



Decentralization and Local Community Welfare: Analysis Based on Literature Studies

Ridwan Kurnia Rahim^{1*}, Aldri Frinaldi², Lince Magriasti³

^{1,2,3}Master of Public Administration, Universitas Negeri Padang, Padang, Indonesia

Coressponding: kurniarahim84@gmail.com

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ABSTRACT

This article analyzes the effect of decentralization on the well-being of local communities by studying existing literature. Decentralization is the process of transferring power and control from the central government to local governments. Its goal is to enhance local autonomy, improve public services, and promote community engagement. This study examines the several types of decentralization, including administrative, fiscal, and political, and how they affect local governance. The study findings indicate that the effectiveness of decentralization is closely linked to the caliber of governance, local administrative and budgetary capabilities, and the dedication of central and local governments to empowering communities. This article also emphasizes that the appropriate implementation of decentralization can improve economic growth, social welfare, and community engagement. However, if not effectively managed, decentralization can worsen regional inequality.

1. Introduction

Decentralization in governance entails delegating power, authority, and responsibility from a central government to regional authorities to enhance local autonomy, service provision, and community engagement. This procedure is frequently motivated by the need to rectify governance inefficiencies and economic inequities and the call for a more accountable local administration. For instance, African countries that gained independence, such as Zimbabwe, introduced decentralization reforms to grant more power to local populations. However, these initiatives occasionally led to greater central government authority rather than genuine local empowerment (Nyikadzino & Vyas-Doorgapersad, 2022). In the transition economies of Europe and Central Asia, decentralization has emerged as a crucial approach to enhance service delivery and governance. However, it faces obstacles due to the restricted local administrative and financial capabilities (Turay & Karim, 2022).

In China, transferring environmental decision-making power to local governments has yielded varied outcomes, as competition between regions has occasionally hindered governance efficiency (Bao & Zhao, 2022). The objective of Indonesian decentralization is to enhance the well-being of communities by strengthening public services and local sovereignty. In contrast, the efficacy of fiscal decentralization remains a topic of discussion (Bae et al., 2016; Hoesein et al., 2022). The example of South Korea underscores the need for regional empowerment through democratic institutions. However, the country faces substantial obstacles due to its reliance on central transfers for economic support and regional inequities (Cahyaditama, 2015). The COVID-19 pandemic has further examined the decentralization framework, highlighting the necessity for synchronized endeavors between central and local governments to tackle difficulties peculiar to each region efficiently (Kuhlmann et al., 2024).

The ongoing decentralization changes in Ukraine aim to enhance the authority of local self-government entities, notwithstanding the continued significant influence of the state (Zhuravel, 2008). Research conducted in various contexts has shown that successful decentralization relies on competent local government personnel and streamlined service delivery methods (Aryaputra et al., 2022; Sabir et al., 2021). In summary, the effectiveness of decentralization in governance relies on the equilibrium of authority, distribution of resources, and the ability of local governments to handle their issues autonomously.

Decentralization refers to delegating authority from central governing bodies to local governments. Administrative, fiscal, and political decentralization can be classified into three types. Each type has distinct effects on local governments. Administrative decentralization transfers the responsibility for public services and civil servants to local governments, thereby enhancing local administrative competence and improving service delivery efficiency (Bae et al., 2016). Fiscal decentralization refers to distributing financial resources and budgetary strategies to local governments. This practice can enhance the provision of public goods and services, stimulate economic growth, and promote a more equitable income distribution (Aslim & Neyapti, 2022; Hoesein et al., 2022). Political decentralization enhances the authority and decision-making capacity of local councils and administrations, fostering more significant involvement of local citizens in politics, ensuring responsibility, and promoting democratic governance (Vargas-Hernández, 2021). Nevertheless, the efficacy of these types of decentralization is contingent upon several conditions, such as the local administrative and fiscal capability, political unity with the central government, and the availability of proficient local government personnel (Khadka, 2018; Sabir et al., 2021). For instance, in South Korea, the establishment of local governmental institutions has given regions more authority. Still, it has also resulted in a reliance on fiscal support and created inequalities between different areas (Khimta, 2020). Similarly, decentralization in Indonesia has facilitated the democratization of village governance and transitioned rural

development to a grassroots approach (Shin, 2016). The Gandhian principle of decentralization underscores the significance of public engagement and viewpoint in governance, interconnecting political, social, and economic aspects to establish an equitable and righteous system (Sutiyo et al., 2017). Furthermore, the effectiveness of decentralization changes is shaped by historical, ideological, and institutional factors, as evidenced by the varied outcomes observed in Japan and Korea. In summary, decentralization has the potential to enhance local governance through improved service provision, economic advancement, and increased democratic engagement. However, achieving these benefits hinges on the proficient execution of administrative, fiscal, and political changes, as well as the ability of local authorities to handle these duties effectively.

