

Effectiveness of Decentralization and Regulatory Implementation Challenges in Local Governance

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Abstract

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This study examines the effectiveness of implementing Law Number 23 of 2014 on Regional Government and Law Number 1 of 2022 on Fiscal Relations between the Central Government and Regional Governments within Indonesia's decentralization framework. Using a normative juridical method, the research analyzes the consistency, structure, and normative implications of these regulations while identifying key challenges encountered during their implementation. The findings reveal that the effectiveness of decentralization is strongly influenced by the alignment between regulatory complexity and the institutional capacity of local governments. Limitations in human resources, administrative governance, and fiscal management continue to hinder the ability of many regions to translate legal norms into effective policies. Additionally, regulatory inconsistency and overlapping interpretations between national and regional authorities create implementation uncertainty, thereby constraining innovation and regional autonomy. This study highlights the urgent need for strengthened local governance capacity and improved regulatory harmonization to ensure the successful realization of decentralization objectives. Ultimately, enhancing institutional capability and policy coherence is crucial for achieving equitable, effective, and sustainable regional development across Indonesia.

1. Introduction

The decentralization approach adopted by Indonesia since the reform era places local governments as the spearhead of the implementation of public services and local development, so the success of decentralization policies is highly dependent on the legal framework and implementation capacity at the sub-national level. The modern legal framework that is now a practical reference includes Law No. 23 of 2014 concerning Regional Government (Law No. 23/2014), which formulates the division of government affairs and the mechanism for the implementation of regional autonomy; Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (Law No. 1/2022), which regulates fiscal relations and transfers between levels of government; as well as the initial normative footprint of Law No. 22 of 1999 concerning Regional Government (Law No. 22/1999) which became the initial milestone of post-reform decentralization.¹

Previous research confirms that fiscal aspects, including transfer mechanisms and regional spending patterns, determine the ability of regions to translate autonomy into concrete development outputs, so that changes in financial regulations, as regulated in Law No. 1/2022, have direct implications for regional capacity in managing local budgets and investments.² Empirical results also indicate that the benefits of decentralization are heterogeneous: there are regions that are

¹ Adissya Mega Christia. "Desentralisasi fiskal dan otonomi daerah di Indonesia." *Law Reform* 15. No.1, (2019): 149-163.

² Bangkit A. Wiryawan, and Christian Otchia. "The legacy of the reformasi: the role of local government spending on industrial development in a decentralized Indonesia." *Journal of Economic Structures* 11, no. 1 (2022): 3.

able to leverage autonomy to increase capital expenditure and encourage the development of local industries, while others are trapped in limited administrative capacity and dependence on central transfers so that development outcomes are uneven.³ Qualitative studies add political and cultural dimensions, showing that the implementation of decentralization policies can strengthen or even reduce the rights of local communities depending on how authority is integrated with local government practices.⁴

In addition, the legal literature shows that there are dynamics of “legal politics” in the process of drafting and interpreting decentralized norms that affect implementation in the field; Harmonization of national policies intended to harmonize standards often has a recentralization effect that limits the room for maneuver of local governments. Local bureaucratic capabilities, the quality of budget planning, and internal accountability and oversight mechanisms appear consistently as variables that determine the effectiveness of autonomy in improving public services and human development indicators. Cross-regional empirical analysis shows that regions with good apparatus and governance capacity can optimize local resources so that they show better development results, while regions with weak capacity are less able to take advantage of the separation of powers emphasized by Law No. 23/2014.⁵

³ Proborini Hastuti. “Desentralisasi fiskal dan stabilitas politik dalam kerangka pelaksanaan otonomi daerah di Indonesia.” *Simposium Nasional Keuangan Negara: Kementerian Keuangan RI Tahun 2018* (2018): 784-799.

⁴ Mirza Satria Buana. “Struggling with Development: How Decentralization Undermines Traditional Farmers’ Cultural Rights in Barito Kuala, Indonesia.” *JSEADR* 6 (2022): 226.

