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The Dynamics of Asymmetric Decentralization in Indonesia: Autonomy or Dependence?

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Abstract: The implementation of asymmetric decentralization in Indonesia presents a juridical-fiscal paradox, wherein the constitutional guarantee of broad autonomy frequently clashes with the high ratio of regional dependence on the central budget. This study aims to comparatively analyze the legal antinomy and governance of asymmetric decentralization in DKI Jakarta, the Special Region of Yogyakarta (DIY), Aceh, and Papua. Employing a socio-legal research method with statute and comparative approaches, this study examines the consistency of norms between the Law on Financial Relations between the Central Government and Local Governments (UU HKPD) and sectoral lex specialis regimes. The results indicate that broad legal autonomy does not correlate directly with fiscal sovereignty. DKI Jakarta has successfully converted its regulatory privileges into Local Own-Source Revenue (PAD) independence. Conversely, the block-grant legal design of special autonomy funds in Aceh and Papua triggers fiscal laziness due to the absence of performance-based normative obligations to optimize local potential, while DIY's fiscal capacity is constrained by rigid legal restrictions regarding the allocation of its Special Funds. This study recommends legal engineering through the harmonization of the UU HKPD with sectoral laws, as well as the transformation of funding transfer formulations into conditional performance-based grants, ensuring that asymmetric status serves as an instrument of equitable independence rather than perpetuating structural dependence.

Keywords: Asymmetric Decentralization, Central-Local Relations, Fiscal Independence, Special Autonomy, State Finance Law

Abstrak: *Implementasi desentralisasi asimetris di Indonesia memunculkan paradoks yuridis-fiskal, di mana jaminan konstitusional atas otonomi luas kerap berbenturan dengan tingginya rasio ketergantungan daerah terhadap anggaran pusat. Penelitian ini bertujuan untuk mengkaji secara komparatif antinomi hukum dan tata kelola desentralisasi asimetris di DKI Jakarta, Daerah Istimewa Yogyakarta (DIY), Aceh, dan Papua. Menggunakan metode penelitian hukum yuridis-empiris (sosio-legal) dengan pendekatan perundang-undangan (statute approach) dan perbandingan hukum (comparative approach), penelitian ini* *menganalisis konsistensi norma antara Undang-Undang Hubungan Keuangan Pusat dan Daerah (UU HKPD) dengan rezim undang-undang kekhususan sektoral. Hasil penelitian menunjukkan bahwa otonomi hukum yang luas (high legal autonomy) tidak berbanding lurus dengan kedaulatan fiskal. DKI Jakarta berhasil mengonversi keistimewaan regulasinya menjadi kemandirian Pendapatan Asli Daerah (PAD). Sebaliknya, desain hukum transfer dana otonomi khusus di Aceh dan Papua yang bersifat block grant memicu fiscal laziness (kemalasan fiskal) akibat ketiadaan kewajiban normatif berbasis kinerja untuk mengoptimalkan potensi lokal, sementara kapasitas fiskal DIY tertahan oleh pembatasan hukum (legal restrictions) yang rigid terhadap peruntukan Dana Keistimewaan. Penelitian ini merekomendasikan perlunya rekonstruksi hukum melalui harmonisasi UU HKPD dengan undang-undang sektoral, serta transformasi formulasi transfer pendanaan menjadi conditional performance-based grant (hibah bersyarat berbasis kinerja) guna memastikan status asimetris berfungsi sebagai instrumen kemandirian yang berkeadilan, bukan pelanggeng ketergantungan struktural.*

Kata Kunci: *Desentralisasi Asimetris, Hukum Keuangan Negara, Hubungan Pusat-Daerah, Kemandirian Fiskal, Otonomi Khusus*

INTRODUCTION

The legal philosophy (*Rechtsidee*) of the Unitary State of the Republic of Indonesia is deeply rooted in the philosophical values of Pancasila, particularly social justice, which mandates the distributive equity of prosperity. In the context of relations between the central and regional governments, this philosophy of justice is not realised through the standardisation of mechanistic policies, but rather through the recognition of regional particularism in order to ensure national integration. Decentralisation is, in essence, a moral and philosophical instrument designed to bring public services closer to the people and to distribute state power so that it is not concentrated in a single entity of authority. This policy embodies constitutional flexibility in maintaining unity by providing scope for the recognition of local identities (Ni'matul Huda, 2014). However, the granting of this asymmetrical status carries a noble mandate to transform these special privileges into tangible welfare. It is this balance that is now being tested: whether these specific legal instruments have succeeded in fostering genuine self-reliance or, conversely, have prolonged the regions' dependence on central government patronage.

The implementation of decentralisation in Indonesia exhibits complex dynamics, particularly within the framework of asymmetric decentralisation. Case studies in several regions, such as the provinces of Aceh, Papua, Yogyakarta and the Special Capital Region of Jakarta, reveal that the dynamics of regional autonomy differ from the symmetric decentralisation model applied in most other regions. Empirically, the implementation of asymmetric decentralisation in Indonesia is not without various challenges that affect the relationship between the central and regional governments, whether in the areas of authority, resource management or fiscal distribution. Experiences in these regions reveal a number of structural issues, ranging from inconsistencies in policy implementation and limited institutional capacity to problems of financial inequality and local governments' dependence on the central government.

As a concrete example, Papua and Aceh-two provinces with special autonomous status governed by their own legislation-face unique internal dynamics in terms of resource mobilisation and fiscal autonomy. Siddiquee et al. found that efforts to encourage the mobilisation of local resources in Eastern Indonesia through fiscal decentralisation policies do not always result in an increase in local fiscal capacity. These findings indicate that regional autonomy-which is normatively expected to improve the quality of governance and public services-has not yet been fully accompanied by the capacity to mobilise local resources. Consequently, the level of fiscal dependence on central government transfers remains relatively high, including in regions with special autonomy status. This phenomenon raises questions as to the extent to which special autonomy actually leads to substantive fiscal independence, or whether it instead reproduces new patterns of dependency in central–regional relations.