Decentralization is expected to enhance economic efficiency by facilitating more effective resource management at the local level, as it aligns decision-making with the specific requirements and circumstances of each community. This process entails the decentralization of power and resources from central authorities to local governments, resulting in enhanced efficiency in the provision of public services and distribution of resources (Irtysheva et al., 2021; Newaz & Rahman, 2022). For instance, in Ukraine, decentralization seeks to grant local governments the authority to rule their territory, thereby promoting socio-economic progress autonomously (Mureddu et al., 2020). Similarly, in Bangladesh, the decentralization process in natural resource management, albeit yielding varied outcomes, underscores the significance of local community engagement in the sustainable utilization of resources (Diatmika et al., 2021).

Decentralization in the energy sector, achieved through establishing local energy communities and using Internet of Things (IoT) systems, can enhance energy production and consumption. This showcases the potential of decentralized decision-making to improve efficiency (Bucci et al., 2024). The relationship between fiscal decentralization, as observed in Italy, and municipal efficiency is positive, indicating that when local authorities have

authority over taxation and expenditure, it can enhance economic performance (Inman & Rubinfeld, 1994). Furthermore, the utilization of village finances in Indonesia to enhance the local economy highlights the significance of decentralization in harnessing the local resources for economic advancement (Ofoulhast-Othamot, 2014). Theoretical models also corroborate the notion that decentralized finance has the potential to enhance economic efficiency by optimizing capital allocation inside private enterprises (He et al., 2019). Nevertheless, the achievement of decentralization is contingent upon the specific political and administrative circumstances and the efficient delegation of authority to local governments for resource management and the provision of public services (Rodríguez-Pose et al., 2009; Sarma et al., 2018). Empirical data from multiple countries demonstrates that decentralization can result in improved resource management and economic growth, mainly driven by local demand rather than imposed by higher authorities. Decentralization enhances economic efficiency by efficiently empowering local communities to manage resources according to their specific requirements and circumstances.

The significance of this research is in comprehending the extent to which the decentralization movement in Indonesia can genuinely enhance the well-being of local people. This research will analyze the implementation of fiscal decentralization and regional autonomy policies and their impact on economic growth and development at the regional level, using literature studies from diverse sources. The primary focus of this research is the disparity between the anticipated outcomes and the actual results of decentralization implementation in Indonesia. This research will give a thorough analysis of the interaction between the central government and regional governments, as well as the function of regional governments in improving community welfare.

2. Literature Review

Decentralization and Regional Autonomy

Decentralization refers to the delegation of power from the central government to regional governments, allowing them to independently handle local matters according to the desires and

ambitions of the people within the framework of Indonesia's unitary state (Fitriani et al., 2005; McCarthy, 2004). Decentralization leads to the emergence of autonomy for a regional authority. Decentralization is an organizational concept that refers to the delegation of authority (Isufaj, 2014). Recent decentralization in Indonesia has led to a shift in the government paradigm, making it closely tied to the country's government structure (Rosser, 2003). As previously said, decentralization is connected to regional self-governance. Regional autonomy as the jurisdiction of a region to independently organize and govern its territory without any intervention or support from the central government (Cornell, 2002). Regional autonomy enhances the efficiency and outcomes of government administration, particularly in delivering services to the community and implementing development projects by legal regulations (Lockwood, 2010).

According to the Big Indonesian Dictionary (2020), autonomy is a form of self-governance. Regional autonomy refers to an area's legal and regulatory power to govern and manage its affairs independently. According to Law No. 32 of 2004, which was modified by Law No. 12 of 2008 regarding Regional Government, regional autonomy can be defined as the entitlement, power, and responsibility of an independent region to govern and oversee its own governmental matters and community concerns, by local legislation and regulations. Regional autonomy refers to the legal right of individuals residing in a specific geographical area to independently govern, administer, oversee, and enhance their affairs while adhering to relevant laws and regulations. The jurisdiction of regional autonomy can be categorized into two distinct types: extensive autonomy and restricted autonomy. Broad autonomy authority as the regional power to govern, encompassing all government areas except foreign policy, defence, security, justice, monetary and religious fiscal matters (Hooghe et al., 2016). This authority includes complete and unanimous control over administration, including planning, implementation, supervision, control, and evaluation (Kuhlmann et al., 2014).