⁵ Ibrahim Ibrahim, and Juanda Juanda. “Desentralisasi dan Otonomi Daerah; Pelaksanaan Otonomi Khusus Papua Berdasarkan Sistem UUD Negara Republik Indonesia Tahun 1945.” *SALAM: Jurnal Sosial dan Budaya Syar-i* 8, no. 5 (2021): 1565-1582.

Consequently, studies that focus on the effectiveness of regulations must combine a juridical-normative approach with an empirical evaluation of implementable capacity so that the assessment of the law is not only textual but reflects the reality of public administration in the region.⁶ In this framework, it is important to assess not only whether the norms in Law No. 23/2014, Law No. 1/2022, and the historical roots of Law No. 22/1999 have been implemented, but also how efficient and effective they are in strengthening the capacity of local governments to achieve just and sustainable development goals. This research is directed to fill the gap in the understanding of the relationship between national policy changes and local government outcomes while maintaining a general and comparative analysis space without attributing findings to specific events or regions.

The first research question is directed to assess the application, efficiency, and effectiveness of Law Number 23 of 2014 and Law Number 1 of 2022 in strengthening the capacity of local government and encouraging the achievement of regional development goals. The second research question focuses on identifying the main challenges in the implementation of the law and the urgency of addressing these challenges for the sustainability of regional autonomy and the quality of public services without discussing specific normative reconstruction.

⁶ Siwage Dharma Negara and Francis E. Hutchinson. "The impact of indonesia's decentralization reforms two decades on." *Journal of Southeast Asian Economies* 38, no. 3 (2021): 289-295.

2. Methods

The research method used in this study is a normative juridical method, which is a legal research approach that relies on the analysis of written norms in laws and regulations and doctrines that develop in the legal literature. Normative juridical research views law as a set of rules that govern the behavior and authority of institutions, so the main focus of this research is to examine the consistency, alignment, and effectiveness of norms contained in Law Number 23 of 2014 concerning Regional Government, Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Government, as well as the historical framework of Law Number 22 of 1999 as the initial basis for the formation of post-reform decentralization. In this context, the research does not evaluate concrete cases or empirical conditions of a particular region, but rather examines how the structure and content of norms in the law are formulated, how relationships between norms are built, and the extent to which these norms have the potential to support the goal of decentralization and improving the performance of local governments.

As normative juridical research, the main data used is legal material, which includes primary legal materials such as laws and regulations related to local government and central-regional financial relations, secondary legal materials such as academic literature, scientific articles, legal journals, expert analysis results, and tertiary legal materials such as legal dictionaries and other supporting data that help clarify the concepts and terminology used in this research. The analysis is carried out through deductive legal reasoning starting from the general principles in the

decentralized system, such as the principle of the widest possible autonomy, accountability, the principle of harmony between levels of government, and the principle of efficiency in the administration of government to then be applied to specific provisions in the law being studied. This approach allows researchers to assess the internal consistency of regulations, identify potential norm disharmony, and examine the extent to which legal provisions provide certainty for the implementation of local government functions.

In addition to the legislative approach, this study also uses a conceptual approach in order to understand the basic ideas of decentralization, regional autonomy, authority relations, and fiscal relations between the central and regional governments. A conceptual approach is needed because the discussion of the effectiveness of a norm is not only related to the structure of written rules, but also related to constitutional law theory, public administration theory, and the concept of decentralization that has developed in modern government studies. Thus, the research obtained a strong theoretical basis to assess whether the norms in the law under review are in line with the goal of decentralization, which is to provide space for regions to manage public affairs effectively while maintaining national policy cohesion.

Through this normative juridical method, the research seeks to produce a systematic, logical, and structured analysis of the application and normative challenges in the implementation of laws related to decentralization. The focus of the research is not on empirical data or evaluation of the performance of a particular region, but on the quality, coherence, and normative implications of the regulations

that are the basis for the implementation of local government. With this approach, the research is expected to be able to provide a clear picture of how legal provisions form a decentralization framework and what are the normative issues that need to be considered in assessing the effectiveness of the implementation of the law.