Research by Talitha et al. shows that the dynamics of regional development following the decentralisation reform at the regional level still reveal disparities in the pace of regional development between provinces and regencies/cities, as well as between the western and eastern parts of Indonesia. These inequalities are linked to fiscal distribution that remains uneven and has not yet fully promoted equitable development across regions. On the other hand, efforts at asymmetric decentralization-designed to accommodate regional strengths and specificities-often face implementation constraints. Fuhr identifies that many regions are trapped in bureaucratic dependency, resource constraints and low fiscal capacity. These conditions indicate that decentralisation is not always accompanied by an increase in the substantive capacity of local governments to carry out their autonomous functions. The dynamics of these specific events subsequently led to a scholarly debate on the concept of autonomy versus dependence within the framework of asymmetric decentralisation in Indonesia. The main issue lies not merely at the technical level of budget management or regulatory aspects, but rather in institutional transformation and a shift in the development paradigm at the local level. Hoesein, Arifudin and Rahayu emphasise the importance of the effectiveness of decentralisation policies in the administration of local government: "The effectiveness of decentralisation depends heavily on the capacity of local authorities to manage their powers and resources, as well as their ability to innovate in public services that are responsive to the needs of the community. However, practice on the ground still reveals sharp disparities between capable and less capable regions".

The phenomenon described above raises a more fundamental conceptual issue in the context of central–regional relations: Does the implementation of asymmetric decentralisation in Indonesia truly promote greater regional independence (*autonomy*), or does it, on the contrary, create a new structure of dependency that reinforces the central government's dominant role over the regions? Empirically, the implementation of asymmetric decentralisation reveals variations in performance outcomes and implementation challenges across regions. Dependence on central government transfer funds, limited innovation within local bureaucracies, and oversight issues indicate the persistence of limitations in local autonomous capacity.

The findings of Siddiquee et al. regarding conditions in Eastern Indonesia reinforce the argument that asymmetric decentralisation is not merely about the distribution of authority and fiscal resources, but also about building regional capacity to achieve substantive autonomy. In many cases, disparities in regional transfer payments are a key factor in the high levels of development disparity and the limited ability of regions to manage their local potential. A region's capacity to mobilise local resources depends heavily on the economic structure, the quality of human resources, and institutional support that operates in parallel with central government policy. When synergy between these factors is not optimally established, asymmetric decentralisation risks failing to produce effective autonomy. Research by Talitha et al. also shows that, following two decades of decentralisation in Indonesia, success cannot be measured solely by fiscal and administrative parameters, but also by the extent to which regions have succeeded in achieving equitable development and reducing inter-regional disparities. However, decentralisation policies (*whether symmetric or asymmetric*) are still overshadowed by differences in structural and financial capacity between regions, which ultimately have the potential to perpetuate regional dependence on central government.

This legal framework for asymmetric decentralisation is, in fact, firmly enshrined in Articles 18A and 18B of the 1945 Constitution of the Republic of Indonesia. The Constitution explicitly guarantees special or privileged local government units governed by separate laws, such as the Law on Special Autonomy for Papua, the Law on the Government of Aceh, and the Law on the Special Status of the Special Region of Yogyakarta. From a legal-theoretical perspective, these regulations function as lex specialis, providing the broadest possible guarantee of autonomy. However, this asymmetrical legal framework-designed to accommodate the unique characteristics of these regions often faces limitations in its implementation. Many regions find themselves trapped in bureaucratic dependency, resource constraints and low fiscal capacity, despite the significant powers granted to them. This situation highlights that the legal legitimacy of autonomy is not always accompanied by an increase in the substantive capacity of local governments to fully carry out their decentralised functions.

Conflicts of norms or legal antinomies have become increasingly apparent since the central government enacted Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments (the HKPD Law) as a lex generalis aimed at standardising national financial governance. Clashes arise because the rigidity of the HKPD Law often undermines the flexibility in governance guaranteed by laws specific to individual regions. On the other hand, a clear national legal framework remains necessary to strengthen regional capacity whilst maintaining national cohesion through the establishment of minimum standards for the distribution of resources and oversight. As a concrete example, Papua and Aceh face unique internal dynamics; efforts to encourage the mobilisation of local resources through fiscal decentralisation do not always result in an increase in regional fiscal capacity. Regional autonomy, which is normatively expected to improve the quality of public services, has not yet been fully accompanied by the ability to mobilise local resources in a manner that is adaptable to national regulations.

This phenomenon has led to a scholarly debate regarding the concept of autonomy versus dependence within the framework of asymmetric decentralisation. The level of fiscal dependence on central government transfers remains far too high, even placing asymmetric regions in a vulnerable position. Consequently, a fundamental question arises as to the extent to which special autonomy actually results in substantive fiscal autonomy or, conversely, reproduces new patterns of dependence. The operational problem that has arisen is the prevalence of fiscal laziness, whereby the guaranteed availability of abundant transfer funds has caused local governments to lose the incentive to formulate progressive policies on local taxes and levies. The main problem lies not merely at the technical level of budget management or regulatory aspects, but rather in the urgent need for institutional transformation and a paradigm shift in governance at the local level.

The dynamics of asymmetric decentralisation in Indonesia raise questions as to whether it leads to genuine autonomy that is responsive to regional needs, or whether it actually reinforces regional dependence on central government funding and directives. Empirical evidence from Papua suggests that the fiscal impact of asymmetric decentralisation may be correlated with sub-optimal outcomes in education and health when accompanied by inadequate fiscal design or weak accountability, although the international literature highlights the positive potential of decentralisation that is more precisely tailored to regional needs. On the other hand, a number of studies emphasise the importance of a clear national legal framework to strengthen local capacity whilst maintaining national cohesion, through the establishment of minimum standards for the distribution of resources, accountability and oversight mechanisms.

The aim of this study is to examine how the mechanism of asymmetric decentralisation is implemented in various regions of Indonesia, particularly in the context of special autonomy and regions with unique cultural or demographic characteristics (Aceh, Papua, Yogyakarta and Jakarta). This study is based on the assumption that autonomy does not automatically lead to fiscal and institutional independence, particularly if it is not accompanied by the strengthening of institutional capacity, a reduction in dependence on central government transfers, and improvements in the quality of local governance. Consequently, this study aims to examine whether asymmetric decentralisation functions as an instrument for strengthening substantive autonomy or, conversely, perpetuates structural dependence on the central government. This research is expected to make a theoretical contribution to the development of studies on asymmetric decentralisation and public governance, as well as a practical contribution in the form of recommendations for strengthening institutional capacity and designing a more equitable fiscal system to safeguard autonomy without creating sustained dependence on central government transfers. In this study, autonomy is measured in terms of local fiscal capacity and the degree of self-reliance in terms of local own-source revenue, whilst dependence is analysed in terms of the proportion of central government transfer funds relative to total local revenue.

