

Fiscal Decentralization on Economic Growth (A Systematic Literature Review)

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Abstract

This study aims to explore the impact of fiscal decentralization on economic growth in Indonesia through the Systematic Literature Review (SLR) approach. The SLR method is used to explore, evaluate, and analyze the results of relevant studies on the relationship between fiscal decentralization and economic growth. This process includes selecting appropriate scientific articles, screening literature, and thematic analysis to identify general patterns and important findings. The results of the study indicate that fiscal decentralization has the potential to drive economic growth at the regional level, especially if supported by good regional financial governance, strong institutional capacity, and effective budget allocation in productive sectors such as education, health, and infrastructure. Fiscal decentralization can have a positive impact on regional economic growth, especially if supported by quality regional financial management, adequate institutional capacity, and appropriate allocation of funds to productive sectors such as education, health, and infrastructure. Regions that have weaknesses in fund management and monitoring capacity have difficulty utilizing the potential of fiscal decentralization, so that its impact on the economy is not significant. Based on these findings, this study recommends that fiscal decentralization policies focus on strengthening institutional capacity and regional financial management to maximize the potential for economic growth.

Keywords: *Fiscal Decentralization, Capital, Economic Growth, Systematic Literature Review (SLR).*

Abstrak

Penelitian ini bertujuan untuk mengeksplorasi dampak desentralisasi fiskal terhadap pertumbuhan ekonomi di Indonesia melalui pendekatan *Systematic Literature Review* (SLR). Metode SLR digunakan untuk mengeksplorasi, mengevaluasi, dan menganalisis hasil-hasil studi yang relevan mengenai hubungan antara desentralisasi fiskal dan pertumbuhan ekonomi. Proses ini mencakup pemilihan artikel ilmiah yang sesuai, penyaringan literatur, dan analisis tematik untuk mengidentifikasi pola umum serta temuan-temuan penting. Hasil penelitian menunjukkan bahwa desentralisasi fiskal memiliki potensi untuk mendorong pertumbuhan ekonomi di tingkat regional, terutama jika didukung oleh tata kelola keuangan daerah yang baik, kapasitas kelembagaan yang kuat, serta alokasi anggaran yang efektif pada sektor-sektor produktif seperti pendidikan, kesehatan, dan infrastruktur. Desentralisasi fiskal dapat

memberikan dampak positif terhadap pertumbuhan ekonomi daerah, khususnya apabila dikelola dengan manajemen keuangan daerah yang berkualitas, kapasitas kelembagaan yang memadai, dan alokasi dana yang tepat pada sektor-sektor produktif seperti pendidikan, kesehatan, dan infrastruktur. Daerah yang memiliki kelemahan dalam pengelolaan dana dan kapasitas pengawasan akan mengalami kesulitan dalam memanfaatkan potensi desentralisasi fiskal, sehingga dampaknya terhadap perekonomian menjadi tidak signifikan. Berdasarkan temuan tersebut, penelitian ini merekomendasikan agar kebijakan desentralisasi fiskal difokuskan pada penguatan kapasitas kelembagaan dan manajemen keuangan daerah untuk memaksimalkan potensi pertumbuhan ekonomi.

Kata Kunci: *Desentralisasi Fiskal, Modal, Pertumbuhan Ekonomi, Systematic Literature Review (SLR)*

INTRODUCTION

Fiscal decentralization in Indonesia began after the 1998 reformation, aiming to accelerate economic growth, improve public services, reduce inequality between regions and empower communities. With the implementation of fiscal decentralization, it is expected to create efficiency in resource management and increase local government accountability (Farida et al., 2021; Dartanto & Brodjonegoro, 2003). The implementation of a decentralized system provides greater autonomy to local governments to manage their budgets and resources. This can improve the quality of public services and responsiveness to local communities (Skoufias et al., 2011; Suprianik, 2023). One of the main aspects of fiscal decentralization is capital expenditure allocated for the development of infrastructure and public facilities. With capital expenditure, it is expected to increase productivity, create jobs, and encourage regional economic growth (Rahajeng et al., 2021; Nindita, 2019).

Capital expenditure is used in infrastructure and serves as a major driver of economic growth. With good infrastructure, such as roads, bridges, and public facilities, an area becomes easily accessible and connected. If an area is easily accessible, it will attract investment and create job opportunities (Saputra, 2021; Waryanto, 2017). Research shows that spending on infrastructure can increase the overall economic output of a region and improve the quality of life of the community (Widodo, 2023). There are challenges in managing fixed capital expenditures, including issues related to the efficiency and effectiveness of budget use. Several studies have shown that although there is an increase in capital expenditure allocation, it is not always followed by a comparable increase in regional economic performance (Devi et al., 2022; Widodo, 2020). Therefore, it is important for local governments to not only pay attention to the quantity of capital expenditure, but also to ensure the quality and impact of their investments on economic growth and improving community welfare (Angreini et al., 2022; Negara & Khoirunurrofik, 2021).

In general, capital expenditure in fiscal decentralization in Indonesia plays a role in encouraging infrastructure development that can increase productivity and create jobs. However, to achieve optimal results, a good management and evaluation strategy is needed so that it can have an impact on capital expenditure in growing economic areas (Santi & Iskandar, 2021; Hadi & Saragih, 2013). However, although fiscal decentralization has great potential, its implementation in Indonesia faces several challenges. Varied economic performance between regions, inefficient regional financial management, and limited fiscal capacity and quality of human resources in certain regions hinder the achievement of the desired goals.

One of the important reasons behind the implementation of fiscal decentralization in Indonesia is the need to provide greater autonomy to regions that were previously considered centralized by the central government. Geographical, ethnic, and social diversity in Indonesia has caused regions, especially outside Java and Western Indonesia, to want to manage their own resources and organize their own development. This is in line with the goal of decentralization to encourage regional autonomy in facing local challenges and increasing the effectiveness of regional development management (Nugroho, 2004).