3. Results and Discussion

3.1. Application, Efficiency, and Effectiveness of Law No. 23/2014 and Law No. 1/2022

A juridical-normative analysis of the implementation of Law Number 23 of 2014 concerning Regional Government and Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments shows that these two normative frameworks serve as an important legal foundation for efforts to strengthen the capacity of local governments, but their effectiveness depends strongly on administrative implementation mechanisms and local fiscal capacity. Normatively, Law No. 23/2014 affirms the division of government affairs and the principle of regional autonomy which provides space for local governments to regulate and manage local interests, so that theoretically this law provides a legal basis for regional policy innovation and the determination of local development priorities.⁷ On the other hand, Law No. 1/2022 focuses on the mechanism of central-regional financial relations, including patterns of transfer, financing, and fiscal harmonization that greatly determine the ability of regions to finance public

⁷ Putri Amalia Zubaedah and Royyan Hafizi. "Sentralisasi atau desentralisasi: Pelaksanaan otonomi daerah di Indonesia." *Jurnal Cahaya Mandalika* ISSN 2721-4796 (online) (2022): 865-878.

affairs; This change in financial relations rules has the potential to increase fiscal certainty but also requires technical adjustments to regional budget management so that allocations can be used more strategically (Law No. 23/2014; Law No. 1/2022).

Evaluation of the efficiency of budget use at the regional level indicates heterogeneous results: several empirical studies have found a positive correlation between increased regional capital expenditure and the development of the non-oil and gas industry sector, which shows that if fiscal allocation is directed towards productive and well-managed investment, fiscal autonomy can produce real development impacts.⁸ However, other findings indicate that without adequate planning, procurement, and oversight capacity, larger fiscal transfers do not automatically lead to improved quality of public services or significant development outcomes; this emphasizes that efficiency depends on the quality of regional governance, such as the ability to prepare performance-based budgets, capital project management, and control corruption and waste.⁹ From a juridical perspective, the laws form a formal framework that allows for efficiency if followed by implementing regulations, accountability standards, and strong administrative capacity.

On the implementation side, several legal and policy studies have highlighted a gap between written norms and field practice: norms of division of affairs and transfer mechanisms often require adequate administrative interpretation and technical instruments (such as technical guidelines, regional accounting standards,

⁸ Sekar Dewinda Santi, and Doddy Aditya Iskandar. "Kebijakan desentralisasi dan ketimpangan capaian pembangunan wilayah di Indonesia." *Jurnal Syntax Admiration* 2, no. 3 (2021): 490-506.

⁹ Adissya Mega Christia. "Desentralisasi fiskal dan otonomi daerah di Indonesia." *Law Reform* 15. No.1, (2019): 149-163.

and audit mechanisms) to be operationalized consistently across regions. Legal politics in the formation and implementation of this law also influences the legislative process and the harmonization of national policies can produce provisions that are general or multi-interpreted so that the implementation in various regions becomes different.¹⁰ These conditions result in variations in performance between regions: regions with a more professional bureaucracy and a strong local income base tend to be able to utilize autonomy more effectively than regions that still rely heavily on central transfers and face constraints in Human Resources (HR) and weak financial management systems.¹¹

Furthermore, the effectiveness of regulations is also influenced by the design of incentives and supervisory mechanisms: elements such as conditionality transfers, performance criteria, and monitoring mechanisms and administrative sanctions play a role in the extent to which regional budget management behavior is in line with development goals. Several policy reviews noted that the financial relations reforms contained in Law No. 1/2022 contain efforts to clarify allocations and improve accountability, but the success of such changes is highly dependent on technical implementation by central ministries/agencies and accountability capacity at the regional level (hukumonline; Copy of Law No.1/2022). Therefore, from a juridical-normative point of view, Law No. 23/2014 and Law No. 1/2022 provide an adequate framework to strengthen the capacity of local governments, but real

¹⁰ Ngesti Prasetyo, Moh Fadli, S. N. Tunggul, and Muchamad Safaat. "The Politics of Indonesias Decentralization Law Based on Regional Competency." *Bravijaya Law Journal* 8, no. 2 (2021): 159-84.

¹¹ Adissya Mega Christia. "Desentralisasi fiskal dan otonomi daerah di Indonesia." *Law Reform* 15. No.1, (2019): 149-163.

effectiveness requires synergy between implementing regulations, regional administrative capacity, and fiscal oversight mechanisms and incentives designed to promote productive budget use.