METHODS

This study on asymmetric decentralisation in Indonesia utilises secondary data (*regulatory documents, government reports and academic literature*). A qualitative approach was chosen to analyse legal, institutional and cultural nuances, as well as local contexts, without relying on controlled experiments; consequently, secondary data serves as a rich source for narrative and conceptual analysis. The aim of this study is to examine how the mechanism of asymmetric decentralisation is implemented in various regions of Indonesia, particularly in the context of special autonomy and regions with unique cultural or demographic characteristics (Aceh, Papua, Yogyakarta, Jakarta).

This study employs documentary analysis and a structured literature review (Cronin et al., 2008), complemented by a comparative analysis of the regulatory frameworks and implementation practices of asymmetric decentralization across the selected regions. The documentary dataset consists of primary and secondary official sources, including the Regional Government Law, Special Autonomy Laws, the Omnibus Law, relevant regulations issued by the Ministry of Home Affairs, regional regulations governing special or distinctive autonomy, central–regional policy documents, regional performance evaluation reports, Regional Financial Reports (LKPD), audited reports issued by the Audit Board of the Republic of Indonesia (BPK), and official publications of relevant ministries and regional governments. To ensure transparency and reproducibility, each case was documented through a standardized document inventory and coding protocol. The inventory records the title and type of document, issuing institution, legal status, year of issuance, relevant provisions, source location, and period of observation. The analysis covers the selected regions and specifies the observation period for each case, taking into account changes in regional administrative structures and the implementation of asymmetric decentralization policies. Where provincial or regional reorganization occurred, the relevant administrative configuration and its implications for comparability were explicitly identified.

The comparative analysis focuses on three dimensions: (1) the distribution of governmental authority between the central and regional governments; (2) the design of fiscal arrangements, including locally generated revenue (PAD), intergovernmental transfers, other revenue, and total regional revenue; and (3) institutional and oversight mechanisms. Fiscal data were extracted from audited LKPD and BPK reports for comparable fiscal years and reported in consistent rupiah units. For each case, the study records the relevant revenue components, observation year, source document, and calculation procedures, including the basis for any ratios presented in the analysis. Missing, revised, or restated financial accounts were identified and treated explicitly in accordance with the information provided in the corresponding official reports.

The coding process involved identifying provisions and empirical evidence relevant to authority, fiscal capacity, fiscal dependence, and oversight, followed by systematic comparison across cases. Differences in regulatory design and implementation were then interpreted in relation to the degree of regional autonomy and dependence on central government resources. To maintain comparability, fiscal comparisons were restricted to audited years with sufficiently consistent administrative and accounting classifications. Accordingly, the analysis does not infer differences in fiscal autonomy from non-comparable fiscal years or unsupported financial estimates.

RESULTS AND DISCUSSION

The Context of Fiscal Decentralization in Indonesia

Fiscal decentralisation has been one of the main pillars of governance reform in Indonesia since the Reform era in the late 1990s. This policy is designed to grant local governments greater authority to manage development and provide public services in line with the needs of local communities. The implementation of fiscal decentralisation in Indonesia is often referred to as big bang decentralisation, as the devolution of administrative and fiscal powers was carried out relatively rapidly through fundamental regulatory changes to the local government system. These reforms transformed the relationship between the central and local governments, particularly with regard to the distribution of fiscal powers and the mechanisms for financing regional development.

Within the framework of fiscal decentralisation, financial relations between the central and local governments are governed by the central-local government fiscal equalisation system, which aims to ensure that local governments have adequate funding to exercise their powers. This system is designed to reduce disparities in fiscal capacity between regions whilst supporting the effective implementation of regional autonomy. This balancing mechanism is implemented through various fiscal transfer schemes from the central government to local governments as a means of supporting the financing of regional development and maintaining national fiscal stability.

Generally speaking, the structure of local government revenue in Indonesia comprises three main components, namely Local Own-Source Revenue (PAD), fiscal transfers from the central government, and other legitimate revenue. PAD refers to revenue derived from local economic sources such as local taxes, local levies and the management of local assets. In the context of fiscal decentralisation, PAD is often used as a key indicator of a region’s level of fiscal autonomy, as it reflects the local government’s ability to mobilise local economic resources to finance development. However, the contribution of local own-source revenue to total regional revenue in Indonesia still varies considerably from one region to another.

In addition to local revenue (PAD), local governments also receive financial support through various fiscal transfer mechanisms from the central government. These transfers consist of the General Allocation Fund (DAU), the Special Allocation Fund (DAK) and the Revenue-Sharing Fund (DBH). The DAU serves as an instrument of fiscal equalisation to reduce disparities in fiscal capacity between regions, whilst the DAK is allocated to support the funding of specific development programmes in the regions. The DBH is a mechanism for sharing state revenue from the tax sector and natural resources with the producing regions. Through these various transfer instruments, the central government endeavours to maintain national fiscal balance whilst ensuring that regions with limited economic capacity retain the ability to provide basic public services to the community.

In addition to these regular transfer schemes, Indonesia also implements an asymmetric decentralisation policy by providing special autonomy funds to certain regions, such as Aceh and Papua. These special autonomy funds are provided as part of the government's policy to accommodate the distinct political, social and historical characteristics of these regions and to accelerate regional development. Although these funds provide recipient regions with considerable additional fiscal capacity, various studies indicate that the majority of local governments in Indonesia still rely heavily on fiscal transfers from the central government.

These variations in local revenue (PAD) and fiscal transfers reflect disparities in fiscal capacity between regions within Indonesia's decentralisation system. Regions with a strong economic base tend to have a higher degree of fiscal autonomy as they are able to generate significant amounts of local revenue (PAD). Conversely, regions with limited economic capacity often rely on fiscal transfers from the central government to finance the majority of their regional development activities. This situation indicates that the implementation of fiscal decentralisation in Indonesia is influenced not only by the design of institutional policies, but also by considerable variations in regional economic capacity.