Fiscal decentralization in Indonesia is based on the principle of "money follows function", namely giving authority to local governments to manage government affairs, accompanied by adequate funding. Although there is optimism that decentralization can improve the quality of local governance, some parties are concerned that decentralization risks worsening the quality of public services and increasing the potential for corruption. Therefore, the impact of fiscal decentralization on economic growth is still debated, with research results showing varying results. Some studies find a positive relationship, while others show a negative impact or even no effect at all. Previous research on the relationship between fiscal decentralization and economic growth in Indonesia focused on the balance of funds and capital expenditures under normal economic conditions. Research by Badruddin (2012), Sunoto (2013), Roy (2013), Basuki (2020), and Zainuddin (2019) showed various inconsistent findings. Other research conducted by Davoodi and Zou (1998) in Bolivia showed a positive impact of decentralization on economic growth, although the results depend on the specific context of each country. In contrast, Woller and Phillips' (1998) research shows that fiscal decentralization is not the only factor determining economic growth, contrary to previous findings that identified a positive relationship.

Considering the range of existing findings, there is a need for more thorough and systematically organized research to gain a clearer understanding of how fiscal decentralization affects economic growth. One approach that can be used is the Systematic Literature Review (SLR). In the SLR, researchers can examine various literatures comprehensively to gain a more complete understanding of the relationship between fiscal decentralization and the condition of the Indonesian economy. This study aims to provide a clearer picture of the impact of fiscal decentralization by considering various factors that influence it, such as the allocation of funds to regions, the quality of institutions, and macroeconomic conditions. The results of the study are expected to be useful in formulating more targeted government policies and become a benchmark for further studies in the field of regional economics and fiscal policy.

Fiscal Decentralization

Decentralization is the transfer of authority and responsibility from the central government to lower levels of government. This includes managerial and administrative functions of government. Smith (in Domai, 2011) defines decentralization as the transfer of management and administrative functions from the central government to organizations at the field level, whether lower government units, public legal entities, local authorities, or non-governmental organizations. In line with this, Rondenelli (in Domai, 2011) states that decentralization is the transfer of authority to make decisions and plan policies from the central government to field organizations or agencies at lower levels.

According to Hendratno (2009), decentralization in Indonesia can be understood as the transfer of power from the central government to regional governments that are given autonomy to

regulate and manage their own households. This regional autonomy is expected to accelerate the achievement of community welfare because regional governments have the authority to plan and implement policies that are more in line with regional needs. In this context, the role of regional governments is very important in supporting the central government in managing state affairs at the autonomous regional level.

Malysheva (in Elizabeth, 2004) stated that decentralization means transferring authority from the central government to local governments, providing broader managerial authority to manage regional affairs. In fiscal decentralization, namely the transfer of fiscal authority from the central government to local governments, there are objectives to increase the efficiency of the public sector, encourage competition between local governments in the provision of public services, and stimulate economic growth (Bahl and Linn in Davoodi, 1998). Therefore, fiscal decentralization is expected to create more responsive and efficient local governments by using local budgets to improve public welfare. Several forms of decentralization are distinguished based on the level of authority given to local governments, namely: (a) Deconcentration, namely the transfer of administrative authority to lower levels in ministries or government agencies; (b) Delegation, namely the transfer of responsibility for certain functions to organizations outside the government bureaucratic structure and only indirectly controlled by the central government; (c) Devolution, namely the formation and strengthening of subnational government units with more substantial activities carried out by local governments; and (d) Privatization, namely the transfer of responsibility to non-governmental organizations or private companies (Rodenelli in Muluk, 2009).

Khusaini (2006) explains that decentralization is implemented with various objectives in the fields of politics, governance, society, and economy. From a political perspective, decentralization allows the channeling of community aspirations in the development process. From a managerial perspective, decentralization allows the provision of more diverse services according to regional needs. From a social perspective, decentralization encourages community participation and regional empowerment. From an economic perspective, decentralization is expected to increase development efficiency and community welfare. Fiscal decentralization is one of the main components of decentralization that gives authority to regional governments to manage regional finances, both from Regional Original Income (PAD), loans, and balancing funds from the center (Suwandi, 2015). In this context, fiscal policy aims to influence the course of the economy, especially through the management of government spending, fiscal transfers, and the amount of taxes received by the government. Thus, fiscal decentralization allows regional governments to manage their finances independently and optimize budget allocations to improve community welfare.

Economic Growth

Growth theory encompasses various approaches that explain the factors that influence a country's economic growth. Some of the main theories in growth economics are: neoclassical growth, endogenous growth, the Harrod-Domar model, and the Kaldor model (Dastagiri, 2023; Shukarov & Maric, 2016). Neoclassical growth theory developed by Robert Solow highlights the importance of physical capital and labor accumulation as the main drivers of economic growth. In this view, technological progress is considered an external (exogenous) factor that determines long-term growth (Shukarov & Maric, 2016). On the other hand, endogenous growth theory introduced by economists such as Paul Romer provides a different perspective. This theory emphasizes that economic growth can be driven from within, especially through investment in research, development, and innovation. Within this framework, policies that support education,

innovation, and strengthening human capacity are believed to be able to increase productivity and encourage sustainable economic growth (Shukarov & Maric, 2016).