Public welfare

The welfare level can be described as the overall state of individual contentment. This fundamental comprehension gives rise to an intricate comprehension separated into two contention domains (Mulia & Saputra, 2020). The first question pertains to the extent or range of the welfare substance, while the second question concerns how the intensity of this substance can be measured or depicted as a whole. Welfare refers to the many levels of enjoyment an individual experiences when using the income they receive to consume goods and services. Nevertheless, the degree of welfare is inherently subjective as it relies on the level of contentment derived from the consumption of wealth. As per Mulia & Saputra (2021), welfare is a comprehensive system encompassing social, material, and spiritual aspects of life. It entails a feeling of security, decency, and inner and outer peace, enabling citizens to strive to fulfil their physical, spiritual, and social needs for themselves, their households, and society. Welfare refers to the level of enjoyment derived from consuming one's income. However, it is important to note that the level of welfare is subjective and varies depending on the individual's contentment with their income consumption. The relationship between the concepts of welfare and needs lies in that meeting these requirements leads to prosperity, as the level of needs is indirectly correlated with welfare indices (Kalimeris et al., 2020).

Welfare is a societal and economic structure that supports individuals' well-being and sustenance. Both materially and spiritually, individuals should feel a sense of security, morality, and inner peace in themselves, their homes, and their communities. This enables every citizen to strive towards meeting their own physical, spiritual, and social needs while upholding human rights (Kismödi et al., 2017). Welfare serves as an indicator of societal well-being, signifying a state of prosperity. Prosperity is a state of human well-being characterized by abundance, good health, and tranquillity. Attaining this state requires individuals to exert effort commensurate with their capacities. Economists perceive well-being as a measure of individual income (the amount of money earned) and society's purchasing power (the ability to

buy goods and services). According to Jäntti et al. (2014), the concept of welfare is limited in scope because it focuses solely on income as a measure of economic well-being, thus contrasting welfare with conditions of poverty.

While there is no specific and rigid definition for welfare, it generally includes essential needs like food, education, and healthcare. Additionally, it often encompasses additional social safeguards such as employment possibilities, protection for the elderly, and escape from poverty. Ten indicators are utilised to assess the welfare level, specifically age, number of dependents, income, consumption or family expenses, living conditions, living facilities, health status of family members, accessibility of health services, ease of enrolling children in education, and ease of obtaining facilities.

3. Methods

This research methodology is known as library research, a group of studies focusing on data-gathering methods within libraries. It involves investigating research subjects using various library resources such as books, encyclopedias, scientific journals, newspapers, periodicals, and documents (Williamson & Johanson, 2017). Library research, a literature review, involves examining and critically analyzing knowledge, ideas, and findings in academic literature (Snyder, 2019). It also involves the development of theoretical and methodological contributions to a specific topic. The primary objective of library research is to locate diverse theories, laws, postulates, principles, or concepts that can be employed to examine and resolve specified research inquiries. This research is characterized by descriptive analysis, which involves systematically analyzing the collected data and providing a comprehensive understanding and explanation for the reader's comprehension.

4. Result

Decentralization and Economic Prosperity

Decentralization, particularly fiscal decentralization, has diverse effects on local economic growth, as demonstrated by numerous researches. In Java, there is a positive correlation between fiscal decentralization and local economic growth. This suggests that when local

governments have more financial autonomy, it can stimulate economic development (Sasana, 2019). Similarly, fiscal decentralization in Kosovo has demonstrated a positive correlation with local employment growth, a crucial factor in fostering economic progress (Osmani & Tahiri, 2022). Nevertheless, this link is not uniformly stable; a meta-analysis demonstrates weak correlations and notable variability in the influence of decentralization on GDP per capita, indicating that outcomes may be contingent on individual circumstances and occasionally overstated (Yu et al., 2022). In East Java, the fiscal decentralization process does not substantially impact the Human Development Index or the growth of the regional economy. This suggests that other elements may play a role in influencing this relationship (Yusuf, 2023). The impact of budget decentralization in Jambi is beneficial for local government performance as it enhances efficiency and promotes economic growth. This suggests that proper management of resources is crucial (Zahari et al., 2018). Conversely, in Sumatra, fiscal decentralization has a detrimental but inconsequential impact on regional inequality, indicating that its advantages may not be equitably dispersed (Putri et al., 2022).

