to the income structure, before 2021, the regional expenditure structure by the group, by Permendagri Number 13 of 2006, consisted of indirect and direct expenditures. Indirect spending consists of eight payments: employee spending, interest, subsidies, grants, social assistance, profit-sharing, financial assistance, and unexpected spending. Direct cost consists of three payment types: employee expenditure, goods and services expenditure, and capital expenditure.

Based on the above spending structure, regional expenditures can be grouped into four types: employee expenditures, goods and services expenditures, capital expenditures, and other expenditures. In aggregate, the amount of employee spending in the era of fiscal decentralization continues to increase along with the number of regional employees. The increase in the number of regional employees is one of the consequences of regional expansion and the need for additional regional apparatus to implement regional autonomy. Along with this, employee spending has the largest portion compared to other types of shopping. In 2001, the ratio of employee expenditure to total regional cost reached 70.13% but decreased to 33.27% in 2020. The decrease in the proportion of employee spending indicates an improvement in the quality of expenditure management of local government employees.

With increasing movements, spending on goods and services is the second largest portion of spending. A significant increase in spending on goods and services requires a deeper evaluation to determine its benefits for the wider community. On the other hand, capital expenditure is expected to provide a multiplier effect for the regional economy, and the community can enjoy the intermediate result portion of total provincial spending for two decades is still low at below 20%. Nominally, capital expenditure showed a gradual increase, but its share of total spending fluctuated and began to show a decline starting in 2010. An increase in capital expenditure smaller than other types of cost caused a decrease in capital expenditure.

**Figure 4**  
**Growth in Regional Expenditure Realization 2001 - 2020**



Source: Puspita et al (2021)

## Conclusion

Fiscal decentralization in Indonesia and Korea has come a long way, as well as ups and downs in the decentralization process. However, regarding the use of budget funds in spending, Indonesia should be able to look back, compare and study the use of budgets carried out by developed countries, in this case, South Korea. In OECD countries, including South Korea, local governments spend more on housing and community development, environment, culture, recreation, and education. In the same period, spending on education was fiscally decentralized, while local government spending in economic areas such as transportation increased rapidly. While in Indonesia, employee spending has the largest portion compared to other types of shopping, the use of regional funds still needs to be improved to improve the community's quality of life.

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