In addition, the Harrod-Domar model emphasizes the close relationship between investment and economic growth. According to this model, the rate of economic growth is highly dependent on the level of investment made. In order for economic growth to be sustainable, investment needs to be sufficient to meet capital needs while encouraging increased production capacity (Dastagiri, 2023). Meanwhile, the Kaldor model offers a different approach, namely by highlighting the relationship between output and investment, and emphasizing the important role of the industrial sector as the main driver in the economic growth process (Dastagiri, 2023). Other factors that drive economic growth are the quality of infrastructure, government policies, and political stability. Several studies have shown that investment in the infrastructure sector, especially in transportation and communication, plays an important role in increasing economic efficiency and supporting growth (Tripathi et al., 2019; Besime et al., 2021). In addition, policies that encourage economic freedom and the flow of foreign direct investment also play a crucial role. Investment flows not only bring capital, but also the technology and managerial expertise needed to increase a country's productivity (Ahmed & Ibrahim, 2019; Borensztein et al., 1998).

As a concept closely related to economic development, economic growth is a key indicator that shows the increase in a country's economic output over time. Lincoln (in Arsyad, 2014) defines economic growth as an increase in Gross Domestic Product (GDP) or Gross National Product (GNP) regardless of whether the growth is greater or less than the population growth rate or changes in economic structure that occur. Economic growth can be measured as a change in output per capita which reflects an increase in people's living standards. Firdausy (2018) explains that economic growth can also be seen as an increase in national income which reflects an increase in overall added value. According to Sukirno (2006), economic growth is often measured quantitatively as a percentage change in national income in one year compared to the previous year. It can be concluded that economic growth indicates economic improvement reflected in the increase in production of goods and services from a country. Therefore, economic growth is not just a number that shows an increase in output but also reflects an increase in the quality of life of the community and is the ultimate goal of economic development policy.

METHODOLOGY

This article uses the Systematic Literature Review (SLR) method with a qualitative approach to explore the effect of fiscal decentralization on economic growth in Indonesia. SLR is a systematic and structured approach, which is used to identify, assess, and synthesize various relevant research results. Through this method, researchers can explore various perspectives and findings that have existed in previous literature, resulting in a more comprehensive understanding of the topic being studied. The method used is PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) as the main standard in the SLR process. PRISMA is used to ensure that the stages of article selection and literature synthesis are carried out transparently, systematically, and can be replicated. By following this method, each step in the research process can be well documented, so that subsequent researchers can understand and develop this study consistently.

Table 1.
Research Question

RQ	Question
RQ1	How does fiscal decentralization affect economic growth?
RQ2	How does Fiscal Decentralization have positive and negative effects on Economic Growth?
RQ3	How does fiscal decentralization affect economic growth with varying institutional governance conditions and fund allocations?

Table 2.
Eligibility Criteria

Include	Exclude
The selected articles were published from 2016 to 2025 to ensure relevance to recent developments in fiscal decentralization and economic growth in Indonesia.	Articles that cannot be accessed in full text form.
The main focus is on articles discussing fiscal decentralization and its impact on economic growth.	Articles that do not use valid or clear scientific methodology, either quantitative or qualitative.
Only articles published in scientific journals indexed in dimensions and verified will be included. Publications in the form of conferences or reports not published in journals will not be considered.	Articles published in journals that have not undergone a peer-review process or in the form of reports whose quality cannot be guaranteed.
The articles used are articles written in Indonesian or English.	

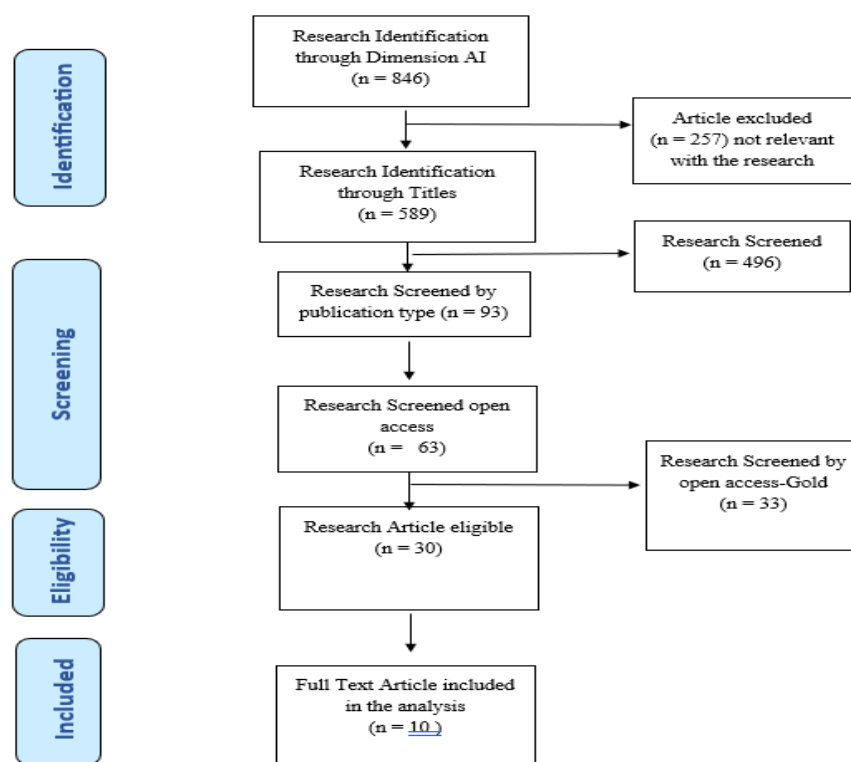


Figure 1. PRISMA Systematic Literature Review Diagram

DISCUSSION AND FINDINGS

From the results of this study, data analysis uses a qualitative approach with thematic methods, which allows identification, analysis, and synthesis of main patterns or themes that emerge from selected literature. Based on the analysis carried out by grouping the main themes related to the impact of fiscal decentralization on economic growth as follows:

Table 3.
Identified Article Theme

No	Author	Title	Research Purpose	Results
1	Sima, Melat; Liang, Peng; Qingjie, Zhou, 2023	Dampak desentralisasi fiskal terhadap pertumbuhan ekonomi: Analisis perbandingan beberapa negara Afrika dan OECD	Analyzing the impact of fiscal decentralization on emerging economies. Comparing the impact of fiscal decentralization in African and OECD countries. Identifying factors that influence the relationship between fiscal decentralization and emerging economies.	Fiscal decentralization has a positive impact on economic growth in OECD countries. The fiscal growth impact of decentralization on the economy in African countries is insignificant or even detrimental. Other factors influence the relationship between fiscal decentralization and economic growth, such as the quality of institutions and the capacity of the fiscal area.
2	Sasana, Hadi, 2009	Desentralisasi Fiskal dan Pertumbuhan Ekonomi Daerah	Analyze the impact of fiscal decentralization on regional economic growth. Identify factors that influence the relationship between fiscal decentralization and regional economic growth. Develop a theoretical or empirical framework. To explain the relationship between fiscal decentralization and regional economic growth.	Fiscal decentralization has a positive/negative impact on regional economic growth, depending on the specific conditions of each region. Another moderating factor is the relationship between fiscal decentralization and regional economic growth. This study can produce an empirical model that can be used to predict the impact of decentralization on regional economic growth.
3	Nguyen, Phuong Duy; Vo, Duc Hong; Ho, Chi Minh; Ya, Anh Itu, 2019	Fiscal Decentralization and Economic Growth Across Provinces: New Evidence from Vietnam Using New Measurements and Approaches	Analyze the effect of fiscal decentralization on economic growth at the provincial level in Vietnam. Measure the level of fiscal decentralization in Vietnam using a measurement approach. Provide empirical news evidence on the relationship between fiscal decentralization and economic growth in Vietnam.	Fiscal decentralization has positive/negative impacts on economic growth at the provincial level in Vietnam. This study identifies factors that influence the relationship between fiscal decentralization and economic growth, such as institutional quality, local fiscal capacity, and provincial economic structure. This study produces new findings that are different from previous studies because it uses different measurement and analysis approaches.
4	Hung, Nguyen Thanh; Terima kasih,	Fiscal decentralization, economic growth, and	Analyze the impact of fiscal decentralization on economic growth and human	Fiscal decentralization has positive/negative impacts on economic growth and human development. There is a complex

No	Author	Title	Research Purpose	Results
	Su Dinh, 2022	human development: Empirical evidence	development. Provide empirical evidence on the relationship between fiscal decentralization, economic growth, and human development. Identify factors that influence the relationship between fiscal decentralization, economic growth, and human development.	relationship between fiscal decentralization, economic growth, and human development. This study identifies important factors that influence the effectiveness of fiscal decentralization in enhancing economic growth and human development.
5	Kaneva, Tetiana; Karpenko; Maksim; Nasibova, Olha; Tabenska, Julia; Tomniuk, Tetiana, 2023	The Impact of Fiscal Decentralization on Public Service Efficiency and Economic Growth	Analyzing the impact of fiscal decentralization on public service efficiency and economic growth in Eastern Europe. Measuring public service efficiency using relevant methods in Eastern Europe. Identifying factors that influence the relationship between fiscal decentralization, public service efficiency, and economic growth in Eastern Europe.	Fiscal decentralization has both positive and negative impacts on public service efficiency and economic growth in Eastern Europe. A complex relationship exists between fiscal decentralization, public service efficiency, and economic growth. This study identifies key factors that influence the effectiveness of decentralization, which in turn impacts public service efficiency and economic growth in Eastern Europe.
6	Muh. Rifky Wahyudi & Wahyudin; 2022	Apakah Desentralisasi Fiskal Meningkatkan Pertumbuhan Ekonomi di Pulau Sulawesi?	Analyzing the impact of fiscal decentralization on economic growth in Sulawesi Island. Comparing the impact of fiscal decentralization on economic growth in various provinces in Sulawesi Island. Identifying factors that influence the relationship between fiscal decentralization and economic growth in Sulawesi Island.	Fiscal decentralization has a positive / negative impact on economic growth in Sulawesi Island. There are differences in the impact of fiscal decentralization on economic growth between provinces in Sulawesi Island. This study identifies important factors that influence the effectiveness of fiscal decentralization in increasing economic growth in Sulawesi Island.
7	Sofilda, Eleonora; Hamzah, Muhammad Zilal; Kusairi, Suhal, 2023	Analisis desentralisasi fiskal, pembangunan manusia, dan pertumbuhan ekonomi daerah di Indonesia	Analyzing the impact of fiscal decentralization on human development and regional economic growth in Indonesia. Examine the relationship between human development and regional economic growth in Indonesia in the context of fiscal	Decentralization of fiscal policy can have various impacts on economic growth at the regional level throughout Indonesia. In general, there is a positive relationship between improving the quality of human resource development and regional economic growth. In this context, decentralization has the potential to strengthen this relationship by giving regional governments

No	Author	Title	Research Purpose	Results
			decentralization. Identify factors that influence the relationship between fiscal decentralization, human development, and regional economic growth in Indonesia.	greater authority to manage and allocate resources more flexibly. This allows regions to adjust public policies and spending according to local needs and priorities, thereby encouraging more effective development and having a direct impact on economic growth.
8	Haryanto, Joko Tri; 2010	Studi desentralisasi fiskal, stabilitas makroekonomi, dan pertumbuhan regional di Indonesia	This study aims to analyze the effect of fiscal decentralization on macroeconomic stability and economic growth at the regional level in Indonesia. In addition, this study also examines the relationship between national economic stability and regional economic growth within the framework of fiscal decentralization. This study seeks to identify various factors that can influence the relationship between fiscal decentralization, macroeconomic stability, and regional economic growth, including the role of institutions, regional financial governance, and the effectiveness of public budget management.	Fiscal decentralization has positive/negative impacts on macroeconomic stability and regional economic growth in Indonesia. Macroeconomic stability contributes positively to regional economic growth in Indonesia. Fiscal decentralization can strengthen the relationship between macroeconomic stability and regional economic growth. This allows regional governments to implement fiscal policies that are appropriate to regional conditions.
9	Armawadin, Muhammad; Rumbia, Penjaga Aya; Ahmad, Ahmad, 2022	Dampak Desentralisasi Fiskal terhadap Kinerja Pembangunan Ekonomi di Indonesia	Analyze the impact of fiscal decentralization on economic development performance in Indonesia. Identify the mechanisms by which fiscal decentralization affects economic development performance. Provide policy recommendations to optimize fiscal decentralization to improve economic development performance in Indonesia.	Fiscal decentralization has a positive/negative impact on economic development performance in Indonesia. There is a complex relationship between fiscal decentralization and economic development performance. This study identifies important factors that influence the effectiveness of decentralization on economic development performance in Indonesia, such as the level of regional fiscal independence, quality of human resources, and availability of infrastructure.