Table 1. Structure of Regional Revenue in Indonesia's Fiscal Decentralization System *Revenue Sources Characteristics*

Revenue Local Revenue	Revenue derived from local economic sources such as local taxes, local fees, and the management of local assets
Central Government Transfers	Fiscal transfers from the central government to local governments through the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Revenue-Sharing Fund (DBH)
Special Autonomy Funds	Additional funds provided to regions with special autonomy status, such as Aceh and Papua, to support accelerated regional development

Source: Ministry of Finance fiscal statistics and regional financial reports, processed.

This structure of local government revenue indicates that the fiscal capacity of local governments in Indonesia is heavily influenced by their ability to generate own-source revenue and by the level of fiscal transfers from the central government. These variations provide an important context for understanding how asymmetric decentralisation operates in practice and how differences in fiscal capacity between regions affect the level of fiscal autonomy of local governments. Therefore, the following section will analyse in greater detail the characteristics of fiscal capacity in several case study regions, namely DKI Jakarta, the Special Region of Yogyakarta, Aceh and Papua.

Characteristics of Fiscal Capacity in the Study Regions

To understand variations in fiscal capacity within Indonesia's decentralised system, this study analyses several regions that represent different characteristics in the fiscal relationship between the central and regional governments. Four provinces were selected as case studies: DKI Jakarta, the Special Region of Yogyakarta (DIY), Aceh, and Papua. The selection of these regions was based on differences in regional economic capacity, institutional status within the decentralised system, and variations in local revenue structures. DKI Jakarta represents a region with strong economic capacity and a relatively high level of fiscal autonomy, whilst DIY exhibits a more moderate fiscal structure. On the other hand, Aceh and Papua are regions with special autonomy status that receive additional funding allocations from the central government through the special autonomy fund scheme.

These differences in economic and institutional characteristics are reflected in the structure of each region's local revenue. DKI Jakarta has a strong economic base as the centre of national economic activity and is therefore able to generate a significant amount of Local Own-Source Revenue (PAD). Conversely, several other regions in Indonesia still show a greater degree of dependence on fiscal transfers from the central government due to the limitations of their local economic base. To provide a more systematic overview of variations in fiscal capacity across regions, the structure of local government revenue in the study areas can be summarised in the following table.

Table 2. Fiscal Structure of the Study Regions

Province	***PAD***	***Transfers***	***Total Revenue***	***PAD Ratio***
DKI Jakarta	High	Low	High	High
Region Special Yogyakarta	Moderate	Moderate	Moderate	Moderate
Aceh	Low	High	High	Low
Papua	Very Low	Very High	High	Very Low

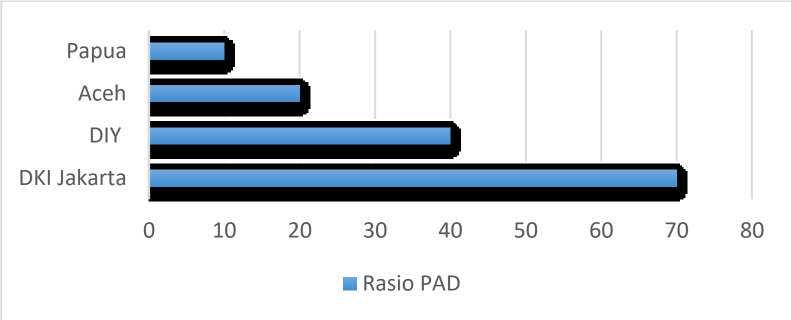
Source: Provincial budget reports (APBD), Ministry of Finance fiscal statistics, processed

The table shows that there are quite significant variations in fiscal capacity between regions. DKI Jakarta has a relatively high ratio of own-source revenue (PAD) compared with other regions, indicating a greater degree of fiscal autonomy. As the centre of national economic activity, Jakarta has a broad local tax base and intensive economic activity, enabling it to generate significant local tax revenue. Conversely, the Special Region of Yogyakarta exhibits a more balanced fiscal structure between local revenue (PAD) and fiscal transfers from the central government. The contribution of local revenue from the tourism, education and creative economy sectors provides a fairly stable fiscal base for the regional government, although fiscal transfers still play an important role in financing regional development. Meanwhile, Aceh and Papua exhibit different fiscal structure patterns compared to these two regions. The special autonomy status enjoyed by these two regions provides access to special autonomy funds as part of the asymmetric decentralisation policy. Although the allocation of these funds increases the total fiscal capacity of the regions, the contribution of PAD to total regional revenue remains relatively low. This indicates that regional development in special autonomy regions is still heavily influenced by fiscal transfers from the central government. These differences in fiscal structure across regions demonstrate that regional fiscal capacity in Indonesia is determined not only by the design of decentralisation policy but also by variations in regional economic capacity. It is therefore important to conduct a further comparison of the ratios of PAD to fiscal transfers across regions to examine how these variations in fiscal capacity are reflected in the level of regional fiscal autonomy.

Comparison of Regional Fiscal Structures

A comparison of fiscal structures across regions provides a clearer picture of the variations in fiscal capacity within Indonesia's decentralised system. This analysis focuses on the ratio of Local Own-Source Revenue (PAD) to total regional revenue as the primary indicator of the level of fiscal autonomy of local governments. By comparing the contribution of PAD and central government transfers across the study regions, this research is able to identify patterns of differences in fiscal capacity that have emerged in the implementation of fiscal decentralisation in Indonesia. These variations are influenced not only by the design of decentralisation policies, but also by differences in regional economic structures and the capacity of local authorities to mobilise local fiscal resources.

Generally speaking, regions with a strong economic base tend to make a larger contribution from local revenue (PAD) to total regional revenue. Conversely, regions with limited economic capacity are usually more reliant on fiscal transfers from the central government to finance regional development. This pattern can be seen by comparing the PAD ratios across the study areas presented in the following visualisation.



Source: Local government budget reports and Ministry of Finance fiscal statistics, processed
Figure 1. Comparison of the PAD Ratio to Total Regional Revenue

The visualisation shows that DKI Jakarta has the highest ratio of local revenue (PAD) compared to other regions. This reflects strong regional economic capacity as well as the local government's ability to optimise various local tax instruments as the primary source of local revenue. The high contribution of local revenue also indicates that the local government enjoys a relatively higher level of fiscal autonomy compared to other regions within Indonesia's decentralised system. Meanwhile, the Special Region of Yogyakarta exhibits a more balanced fiscal structure between local revenue (PAD) and fiscal transfers from the central government. Although local revenue (PAD) makes a significant contribution to regional revenue, the local government still relies on fiscal support from the central government to fund various regional development programmes.