Fiscal decentralization in Sulawesi has yielded favourable effects on economic growth, although the region continues to depend largely on transfers from the national government (Azizah et al., 2022). In Vietnam, the beneficial impacts of fiscal decentralization on economic growth are enhanced by effective public governance, highlighting the significance of governance in achieving the advantages of decentralization (Thanh & Canh, 2020). Fiscal decentralization in Indonesia has played a crucial role in promoting economic growth across different districts and cities. However, it is important to note that certain regions still have challenges in achieving high levels of growth and decentralization (Ginting et al., 2019). Lastly, in Thailand, income decentralization positively impacts regional growth, whereas expenditure decentralization has a weak negative effect, indicating that the management and allocation of funds are crucial (Nantharath et al., 2020). While fiscal decentralization can stimulate local economic growth, its effectiveness is influenced by the quality of governance, resource

management, and regional dependence on central transfers.

Based on the study above, it can be inferred that fiscal decentralization can favor local economic growth. However, the magnitude of this influence is contingent upon the regional context and the management of resources. The caliber of public governance and proficient resource management significantly impacts the efficacy of fiscal decentralization. Regions with efficient governance systems will likely experience more significant advantages from fiscal decentralization. Certain regions largely depend on financial transfers from the central government, which could impede the complete advantages of fiscal decentralization. Fiscal decentralization does not invariably diminish regional inequality; in certain instances, it can have disparate effects. The specific circumstances and characteristics of the particular area heavily influence the outcomes of fiscal decentralization. Hence, a universal approach would not yield the desired results, and policies should be customized to address the unique requirements of each location. In general, while fiscal decentralization can promote local economic growth, its effectiveness primarily relies on effective administration and the unique circumstances of each locality.

Decentralization and Social Welfare

The effect of decentralization on social welfare differs greatly among countries and situations and is determined by factors such as the quality of governance, fiscal policy, and regional autonomy. Decentralization in Turkey and Argentina exhibits a favourable correlation with social welfare in Argentina's federal system, whereas it does not demonstrate the same association in Turkey's centralized system (Delgado et al., 2022). Decentralization in social welfare organizations in Zimbabwe has been criticized due to local bureaucracy and inequality, which obstruct the maintenance of organizational principles and ethics (Tendengu, 2022). Indonesia's fiscal decentralization aims to increase regional financial independence and social welfare, but the results show persistent regional inequalities and the mixed effects of different funds on social welfare (Khoirunisa & Sulaeman, 2022). Decentralization in Europe

plays a role in reducing poverty and addressing social exclusion, particularly in regions with effective governance and urban areas (Tselios & Rodríguez-Pose, 2022). The research conducted in South Korea emphasizes the necessity for empirical investigations into horizontal welfare decentralization and its political, administrative, and financial dimensions (Kim, 2013). In the United States, the discretion given to individual states in social safety net programs results in disparities between states regarding the services provided. This leads to varying outcomes in how local communities respond to and receive these services (Bruch & Gordon, 2022). Decentralization measures in Indonesia's Special Region of Yogyakarta ultimately did not enhance social welfare, as seen by the growing disparity in income (Supriyatno, 2021). In general, decentralization can potentially enhance social welfare under specific circumstances. Still, its effectiveness primarily hinges on the caliber of administration, fiscal autonomy, and the execution of local programs.

The influence of decentralization on access to social services can be substantial, with outcomes that can be either favorable or negative depending on a range of conditions. Fiscal decentralization in Pakistan has demonstrated a positive impact on the availability of water and sanitation facilities. However, the presence of corruption might undermine these improvements, necessitating the implementation of stronger accountability and transparency mechanisms. In Kenya, the devolution of health services to local governments resulted in a higher utilization of public clinics for childbirth, particularly in districts with a high degree of ethnic homogeneity. This emphasizes the significance of local governance systems in the provision of services. Nevertheless, the absence of constitutional devolution of power in the Democratic Republic of the Congo has hindered the efficacy of decentralization in enhancing the provision of essential services in post-conflict environments (Hémet et al., 2023; Karim et al., 2023; Rehn et al., 2023). Decentralization can potentially improve access to social services. Still, its effectiveness is heavily influenced by factors such as the local context, the quality of governance, and the presence of a supportive institutional framework.