The provisional conclusion of the analysis is that the implementation of the two laws has the potential to increase the capacity of local governments, especially when accompanied by improvements in technical capacity and governance, but without intervention in the implementation aspects and strengthening of accountability mechanisms, the trajectory of efficiency and effectiveness will remain uneven between regions. The normative recommendations that emerged from these findings emphasized the need for technical harmonization, clear performance standards, and regional administrative capacity building programs so that normative provisions of the law can be translated into concrete and equitable development achievements.

3.2. Main Challenges in the Implementation of Law No. 23/2014 and Law No. 1/2022 and Their Urgency

The first prominent challenge in the implementation of Law No. 23/2014 and Law No. 1/2022 is the misalignment of local government capacity with the complexity of the norms regulated in the two laws. Although Law No. 23/2014 has detailed the division of government affairs, not all regions have the technical, administrative, and institutional capabilities to carry out these tasks optimally. Studies on the effectiveness of regional autonomy show that regional bureaucratic capacity, such as apparatus competence, budget governance, and the ability to carry out development planning, are the main differentiating factors in the success of

policy implementation.¹² Some regions have adequate capacity to translate norms into technical policies, but others face serious obstacles, such as a lack of professional human resources and weak public administration infrastructure.¹³

This imbalance results in the implementation of the law running non-uniformly, even though the same norms are applied nationally. From the fiscal side, changes in the financial relations system in Law No. 1/2022 require regions to adjust the mechanism of budget planning, revenue management, and classification of expenditures. This adds to the administrative burden for regions whose financial management capacity is still low.¹⁴ This unpreparedness shows that the preparation of norms is not always followed by structural readiness, so that implementation in some cases does not yield the expected results.¹⁵

The second challenge is the inconsistency and multiinterpretation in national policies that govern central-regional relations, resulting in what some researchers call “recentralization through regulation” or the tendency to standardize national policies that limit the space of regional autonomy. In the analysis of legal politics, Law No. 23/2014 contains a number of provisions that strengthen central control through coaching and supervision mechanisms, including the authority to withdraw certain affairs to the central level if they are considered not to be implemented according to

¹² Proborini Hastuti. “Desentralisasi fiskal dan stabilitas politik dalam kerangka pelaksanaan otonomi daerah di Indonesia.” *Simposium Nasional Keuangan Negara: Kementerian Keuangan Ri Tahun 2018* (2018): 784-799.

¹³ Ibrahim Ibrahim, and Juanda Juanda. “Desentralisasi dan Otonomi Daerah; Pelaksanaan Otonomi Khusus Papua Berdasarkan Sistem UUD Negara Republik Indonesia Tahun 1945.” *SALAM: Jurnal Sosial dan Budaya Syar-i* 8, no. 5 (2021): 1565-1582.

¹⁴ Bangkit A. Wiryawan, and Christian Otchia. “The legacy of the reformasi: the role of local government spending on industrial development in a decentralized Indonesia.” *Journal of Economic Structures* 11, no. 1 (2022): 3.

¹⁵ Adissya Mega Christia. “Desentralisasi fiskal dan otonomi daerah di Indonesia.” *Law Reform* 15, No.1, (2019): 149-163.

national standards.¹⁶ Other studies highlight that decentralization is often asymmetrical in practice, where norms provide room for autonomy but sectoral policies from ministries often bind regions tightly so that there is less room for innovation.¹⁷

In the fiscal context, some regions feel limited by new transfer formulas and instruments that require heavy structural adjustments, especially in areas with high dependence on Transfer Funds.¹⁸ This policy inconsistency creates a gray area for implementation, resulting in variations in interpretation by regional officials, supervisory agencies, and technical ministries.¹⁹ This policy disharmony is a structural obstacle that is often more difficult to overcome than the issue of technical capacity.