No	Author	Title	Research Purpose	Results
10	Abdillah, Khubbi; Maulana, Alfin; Aminatuzzuhro, 2023	Determinants of Indonesia's Regional Economic Growth During The Era of Regional Autonomy	To determine the effect of fiscal decentralization on economic growth in Sulawesi Island.	Fiscal decentralization has not been fully able to create economic growth in Sulawesi.

The Impact of Fiscal Decentralization on Economic Growth

This theme appears in the articles analyzed. Most of the studies focus on the impact of fiscal decentralization on regional economic growth.

[a] **Positive Impact:** Several studies have shown that fiscal decentralization can drive economic growth, especially if the allocation of funds and spending is directed to the right sectors. Sofilda et al. (2023) and Haryanto and Tenrini (2021) found that fiscal decentralization in Indonesia has a positive effect on regional economic growth. Azizah et al. (2022) found a positive effect of fiscal decentralization on economic growth in Sulawesi Island. Sasana (2019) found that fiscal decentralization has a positive effect on economic growth in Central Java.

[b] **Negative Impact or not significant:** Several studies have shown that fiscal decentralization does not always have a significant positive impact on economic growth, especially when viewed from a short-term perspective. Nguyen et al. (2019) found that fiscal decentralization had a negative effect on economic growth in Vietnam. Hung and Thanh (2022) found that fiscal decentralization had a negative effect on economic growth in 18 countries studied. Kaneva et al. (2023) found that fiscal decentralization had a negative effect on economic growth in Central and Eastern Europe. Wang et al. (2024) found that increasing fiscal decentralization had a negative impact on the provision of basic public services in prefecture-level cities in China. Abdillah et al. (2023) found that fiscal decentralization had no significant effect on economic growth in 38 districts/cities in East Java Province.

Several factors that influence the differences in results include: The level of economic development, political system, and quality of institutions in each country are different, so the effects of fiscal decentralization can vary. Although research results are mixed, fiscal decentralization remains an important factor to consider in efforts to increase economic growth. Further research is needed to understand the effects of fiscal decentralization comprehensively by considering various relevant factors and contexts.

Positive Impact

There are several reasons underlying the positive influence of fiscal decentralization on economic growth. Sofilda et al. (2023), Haryanto and Tenrini (2021), Azizah et al. (2022) and Sasana (2019) emphasize on increasing the efficiency of resource allocation. Local governments better understand local needs where fiscal decentralization gives local governments the authority to manage their own regional income and expenditure. Because they are closer to the community, local governments are assumed to better understand the needs and preferences of local communities. In a decentralized system, the decision-making process related to budget allocation can be done faster and more precisely, because it no longer depends on approval from the central government. In Indonesia, various studies have shown that fiscal decentralization has contributed to economic growth at the regional level. This is because local governments have the flexibility to allocate budgets to infrastructure projects and public services that are most needed by local communities, such as the construction of roads, schools, and health facilities.

Another Positive contributing factor is increased investment. Fiscal decentralization increases the amount of investment coming into a region. Fiscal decentralization can trigger competition between regions in terms of investment levels, which can ultimately increase overall economic growth. A study showed that fiscal decentralization in Sulawesi increased investment in productive sectors such as agriculture, fisheries, and tourism, which ultimately drove regional economic growth. Improving the Quality of Human Resources has a positive role in fiscal decentralization. Fiscal decentralization allows local governments to allocate more funds to improve the quality of education and public health. Improving the quality of human resources can increase labor productivity and drive economic growth. In Central Java, research shows that fiscal decentralization allows local governments to improve the quality of education and health, which contributes to improving the quality of human resources and economic growth.

Fiscal decentralization provides flexibility for local governments to develop innovation and creativity in financial management and public services. In several regions in Indonesia, fiscal decentralization encourages local governments to develop innovative programs in the areas of poverty alleviation, community empowerment, and local economic development. The positive impact of fiscal decentralization on economic growth does not happen automatically. Supporting conditions are needed such as good institutional quality, a transparent, accountable, and corruption-free government system. In addition, adequate local government capacity is needed. Local governments must have the ability to manage finances and implement regional development. Effective coordination between the central and local governments is also needed: Good coordination is needed to avoid overlapping authorities and ensure synergy in development programs.

Negative Impact or not significant

Several studies have shown that fiscal decentralization does not always have a significant positive impact on economic growth, especially when viewed from a short-term perspective. Nguyen et al. (2019), Hung and Thanh (2022), Kaneva et al. (2023), Wang et al. (2024) and Abdillah et al. (2023) put forward several things that influence the negative impact, namely Excessive and Inappropriately Targeted Incentives as conveyed by Wang et al. (2024). Fiscal decentralization can trigger competition between regions in attracting investment. However, if this competition is not managed properly, local governments can get caught up in providing excessive or inappropriate incentives, which can ultimately harm the regional economy and hinder economic growth. Neglect of Environmental and Social Aspects (Hung and Thanh, 2022). In the competition to attract investment, local governments may ignore environmental and social aspects. Loose environmental regulations and excessive exploitation of natural resources can have a long-term negative impact on economic growth.