In contrast to these two regions, Aceh and Papua exhibit a higher level of fiscal dependence on central government transfers. The special autonomy status enjoyed by both regions grants them access to special autonomy funds as part of the asymmetric decentralisation policy. However, the contribution of PAD to total regional revenue remains relatively small, meaning that regional development is still heavily reliant on fiscal transfers from the central government. This comparison demonstrates that the implementation of fiscal decentralisation in Indonesia has resulted in significant variations in fiscal capacity across regions. These differences can be categorised into several patterns of regional fiscal capacity, which will be explained in the following section.

Categorization of Research Findings

Based on an analysis of the fiscal structure across the four study regions, this research subsequently categorises the key findings to identify patterns of local fiscal capacity within Indonesia's decentralisation system. This categorisation was carried out by considering the ratio of Local Own-Source Revenue (PAD) to total regional revenue, as well as the level of dependence on fiscal transfers from the central government. Through this approach, the study was able to group regions based on the characteristics of their fiscal capacity and their level of fiscal autonomy.

The results of the analysis show that there are quite significant differences in fiscal structures across regions. Regions with a strong economic base tend to have a larger contribution from Local Own-Source Revenue (PAD) and a lower level of dependence on central government transfers. Conversely, regions with more limited economic capacity exhibit a higher level of fiscal dependence on central government transfer mechanisms, particularly through general allocation funds, special allocation funds and special autonomy funds.

Table 3. Categorization of Findings on Regional Fiscal Decentralization Fiscal Capacity Region Key Findings

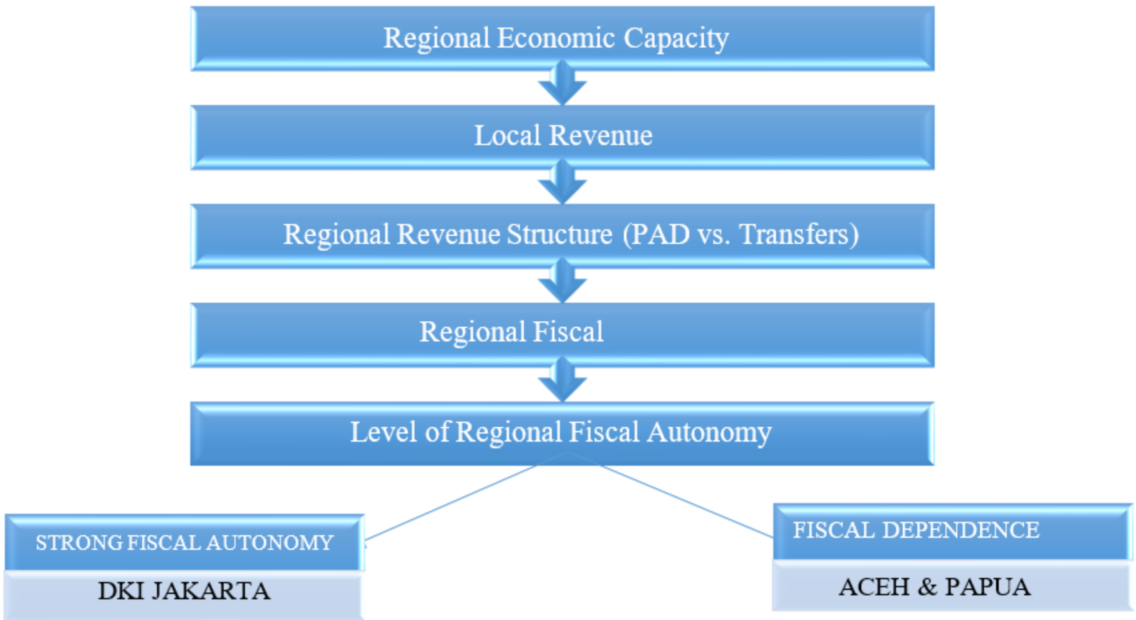
High Fiscal Autonomy	DKI Jakarta	Local revenue (PAD) is the primary source of regional revenue with low dependence on central government transfers
Moderate Fiscal Capacity	DIY	Revenue structure is relatively balanced between local revenue and central government transfers
High Fiscal Dependency	Aceh	Local revenue is dominated by central government transfers and special autonomy funds
Very High Fiscal Dependency	Papua	Local revenue is very limited, so regional development is highly dependent on central government transfers

Source: local government fiscal reports and Ministry of Finance statistics, processed.

This categorisation indicates that the implementation of fiscal decentralisation in Indonesia has not yet resulted in an equal level of fiscal autonomy across regions. Regions with strong economic structures have a greater capacity to generate local revenue (PAD) and thus enjoy a higher level of fiscal autonomy. Conversely, regions with limited economic capacity remain heavily reliant on fiscal transfer mechanisms from the central government to finance regional development. These findings suggest that variations in regional economic capacity play a significant role in determining the level of fiscal autonomy of local governments. It is therefore important to analyse further how the design of asymmetric decentralisation affects the dynamics of regional fiscal autonomy, as well as fiscal capacity disparities between regions in Indonesia. This analysis will be discussed in greater detail in the following section.

Synthesis Model of Research Findings

Based on an analysis of regional fiscal structures and the categorisation of research findings, a synthetic model can be formulated that illustrates the relationship between regional economic capacity, the ability to generate Regional Own-Source Revenue (PAD), and the level of fiscal autonomy within the framework of decentralisation in Indonesia. This model demonstrates that regional economic capacity plays a significant role in shaping the structure of regional revenue whilst also influencing the level of regional dependence on fiscal transfers from the central government.



Source: Author's synthesis based on research findings.

Figure 2. Model of Regional Fiscal Capacity and Autonomy in the Decentralization System

Empirically, research findings indicate that regions with stronger economic capacity tend to have a larger share of local revenue (PAD) in their total regional revenue. This situation ultimately fosters a higher level of fiscal autonomy, as seen in the case of DKI Jakarta, which has a relatively strong economic base and regional fiscal activity. Conversely, regions with more limited economic capacity exhibit a relatively low contribution from local revenue (PAD), meaning that the structure of their regional revenue is more heavily dominated by fiscal transfers from the central government. This pattern is reflected in special autonomous regions such as Aceh and Papua, which still have a fairly high level of fiscal dependence.