An example of a case that reflects these challenges can be seen in the decentralized implementation of basic service management. Several studies have shown that when certain matters are recalled to the center or given strict technical standards, regions lose room to adjust policies according to local characteristics.²⁰ When the central government sets service standards uniformly while regional capacity is not uniform, the result is an implementation gap: high-capacity regions

¹⁶ Ngesti Prasetyo, Moh Fadli, S. N. Tunggul, and Muchamad Safaat. "The Politics of Indonesias Decentralization Law Based on Regional Competency." *Bravijaya Law Journal* 8, no. 2 (2021): 159-84.

¹⁷ Siwage Dharma Negara and Francis E. Hutchinson. "The impact of indonesia's decentralization reforms two decades on." *Journal of Southeast Asian Economies* 38, no. 3 (2021): 289-295.

¹⁸ Sekar Dewinda Santi, and Doddy Aditya Iskandar. "Kebijakan desentralisasi dan ketimpangan capaian pembangunan wilayah di indonesia." *Jurnal Syntax Admiration* 2, no. 3 (2021): 490-506.

¹⁹ Putri Amalia Zubaedah and Royyan Hafizi. "Sentralisasi atau desentralisasi: Pelaksanaan otonomi daerah di Indonesia." *Jurnal Cahaya Mandalika ISSN 2721-4796 (online)* (2022): 865-878.

²⁰ Mirza Satria Buana. "Struggling with Development: How Decentralization Undermines Traditional Farmers' Cultural Rights in Barito Kuala, Indonesia." *JSEAHR* 6 (2022): 226.

can meet those standards, while low-capacity regions face administrative risks such as reprimands, central affairs, or fiscal restrictions. This reflects that the same norm produces different consequences depending on the level of regional readiness, so that the effectiveness of the law is determined not only by the quality of the norms but also by the conformity between the norms and the capacity of the implementer.

The urgency of handling these two challenges is very high because they have direct implications for the sustainability of regional autonomy and the quality of public services. If the unpreparedness of regional capacities continues to be left unprepared, then the principle of autonomy as broad as possible will lose its substantive meaning: the regions will remain dependent on the center even though normatively they have broad authority. This dependence can create development stagnation, widen the gap between regions, and hinder the goal of national equity. On the other hand, if multi-interpretations and overlapping central-regional regulations are not immediately harmonized, then the decentralization process can experience distortions that lead to a new form of centralization that is contrary to the initial goal of reform.²¹ If this regulatory uncertainty continues, regions will face difficulties in formulating long-term policies, managing budgets strategically, and ensuring consistent quality of public services. Thus, these two challenges are not only technical problems, but strategic issues that are directly related to the effectiveness of local government administration, the stability of central-regional relations, and the success of national development as a whole.

²¹ Siwage Dharma Negara and Francis E. Hutchinson. "The impact of indonesia's decentralization reforms two decades on." *Journal of Southeast Asian Economies* 38, no. 3 (2021): 289-295.

4. Conclusion

This study shows that the effectiveness of decentralization in Indonesia is largely determined by how Law Number 23 of 2014 and Law Number 1 of 2022 are applied in the practice of local government administration. The two regulations, normatively, have provided a comprehensive legal framework in regulating the division of affairs, authority relations, and fiscal mechanisms between the central government and local governments. However, the effectiveness of its implementation depends on the alignment between regional norms and institutional capacity. At the implementation level, the results of the study show that the ability of regions to utilize autonomous space is highly dependent on the quality of governance, competence of apparatus, and readiness of the public administration system. Regions with better capacity tend to be able to translate legal norms into effective policies, while regions with low capacity need additional adjustments and support to be able to meet regulatory standards.

In addition, the challenges of multi-interpretation of national policies and regulatory disharmony remain significant obstacles to the effectiveness of decentralization. The disintegration between the goals of decentralization and national sectoral policies creates implementation uncertainty that can reduce regional innovation space. The urgency of handling this challenge is strategic because the success of decentralization has a direct effect on the quality of public services, the stability of central-regional relations, and the equitable distribution of development throughout Indonesia. As such, continued attention is needed to ensure that the existing legal framework is not only normatively robust, but also supported by

implementing capacity and consistent policy harmonization so that the goal of decentralization can be achieved effectively and sustainably.

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