Decentralization and Community Participation

The correlation between decentralization and heightened citizen involvement in local administration is intricate and diverse, with results differing depending on the circumstances. Decentralization is frequently implemented to enhance community engagement by bringing the government closer to the citizens and improving its ability to address local requirements. In Indonesia, decentralization has had a dual effect on democracy, as observed in the administration of fish auction sites and fishermen's welfare funds. Local government control has occasionally hindered community involvement, enhancing and diminishing democracy. Decentralization in education in India has reestablished the connection between schools and their communities, highlighting the importance of local stakeholders in enhancing and managing schools. Nevertheless, in Pakistan, the presence of a well-organized local governance system has been hindered by centralization and undemocratic methods, resulting in limited community engagement. Local elites frequently impede public participation (Ali, 2022; Mullen, 2017; Tawakkal, 2023).

In Ghana, the unit committee concept, which aims to encourage grassroots mobilization, has encountered difficulties due to impractical public expectations and insufficient resources, restricting its efficacy. Decentralization in Liberia is viewed as a possible remedy for persistent governance issues. However, its effectiveness has been hindered by past centralization, corruption, and misallocation of resources. The Philippines and Uganda exemplify the significance of local leadership and central government support in promoting effective community engagement. The absence of explicit directives for community engagement in rural development initiatives in Indonesia has resulted in inconsistent implementation and restricted opportunities for holding individuals accountable (Anderson, 2022; Arkorful et al., 2021; Hoesein et al., 2022; Municipality, 2019). In general, the effectiveness of decentralization in promoting community involvement is heavily influenced by the specific political, social, and economic circumstances, as

well as the dedication of local and central governments to empower people genuinely.

The potential of fiscal decentralization to stimulate local economic growth is significant, but the area environment and the management of resources heavily influence its effectiveness. The efficacy of fiscal decentralization is bolstered by high-quality public governance and efficient resource management, as evidenced in several regions like Indonesia, Vietnam, and Kosovo. Nevertheless, this link is inherently unstable, as outcomes fluctuate and occasionally get magnified based on the unique circumstances of each geographical area. The impact of decentralization on social welfare is contingent upon the caliber of governance, fiscal independence, and execution of regional initiatives. If not properly handled, decentralization might worsen regional imbalances and adversely affect certain areas.

Furthermore, the implementation of decentralization has the potential to enhance community engagement in local governance. However, the outcomes are heavily contingent upon the specific political and socioeconomic circumstances and the government's dedication to empowering its citizens. Hence, to get the intended outcomes, it is imperative to tailor decentralization plans to each region's distinct requirements and circumstances. In summary, while decentralization can stimulate economic growth, enhance social well-being, and foster community engagement, its effectiveness is heavily dependent on efficient governance and specific local circumstances.

5. Conclusion

In summary, this research establishes that decentralization can enhance the well-being of local communities by fostering greater community participation in local governance and promoting regional economic development. Nevertheless, the effectiveness of decentralization relies heavily on the particular circumstances of each area, encompassing political, social, and economic factors, as well as the dedication of local and central authorities to empower local communities genuinely. The impact of fiscal decentralization on local economic growth is contingent upon the caliber

of public governance and the efficient use of resources. Hence, to attain the intended outcomes, decentralization strategies should be tailored to each region's distinct requirements and circumstances.

6. Limitation

It is important to acknowledge that this article has certain limitations. Primarily, this research relies heavily on literature reviews and theoretical analysis without incorporating empirical data or conducting comprehensive case studies to substantiate the conclusions. Consequently, there is an absence of tangible proof to substantiate the stated assertions. Furthermore, while this paper recognizes the significant impact of the political, social, and economic context on decentralization success in different locations, it lacks a comprehensive examination of how these contextual changes affect decentralization outcomes. Furthermore, this study predominantly relies on secondary sources, which could potentially exhibit biases or constraints in terms of the extent and comprehensiveness of the material presented.

Furthermore, while this paper examines the possibilities and difficulties associated with decentralization, the absence of emphasis on concrete implementation tactics may restrict the usefulness of the suggestions in practical situations. Findings from various countries and contexts may not universally apply to all regions due to variations in government systems, administrative capacities, and local economic realities. These constraints underscore the necessity for more investigation using empirical evidence and precise case studies to yield a more all-encompassing comprehension of the consequences of decentralization.

7. Implications

The research findings suggest that to enhance the efficiency of decentralization, the government should bolster the capacity of regional governance and secure unwavering support from the central government. Furthermore, it is crucial to tailor decentralization plans to the particular circumstances of each region to surmount the distinct obstacles they encounter. Efficient implementation of decentralization can mitigate

regional inequities and enhance overall societal well-being. Hence, policymakers should consider specific local circumstances while formulating and executing decentralization plans to guarantee optimal advantages for local populations.

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