These empirical findings indicate that variations in regional economic capacity are a key factor influencing the level of fiscal autonomy of local governments within Indonesia’s decentralisation system. Consequently, the dynamics of the relationship between regional economic capacity, the structure of local government revenue, and fiscal dependence are crucial aspects to understand when designing more effective decentralisation policies. Therefore, the following section will discuss in greater detail the implications of these research findings for the design of asymmetric decentralisation policies in Indonesia.

DISCUSSION

Fiscal Autonomy and Regional Economic Capacity

The research findings indicate that local fiscal capacity is significantly influenced by regional economic capacity to generate Local Own-Source Revenue (PAD). Regions with a strong economic base tend to have a larger share of PAD in their total local revenue, and consequently enjoy a higher level of fiscal autonomy than regions with limited economic capacity. These findings are consistent with various previous studies which indicates that regional economic capacity is a key determinant in shaping the fiscal capacity of local governments within a decentralised system.

The fundamental urgency of analysing the asymmetrical financial relationship between the central and regional governments stems from a conflict of norms (*legal antinomy*) between regulations of a unifying nature and those of a specific nature. The enactment of Law No. 1 of 2022 on Financial Relations between the Central Government and Local Governments (the HKPD Law) embodies the ambition to codify and unify national fiscal law as a lex generalis. On the other hand, the existence of the Province of Aceh (Law No. 11/2006), Papua The foundational framework is Law No. 21 of 2001 on Special Autonomy for the Province of Papua, as amended, most recently in the relevant period by Law No. 2 of 2021. Its implementation is further governed by, among others, Government Regulation No. 106 of 2021 concerning the Authority and Institutional Arrangements for the Implementation of Special Autonomy Policy in Papua and Government Regulation No. 107 of 2021 concerning the Receipt, Management, Supervision, and Master Plan for Accelerating Development in the Context of Special Autonomy in Papua. Government Regulation No. 106 of 2021 was subsequently amended by Government Regulation No. 46 of 2025, the Special Region of Yogyakarta (Law No. 13/2012), and the Special Capital Region of Jakarta- which is currently undergoing transformation through Law No. 2 of 2024 on the Province of Special Jakarta, as amended by Law No. 151 of 2024 on the Special Capital Region of Jakarta-constitutes a lex specialis regime guaranteed by Article 18B of the 1945 Constitution of the Republic of Indonesia.

In legal doctrine, the principle of lex specialis derogat legi generali provides that a specific legal regime may prevail over a general legal regime when both regulate the same subject matter and their provisions are incompatible. In the context of regional fiscal governance, however, the relationship between special or distinctive autonomy laws and the general framework established by Law No. 1 of 2022 on Financial Relations between the Central Government and Regional Governments (UU HKPD) requires careful examination rather than being assumed to constitute a normative conflict. Law No. 1 of 2022 establishes a general framework for regional revenue, taxation, expenditure, and intergovernmental fiscal relations, while special-regime laws provide differentiated institutional and fiscal arrangements for particular regions. The coexistence of these regimes therefore raises questions concerning the scope of special provisions, their hierarchy and temporal application, and the extent to which general fiscal rules apply to regions governed by special legislation.

For this reason, this study distinguishes between a genuine normative conflict and challenges arising from implementation, institutional capacity, or intergovernmental coordination. A normative conflict is identified only where two applicable provisions regulate the same subject matter in incompatible ways and cannot be reconciled through principles of statutory interpretation. By contrast, differences in administrative practice, fiscal capacity, or regulatory implementation are treated as implementation or coordination issues rather than as conflicts of norms. This distinction is particularly important in assessing the fiscal implications of asymmetric decentralization, because the existence of a general fiscal framework does not, by itself, establish that special autonomy arrangements have been legally displaced or rendered ineffective.

The case of DKI Jakarta illustrates how regional economic strength can significantly boost a local authority's fiscal capacity. As the centre of national economic activity, Jakarta has a broad local tax base derived from the trade, services and industrial sectors. This situation enables the local government to generate substantial local tax revenue, meaning that the contribution of local own-source revenue (PAD) to total local revenue is dominant. This high contribution from PAD provides the local government with greater policy scope to design development programmes and improve the quality of public services without being heavily reliant on fiscal transfers from the central government.

These findings reinforce the argument in the literature on fiscal decentralisation that local autonomy depends not only on the institutional design or regulatory framework of decentralisation, but also on local economic capacity, which underpins local governments' ability to generate their own revenue. In other words, fiscal decentralisation will be more effective if local authorities have a sufficiently strong economic base to support fiscal autonomy. Conversely, regions with more limited economic capacity tend to make a smaller contribution to local revenue (PAD) and are therefore more reliant on fiscal transfers from the central government. This situation indicates that variations in regional economic capacity can result in differing levels of fiscal autonomy across regions within a decentralised system. Consequently, the success of fiscal decentralisation is determined not only by the central government's fiscal transfer policies, but also by the regions' ability to develop a local economic base capable of increasing local revenue.

Consequently, the relationship between regional economic capacity and regional fiscal autonomy is a key factor in understanding the dynamics of fiscal decentralisation implementation in Indonesia. These findings also reinforce the research's conceptual model, which suggests that regional economic capacity influences local governments' ability to generate local revenue, which ultimately determines the level of fiscal autonomy and the effectiveness of regional autonomy implementation.

Fiscal Dependency in Asymmetric Decentralization

Within the framework of asymmetric decentralisation policy, the central government provides additional funding to specific regions through various fiscal instruments, including special autonomy funds. This policy is essentially designed to accommodate the distinct political, social and historical characteristics of these regions, whilst accelerating development in relatively underdeveloped areas. However, various studies indicate that increased fiscal transfers are not always accompanied by an increase in local governments' capacity to generate their own revenue.

From a legal-conceptual perspective, the granting of special autonomy and privileges constitutes a form of vertical separation of powers through the method of attribution of authority. The theory of 'covert re-centralisation' suggests that the extensive political and legislative powers held by Aceh and Papua (such as the enforcement of Islamic Sharia law and the recognition of customary rights) are, in essence, flawed because they are not accompanied by true fiscal sovereignty. There is a wide gap between legal competence and financial capacity. The broad scope of governmental affairs delegated by the Central Government has become a new legal burden for local governments when their Local Own-Source Revenue (PAD) is insufficient to support the implementation of these local regulations.