Regional Economic Instability (Nguyen et al. 2019). Fiscal decentralization in Vietnam has a negative impact on economic growth. One of the contributing factors is unhealthy competition between regions which can lead to regional economic instability. Therefore, in the implementation of fiscal decentralization, attention must be paid to Unhealthy competition between regions is one of the factors that can cause fiscal decentralization to have a negative impact on economic growth. The government needs to regulate competition between regions so that it runs healthily and does not harm regional and national economic growth. Regional governments need to be encouraged to pay attention to environmental and social aspects in attracting investment and prioritizing sustainable development.

Several studies have shown insignificant results on the effect of fiscal decentralization on economic growth. Factors that influence insignificant results according to Abdillah et al. (2023) because each region has unique characteristics, such as the level of economic development, industrial structure, and availability of natural resources. This uniqueness can affect the effectiveness of fiscal decentralization in driving economic growth. Fiscal decentralization has no significant effect on economic growth in 38 districts/cities in East Java Province. East Java Province has different characteristics from other provinces in Indonesia, such as a more diverse industrial structure and a relatively high level of economic development.

The characteristics of each region also affect how effective fiscal decentralization is in driving economic growth in the region. One important factor that plays a role is the quality of institutions in the region, including the level of corruption, bureaucratic performance, and law enforcement. If institutions are weak, fiscal decentralization will not have an optimal impact on economic growth. Haryanto and Tenrini (2021) found that in general fiscal decentralization does have a positive effect on economic growth in Indonesia. However, they also highlighted that the weak quality of institutions in many regions is still a major obstacle to achieving higher economic growth.

Sintesis: Analysis of The Relationship Between Fiscal Decentralization and Economic Growth

Comparison of Findings in Various Articles: Fiscal Decentralization and Economic Growth

After identifying the various themes that emerge in the study of fiscal decentralization and economic growth, the next step is to compare the findings from various articles to understand the consistency and differences in the results. With this comparison, researchers can make more valid and in-depth comparisons and assess the strengths and weaknesses of each scientific article in discussing the same topic.

[1] Theme: The Impact of Fiscal Decentralization on Economic Growth

[a] Positive result

1. Sofilda et al. (2023) - The study found that central government grants, locally generated revenues, and human capital development positively affect regional economic growth. However, the level of decentralization also has a negative impact on regional economic growth for regions with a level of independence below 50 percent.
2. Haryanto dan Tenrini (2021) - This study found that there is a positive relationship between fiscal decentralization and regional economic growth in Indonesia. Significant variables that affect regional economic growth with income as a control variable are income to GRDP, consumption to GRDP, and population. The ratio of income to GRDP has a negative relationship, while the ratio of consumption to GRDP is proven to have a positive relationship. Population has a negative relationship with regional economic growth.
3. Azizah et al. (2022) - This study found that there is a positive relationship between fiscal decentralization and regional economic growth in Sulawesi. The variables tested showed positive and significant results on regional economic growth in Sulawesi, namely the Capital Expenditure Ratio (CER) which shows the ability of the region to carry out regional capital expenditure related to the delegation of authority from the central government to regional governments. Capital expenditure is an instrument that drives regional economic growth. The higher the capital

expenditure carried out by the regional government, the higher the income and consumption patterns of the community, so that economic growth will also increase.

4. Sasana (2019) – This study found that fiscal decentralization has a positive and significant effect on economic growth in districts/cities in Central Java Province. If fiscal decentralization increases through increased government spending, economic growth will also increase. The authority and budget delegated to local governments create flexibility for regional administration to carry out its function in allocating budgets appropriately based on regional potential and community needs.

[b] Negative Result or Not Significant

1. Nguyen et al. (2019) - Based on his study, there are findings that show that fiscal decentralization has a negative impact on economic growth in Vietnam. This study uses data from 63 provinces in Vietnam during the period 2008-2013 and uses the Fiscal Decentralization Index (FDI) to measure the level of fiscal decentralization. The results of the study show that two indicators of fiscal decentralization, namely Fiscal Importance (FI) and FDI, have a negative impact on economic growth. The results of this study indicate that the higher the level of fiscal decentralization measured by FI and FDI, the economic growth at the provincial level tends to decline.

2. Hung dan Thanh (2022) – The results of the study found that fiscal decentralization has a negative impact on economic growth. This applies to all fiscal decentralization sub-indices (based on expenditure, revenue, and tax revenue). This result is consistent with the findings of M. Qiao et al. (2019) which also showed a negative relationship between fiscal decentralization and economic growth. However, the impact of fiscal decentralization on human development is positive. Thus, it can be concluded that fiscal decentralization has different impacts on economic growth and human development.

3. Kaneva et al. (2023) – From the research results, there are findings that show the negative impact of fiscal decentralization on economic growth in Central and Eastern Europe. Revenue decentralization has a negative impact on GDP per capita growth. While expenditure decentralization has a very small positive impact on economic growth. Conclusion: Increasing the ratio of public expenditure to GDP can have a negative impact without institutional improvements. Increased efficiency of regional budget spending is needed. Exploration of additional fiscal revenue sources for regional budgets is needed. This study uses sample data from 15 countries in Central and Eastern Europe during the period 2010-2022.

4. Wang et al. (2024) – The research findings show that increasing fiscal decentralization has a negative impact on the provision of basic public services in prefecture-level cities in China. This study used panel data from 178 prefecture-level cities in China from 2008 to 2019. The results show that increasing fiscal decentralization has led to a decline in the level of basic public services, such as education, health, and social security. This negative impact is caused by several factors, including

- vertical fiscal inequality: Local governments have more authority, but their fiscal resources are limited.
- Economic competition between local governments: Local governments tend to prioritize economic development to achieve economic growth targets, thereby reducing investment in the public service sector.

- Lack of oversight: China's decentralized system makes it difficult to supervise local governments, so that the provision of public services does not match the needs of the community.

5. Abdillah et al. (2023) – The results of the study did not find evidence that fiscal decentralization has a negative impact on economic growth. On the contrary, the results of the study showed that fiscal decentralization has a significant positive impact on economic growth in Indonesia. This study used panel data from 34 provinces in Indonesia during the period 2015-2022. Thus, local governments can be more responsive to the needs and economic potential of their respective regions. However, it should be noted that this study uses data from Indonesia, so generalization of the research results to other countries needs to be done with caution.

[c] Comparison of Positive with Negative Findings

1. Consistency: Findings that show the positive impact of fiscal decentralization with increased local government spending can drive economic growth because local governments have the flexibility to manage resources and allocate budgets according to local potential and needs. Fiscal decentralization gives local governments greater authority to manage their own regional revenues and expenditures. And in areas with high fiscal independence, increased fiscal decentralization can drive economic growth.

2. Comparison: Negative or insignificant findings indicate that despite the increase in local revenue through transfer funds from the central government, this does not directly increase economic growth in Sulawesi. Fiscal Decentralization (FDI) has a negative impact on economic growth at the provincial level in Vietnam. Fiscal decentralization has a negative impact on economic growth. The study finds that increasing fiscal decentralization can reduce the growth rate of GDP per capita. Fiscal decentralization has a negative impact on economic growth in all districts/cities and districts/cities with autonomy below 50%. The study shows that in areas with low fiscal independence, increasing fiscal decentralization can actually reduce economic growth. Fiscal decentralization has a negative impact on the provision of basic public services in China. The study highlights that increasing fiscal decentralization can reduce local government investment in the public service sector, which in turn can have a negative impact on economic growth.

3. Conclusion: The impact of fiscal decentralization on economic growth is highly dependent on the context and characteristics of each region. In regions that have high fiscal independence and are supported by a good institutional system, fiscal decentralization generally has a positive effect on economic growth. Conversely, in regions that are still highly dependent on the center and have weak institutions, decentralization policies can be less effective, even having a negative impact on growth. In addition, a number of other factors such as the level of corruption, quality of human resources, and availability of infrastructure also determine how much influence fiscal decentralization has in driving economic growth in a region

[2] Theme: Institutional Quality and Governance

1. Nur Azizah et al. (2022): This study highlights the importance of the quality of local governance in improving the effectiveness of fiscal decentralization. If local governments do not have adequate fiscal capacity, fiscal decentralization can be hampered and have no positive impact on economic growth.

2. Hadi Sasana (2019): This study emphasizes that fiscal decentralization provides flexibility for local governments in managing resources and allocating budgets. However, the effectiveness of this policy depends on the quality of local governance in planning and implementing development programs.
3. Nguyen, Vo, Ho, & Vo (2019): This study shows that high fiscal autonomy can have a positive impact on economic growth. Fiscal autonomy allows local governments to be more proactive and innovative in managing regional finances and stimulating economic growth.
4. Nguyen Thanh Hung & Su Dinh Thanh (2022): This study underlines the importance of economic policies that focus on improving the quality of health and education through fiscal decentralization strategies. Fiscal decentralization can have a positive impact on human development, which in turn can support economic growth.
5. Sofilda et al. (2023): This study highlights the importance of regional fiscal capacity in achieving fiscal decentralization goals. Regions with low fiscal capacity tend to experience negative impacts of fiscal decentralization on economic growth.
6. Wang et al. (2024): This study emphasizes the importance of reforming the fiscal and tax systems to create clearer and more coordinated financial relations between the central and regional governments. This can reduce vertical fiscal imbalances and improve the efficiency of fiscal decentralization.

Conclusion

The quality of institutional governance and regional fiscal capacity are important factors that influence the effectiveness of fiscal decentralization in driving economic growth. Regional governments need to improve the quality of institutional governance, fiscal capacity, and budget allocation efficiency to maximize the benefits of fiscal decentralization. The central government needs to provide adequate support and supervision to regional governments in managing fiscal decentralization.

[3] Theme: Fund Allocation and Efficiency

1. Eleonora Sofilda et al. (2023): The degree of decentralization and transfer of loan funds have a negative impact on regional domestic product (GRDP) growth. Increased Central Government Grants (GG) and regional autonomy increase GRDP growth.
2. Nur Azizah et al. (2022): Local government spending has a negative impact on economic growth. Local revenue through fund transfers from the central government is an important variable in economic growth.
3. Hadi Sasana (2019): Increasing fiscal decentralization has a positive impact on economic growth. Local governments must be effective and efficient in allocating budgets to sectors that drive the economy.
4. Nguyen, Vo, Ho, & Vo (2019): The government needs to tighten control over spending and reduce government fixed spending to increase investment spending in order to drive economic growth.
5. Nguyen Thanh Hung & Su Dinh Thanh (2022): Economic growth can be increased by improving the quality of health and education through fiscal decentralization strategies.

6. Wang et al. (2024): Increased fiscal decentralization may lead to distortions in the structure of public expenditure and reduce investment in public services related to people's livelihoods.
7. Haryanto dan Tenrini (2021): Maintenance of facilities and infrastructure must be considered because economic stability as reflected by inflation has proven to be very vulnerable to infrastructure conditions.

Conclusion

Efficient and targeted allocation of funds is essential to ensure that fiscal decentralization can drive economic growth. Poorly managed or misused funds will reduce the effectiveness of fiscal decentralization policies.

Critical Analysis of Methodology and Data Quality in Fiscal Decentralization and Economic Growth Research

After conducting thematic synthesis and comparing findings across articles, the next step is to conduct a critical analysis of the methodology used in each study and the quality of the data presented. This evaluation aims to assess the validity of the findings and identify potential biases or limitations that may affect the study results.