To examine this dysfunction, Lawrence M. Friedman's Theory of Legal Systems can be drawn upon to analyse why large transfers of funds from the State Budget do not correlate directly with regional autonomy. From the perspective of legal substance, the formulation of legal norms governing special autonomy is often in the form of blanket clauses that are open to multiple interpretations and do not bind regional governments to the obligation of increasing their fiscal autonomy. From the perspective of legal structure, the institutional capacity of regional executive and legislative bodies is paralysed when it comes to formulating Regional Regulations (Qanun or Perdasus) aimed at intensifying taxation. Consequently, in terms of legal culture, an institutionalised phenomenon of fiscal laziness has emerged. The legal guarantee of central government transfer payments amounting to trillions of rupiah per year has caused the local legal elite to lose the normative incentive to explore local economic potential. The extensive autonomy granted by the constitution has turned into an 'illusion of autonomy' as structural dependence on the central government budget has, in fact, grown even stronger.

The case of Aceh demonstrates how special autonomy funds can significantly increase a region's total fiscal capacity, but do not always lead to an increase in the share of local own-source revenue within the regional revenue structure. The majority of local government revenue still derives from fiscal transfers from the central government; consequently, local governments' ability to finance development remains heavily dependent on funding allocations from the central government. This situation indicates that, although asymmetric decentralisation provides local governments with greater fiscal space, fiscal autonomy does not necessarily increase if the local economic base does not develop significantly.

A similar phenomenon is also evident in Papua. In addition to receiving special autonomy funds, Papua also receives various forms of additional fiscal transfers from the central government as part of policies to accelerate regional development. However, the contribution of local own-source revenue (PAD) to total local government revenue remains relatively low compared to regions with a stronger economic base. This indicates that local economic capacity plays a crucial role in determining the level of a region's fiscal autonomy within the decentralisation system.

These findings suggest that asymmetric decentralisation has two distinct sides. On the one hand, this policy can provide regions with additional fiscal capacity to support development and the provision of public services. On the other hand, high dependence on fiscal transfers also has the potential to create weak incentives for local governments to develop local revenue sources. In the long term, this situation may limit the effectiveness of fiscal decentralisation in promoting regional autonomy. Therefore, asymmetric decentralisation policies must be accompanied by strategies to strengthen local economic capacity and enhance local governments' ability to mobilise local revenue sources. Without such efforts, large fiscal transfers from the central government risk reinforcing patterns of local fiscal dependence and undermining the effectiveness of decentralisation's primary objective: to enhance the autonomy and self-reliance of local governments.

Fiscal Capacity Disparities Across Regions

The findings of this study also reveal disparities in fiscal capacity between regions within Indonesia's decentralisation system. These disparities are reflected in differences in the contribution of Local Own-Source Revenue (PAD) to total local revenue, as well as in the extent to which local governments rely on fiscal transfers from the central government. These variations in fiscal capacity are influenced not only by the design of decentralisation policy, but also by differences in regional economic structures, levels of local economic activity, and the institutional capacity of local governments to manage fiscal resources.

Differences in the wording of special legislation have resulted in conflicting fiscal implications on the ground. The legal framework of Law No. 2 of 2024 (the DKJ Law) is designed to strengthen Jakarta's role as the national economic centre following the relocation of the national capital. As a legal consequence, Jakarta has been granted the authority to regulate investment incentives and implement a highly progressive urban tax integration scheme. This has resulted in Jakarta's ratio of local revenue (PAD) exceeding 60 per cent, an example of how asymmetrical legal instruments have successfully been converted into substantive fiscal autonomy.

This situation contrasts sharply with that of the Special Region of Yogyakarta (DIY). Under Law No. 13 of 2012, the allocation of the Special Status Fund is constrained by highly rigid normative provisions, namely that it is to be used solely to fund institutional affairs, culture, land affairs and spatial planning. These legal restrictions preclude the DIY government from using the Special Status Fund to intervene in strengthening the macroeconomic sector or regional industrialisation, which could trigger an increase in local revenue (PAD). Consequently, DIY's fiscal position remains at a moderate level. Meanwhile, a comparison of the legal regimes in Aceh and Papua reveals the nadir of decentralisation's objectives. Although both regions possess the highest-ranking lex specialis legal instruments, with massive allocations of special autonomy funds, the ratio of their own-source revenue (PAD) remains below 10 per cent. This comparison demonstrates a theoretical antithesis: in the absence of a regulatory framework that enshrines performance-based accountability, the asymmetrical granting of special legal status actually perpetuates disparities in welfare and exacerbates structural dependence on the central government's budgetary goodwill.

Regions with a strong economic base, such as DKI Jakarta, have a greater capacity to generate local revenue (PAD), resulting in a relatively higher level of fiscal autonomy. Intensive economic activity in the trade, services and industrial sectors creates a broad local tax base that local governments can utilise as a primary source of revenue. This situation enables local governments to fund various development programmes with less reliance on central government transfers. Consequently, regional economic capacity is a key factor determining a region's fiscal capacity within a decentralised system. Conversely, regions with more limited economic structures exhibit a higher level of dependence on fiscal transfers from the central government. This is evident in regions such as Aceh and Papua, where, despite receiving substantial allocations of special autonomy funds, the contribution of local revenue (PAD) to total regional revenue remains relatively low. This situation indicates that disparities in fiscal capacity between regions are influenced not only by fiscal transfer policies, but also by differences in the level of regional economic development and the limitations of the local economic base.

Various previous studies have also shown that disparities in fiscal capacity are one of the main challenges in the implementation of decentralisation in developing countries. Fiscal transfer systems designed to reduce disparities between regions are often not fully capable of addressing the fairly significant differences in regional economic capacity. Therefore, fiscal decentralisation policies need to be accompanied by regional economic development strategies that can strengthen the regional economic base and enhance the capacity of local governments to generate own-source revenue.

Consequently, disparities in fiscal capacity between regions are one of the key factors influencing the dynamics of fiscal relations between the central and local governments within Indonesia's decentralised system. These findings suggest that the success of fiscal decentralisation depends not only on the central government's fiscal transfer mechanisms, but also on the ability of local governments to develop local economic capacity that can support long-term fiscal autonomy.