[1] Research Method.

Type of Methodology

Most of the articles reviewed in this study rely on quantitative methods, particularly regression analysis, to examine the relationship between fiscal decentralization and economic growth. While these methods are useful for identifying possible causal links, they often overlook the more nuanced and complex contextual factors that influence outcomes on the ground. Some researchers have taken a step further by using panel data to capture changes over time across different regions, offering a broader view of long-term trends. However, even this approach is not without limitations—issues like model misspecification or the exclusion of important variables can still affect the reliability and depth of the findings.

[2] Methodological Limitations

The reliance on cross-sectional data in some studies can lead to conclusions that fail to capture the long-term dynamics of fiscal decentralization. By focusing only on a snapshot in time, these analyses may oversimplify the actual impact, overlooking important external influences or complementary policies that also shape economic outcomes. Additionally, many studies tend to exclude critical contextual factors such as the political economy, social characteristics, and variations in local government structures. Without considering these elements, it's difficult to fully understand how fiscal decentralization operates in practice or why its effects may differ significantly across regions.

[3] Data Quality

[a] Many articles rely on data available from government agencies, such as the Central Bureau of Statistics (BPS) or the Ministry of Finance, which can provide comprehensive and systematic data. However, relying on government-provided data can lead to potential institutional bias because the data may not fully reflect the actual conditions on the ground.

[b] Studies that use regional data or annual reports from local governments are sometimes less valid because they rely on reports that may not always be accurate or may be influenced by political influence.

[4] Data Validity

The quality of data used in research is often influenced by measurement limitations that can affect the accuracy of conclusions. For instance, some studies rely heavily on nominal GRDP figures to represent economic growth without adjusting for inflation or incorporating other indicators that might better capture real economic performance. This can lead to an overestimation or misrepresentation of actual growth. Moreover, the use of aggregate data without considering regional differences may result in overly generalized conclusions. Such an approach tends to overlook important variations in fiscal capacity, infrastructure development, and the administrative capabilities of local governments, factors that play a crucial role in how fiscal decentralization impacts different regions.

[5] Limitations

[a] Many studies rely on limited data periods, thus failing to capture the broader dynamics of fiscal decentralization, which may take longer to show significant results

[b] Some studies ignore the diversity of local conditions (e.g., local government capacity, education level, or access to resources), which can greatly affect the effectiveness of fiscal decentralization policies in each region.

[6] Research Limitations

Mistakes in the methodology or data used in research can lead to the failure of fiscal decentralization policies. When policies rely on incomprehensive findings, the risk of counterproductive policies increases. For example, if fiscal transfers are designed with the assumption that all regions have the same ability to manage the budget, this can actually worsen regional disparities. Regions with weak institutional capacity can lag further behind. Fiscal decentralization policies can potentially hinder the progress of regions that need large amounts of assistance.

[7] Implication

Bias in the methodology or data used in research affects the formulation of fiscal decentralization policies. If the policies taken are not comprehensive, it will certainly result in stagnant economic growth. For example, designing a fiscal transfer scheme with the assumption that all regions have equal fiscal management capacity can actually widen the gap between regions. This policy can hinder growth in regions that are institutionally weak and not yet ready to manage funds optimally.

Research Novelty:

One of the new things offered in this study is the use of PRISMA by selecting articles systematically. In addition, this study also emphasizes the importance of institutional capacity and financial management capabilities at the regional level as the main factors determining the success of the implementation of fiscal decentralization. Findings from thematic analysis indicate that the allocation of funds to productive sectors such as education, health, and infrastructure has a major role in driving local economic growth, while strengthening the foundation of long-term development.

CONCLUSION

Conclusion

The results of the study using the Systematic Literature Review (SLR) method on various studies discussing the impact of fiscal decentralization on economic growth in Indonesia, found that fiscal decentralization has the potential to drive regional economic growth. This positive potential will be more pronounced if supported by strong institutional capacity, efficient financial management, and appropriate budget allocation in strategic sectors such as education, health, and infrastructure. However, other findings also show that not all regions feel the positive impact. In regions that still face challenges in governance, budget oversight and have not been able to optimize regional revenue potential, fiscal decentralization has not shown significant results. Therefore, the success of the implementation of fiscal decentralization is highly dependent on the local conditions of each region, including institutional factors, quality of government, and economic structure.

Suggestion

1. **Strengthening Institutional Capacity:** Local governments need to continue to improve institutional capacity and financial management capabilities so that funds obtained through fiscal decentralization can be used optimally, both efficiently and effectively. This effort is important to ensure that decentralization policies truly have a positive impact on regional development. Further research can be directed at strategies for strengthening managerial capacity at the local level, including in terms of budget planning, implementation, and supervision.
2. **Efficient Fund Allocation:** Future research needs to focus more on how public funds can be allocated more appropriately, especially to sectors that have a major impact on long-term economic growth, such as education, health services, and infrastructure development. This approach will not only improve the effectiveness of local spending but also help create a stronger foundation for sustainable development.
3. **Problem Analysis:** Further research should consider the differences in the impact of fiscal decentralization on social, economic, and political aspects in each region. Each region has different characteristics that can affect the effectiveness of decentralization policies. Therefore, a more in-depth study of local factors that contribute to the success or failure of fiscal decentralization will be very helpful in formulating policies that are more targeted and responsive to the needs of each region.
4. **Improving Oversight and Accountability:** The role of transparency and oversight in the management of fiscal decentralization funds needs more attention. It is important to assess the extent to which good oversight mechanisms can strengthen the effectiveness of fiscal decentralization policies. Further research can explore how a stronger and more accountable oversight system can encourage more efficient budget use, as well as minimize the risk of misuse of public funds at the regional level.

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