Implications of Fiscal Decentralization Policy

The findings of this study provide several important implications for the development of fiscal decentralization policy in Indonesia. Variations in fiscal capacity across regions indicate that the success of regional autonomy implementation depends not only on the design of the central government's fiscal transfer policies but also on the regions' ability to develop a local economic base that can increase Local Own-Source Revenue (PAD). Therefore, fiscal decentralization policies must be directed not only toward the distribution of fiscal resources but also toward strengthening regional economic capacity.

One important policy implication is the need for a more comprehensive strategy to enhance local governments' ability to mobilize local revenue sources. Local governments need to be encouraged to develop various local economic potentials by strengthening economic sectors that make significant contributions to local tax revenue. This can be achieved through increased local investment, the development of productive economic sectors, and the strengthening of local tax and fee administration. By strengthening the local economic base, local governments can increase the contribution of PAD, thereby sustainably improving the level of local fiscal autonomy.

Additionally, fiscal transfer policies from the central government must be designed to be more adaptive, taking into account variations in economic capacity across regions. Fiscal transfer mechanisms such as the General Allocation Fund (DAU) and the Special Allocation Fund (DAK) must continue to be directed toward reducing fiscal capacity disparities among regions, particularly for areas with limited local economic bases. In the context of regions with special autonomy status, such as Aceh and Papua, fiscal transfer policies must also be accompanied by efforts to enhance the institutional capacity of local governments so that the utilization of special autonomy funds can be more effective in supporting regional development.

Another policy implication relates to the importance of strengthening the institutional capacity of local governments in public financial management. The ability of local governments to plan, manage, and evaluate the use of the local budget is a critical factor determining the effectiveness of fiscal decentralization policies. Therefore, enhancing the capacity of local bureaucracies and strengthening public financial management systems are crucial steps to ensure that local fiscal resources are utilized optimally.

To resolve the existing legal-fiscal dilemma, efforts at *legal engineering* are needed to reconstruct the legal architecture of central-local government relations in Indonesia. The first step is to harmonize regulations through a mechanism for synchronizing of state administration. As *the lex generalis*, the Regional Fiscal Autonomy Law must provide a clear exception (*salvatory clause*) for asymmetric regions. This exception is not intended to exempt special regions from oversight, but rather to provide regulatory flexibility for local governments in managing regional tax options that align with their sociological characteristics, such as sharia-based fund management in Aceh or customary land rights in Papua.

The second step is to review the legal provisions governing the disbursement of Special Autonomy Funds and Special Privilege Funds in sectoral laws. The current funding distribution model, which has primarily relied on block grants, may be reviewed to consider the introduction of performance-informed allocation mechanisms. Any future reform should be supported by clear and measurable criteria, including the development of local investment regulations, improvements in local revenue capacity (PAD), and other indicators relevant to regional development and public service delivery. However, the use of PAD as a performance indicator should take into account differences in local economic structures and fiscal capacities in order to avoid disadvantaging regions with limited revenue potential. Therefore, any revised funding mechanism should clearly specify the grant base, performance indicators, minimum funding safeguards, monitoring and audit procedures, appeal mechanisms, and provisions for responding to economic or other external shocks. Further empirical research is also needed to assess the potential distributional effects of such a mechanism across regions with different fiscal capacities. This legal and institutional restructuring is intended to support a more transparent, accountable, and equitable central-local fiscal relationship within the constitutional framework of the Unitary State of the Republic of Indonesia.

The findings of this study indicate that fiscal decentralization policies must be understood not merely as a mechanism for distributing fiscal resources between the central and local governments, but also as part of a broader regional economic development strategy. Without strengthening local economic capacity and effective local governance, fiscal transfer policies risk creating sustained fiscal dependency and limiting the primary objectives of decentralization namely, enhancing regional self-reliance and the effectiveness of public services. Thus, the design of fiscal decentralization policies in Indonesia needs to be directed toward a balance between fiscal equalization mechanisms and the strengthening of local economic capacity, so that regional autonomy can function more effectively and sustainably in the long term.

CONCLUSIONS AND RECOMMENDATIONS

This study concludes that the implementation of asymmetric decentralization in Indonesia, with a focus on DKI Jakarta, the Special Region of Yogyakarta, Aceh, and Papua, has resulted in a sharp legal-fiscal paradox. The granting of very broad legal authority (*high legal-political autonomy*) has proven not to automatically lead to local *fiscal sovereignty*. Empirical evidence demonstrates that regional economic capacity absolutely requires the determination of an appropriate legal institutional design. DKI Jakarta has successfully converted its legal privileges into fiscal autonomy through progressive local regulations, resulting in the ratio of Local Original Revenue (PAD) dominating the structure of its Regional Budget (APBD). Conversely, the special autonomy regimes in Aceh and Papua have actually confirmed the existence of an “illusion of autonomy”; where the legal framework of *lex specialis* and massive affirmative funding have, in fact, failed to free these regions from the structural dependence on central government transfers.

This dynamic underscores the dysfunction of the state’s financial legal system, triggered by regulatory design conflicts (*legal antinomies*) between the unification of governance instruments in the Law on Central-Regional Financial Relations (UU HKPD) and various regional special laws. The policy of asymmetric decentralization has so far fueled the phenomenon of *fiscal laziness*, where the constitutional guarantee of *block grants* from the central government has led local governments to neglect formulating local legislative instruments (*Perda/Qanun/Perdasus*) oriented toward economic self-reliance. Meanwhile, regions such as DIY are constrained by highly rigid normative *restrictions* regarding the allocation of their special funds. These facts demonstrate that the success of asymmetric decentralization cannot be based solely on the nominal amount of fiscal transfers, but rather on the capacity of local bureaucracies to translate political autonomy into competitive economic regulatory governance.

As a resolution to this dilemma, this study recommends the urgent need for *legal* engineering to reconstruct the architecture of central-local financial relations. Regulatory harmonization must be implemented by shifting the paradigm of special autonomy funds and special funds from passive funding instruments to *conditional performance-based grants* (grants contingent on regulatory and economic performance). The design of asymmetric decentralization policy must be restored to its constitutional principles, namely balancing the equitable distribution of welfare from the central government with the obligation to empower local governments. It is through this legal synchronization that the asymmetric status can truly function as an instrument for strengthening local sovereignty, rather than a means of perpetuating new dependencies within the framework of the Unitary State of the Republic of Indonesia.

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