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# Fiscal Policy Alignment and Regional Incentive Performance in the Macroeconomic Context of Pasaman Regency

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## Abstract

This study aims to analyze the degree of harmonization between regional fiscal policy, the realization of fiscal incentives, and macroeconomic indicators within the framework of fiscal decentralization in Pasaman Regency, with a focus on the alignment between fiscal policy and economic growth achievements, poverty levels, and public budget management. The method used is a qualitative descriptive method based on secondary data from Statistics Indonesia (BPS), the Directorate General of Taxes (DGT) of the Ministry of Finance, the Pasaman Regency Government, and other official sources, to understand the dynamics of fiscal policy in a complex socio-economic context. The analysis covers four main aspects: the structure of regional revenue and expenditure, fiscal incentives from the central government, regional macroeconomic indicators, and the level of fiscal independence. The results show moderate progress in regional economic stability, but harmonization between fiscal policy and macroeconomic indicators remains partial. Economic growth increased from 3.37% in 2021 to 4.41% in 2023, accompanied by a decrease in the poverty rate to 6.02% in 2025, but still faced with low optimization of Regional Original Income (PAD) and public spending efficiency. The Rp9.15 billion fiscal incentive in 2023 reflects administrative alignment with central government policies, although its impact on regional fiscal independence is limited. Therefore, optimization of productive spending, regional fiscal innovation, and strengthening of central-regional coordination are needed to ensure more effective and sustainable fiscal decentralization.

## INTRODUCTION

Fiscal decentralization is a fundamental foundation in the regional government administration system in Indonesia since the enactment of Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments.

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regulate their finances independently, with the primary goal of increasing the effectiveness of public resource management, equitable development across regions, and sustainably improving public welfare. Within this framework, regional governments are granted broader authority to set development priorities tailored to the characteristics and economic potential of their respective regions.

In its implementation, fiscal decentralization is not solely related to the delegation of authority, but also requires the availability of adequate fiscal capacity at the regional level. This fiscal capacity includes the ability of regions to optimize the potential of Regional Original Revenue (PAD), implement efficient public spending management, and optimally utilize transfers from the central government. Thus, regional fiscal policy plays a strategic role in driving economic growth, reducing development disparities, and creating economic stability at the local level. Regional fiscal policy instruments include regional revenue management, public spending allocation, and utilization of fiscal incentives provided by the central government.

Pasaman Regency, an administrative region in West Sumatra Province, has an economic structure still dominated by the agriculture, plantation, and trade and services sectors. This reliance on the primary sector indicates that the structural transformation of the regional economy is still gradually underway. The agricultural sector remains the primary supporter of the local economy, while the trade and services sectors are growing in line with increasing local economic activity. This situation reflects the characteristics of a region undergoing development with various limitations in economic diversification.

Over the past five years, the Pasaman regional government has strived to strengthen its fiscal capacity through various strategies, including optimizing local revenue (PAD), increasing regional spending efficiency, and implementing performance-based policies. Furthermore, the regional government has begun developing innovations in financial management, such as implementing a digital system for regional tax administration and electronic-based budgeting.*(e-budgeting).*The initiative aims to increase transparency, accountability, and effectiveness of regional financial management.

Nevertheless, various structural challenges still need to be addressed. Pasaman Regency's economic growth is relatively lower than the average for West Sumatra Province, reaching only 4.41% in 2023, according to data from the Directorate General of Treasury (DJPb). This situation indicates that the region's economic competitiveness still needs strengthening, particularly in attracting investment and developing leading economic sectors. Low levels of private investment are one factor hampering the acceleration of economic growth in this region.

On the other hand, indicators of community welfare show quite encouraging progress. According to data from the Pasaman Central Statistics Agency (BPS), the poverty rate in Pasaman Regency has decreased to 6.02% by 2025. This decline reflects the positive impact of fiscal policies focused on social protection programs and community economic empowerment. However, this poverty reduction has not been fully accompanied by an increase in regional fiscal independence.

Limited fiscal autonomy is a fundamental issue in the implementation of fiscal decentralization in Pasaman. This is reflected in the high level of dependence on transfer funds from the central government, such as the General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Village Fund. The dominance of these fiscal transfers indicates that the contribution of local revenue (PAD) to total regional revenue remains relatively low. This situation implies limited fiscal space for regional governments to design more innovative policies that are responsive to local community needs.

This phenomenon indicates that regional fiscal policy in Pasaman is not fully aligned with the achievement of expected macroeconomic indicators. Alignment in this context refers to the consistency between the fiscal policies implemented by the regional government and the targets and realization of macroeconomic indicators, such as economic growth, inflation, poverty rates, and unemployment. A mismatch between policy and achieved results may indicate problems in the planning, implementation, and evaluation of regional fiscal policy.

Furthermore, fiscal incentives from the central government are a crucial component of the financial relationship between the central and regional governments. Fiscal incentives are provided as a token of appreciation for local government performance in achieving specific indicators, such as controlling inflation, increasing local revenue (PAD), or improving financial governance. In 2023, Pasaman Regency received a fiscal incentive of IDR 9.15 billion from the Ministry of Finance in recognition of the Regional Inflation Control Team (TPID)'s success in maintaining price stability, according to data from the Ministry of Finance's Directorate General of Taxes (DGT).

The provision of these fiscal incentives reflects administrative alignment between regional policies and national priorities. However, the effectiveness of these incentives in driving structural change in the regional economy still requires further study. In many cases, fiscal incentives tend to be allocated to short-term programs, thus limiting their impact on increasing fiscal capacity and long-term economic growth.

Regional fiscal policies aligned with the macroeconomic framework are crucial for promoting sustainable development. Therefore, integrated fiscal planning based on accurate data is essential. In this regard, the development of the Regional Macroeconomic Framework and Fiscal Policy Principles (KEM-PPKF) serves as a strategic instrument for aligning regional fiscal policies with national policy directions. This document serves as a guideline for the preparation of the Regional Revenue and Expenditure Budget (APBD) and as a tool for evaluating regional economic performance.

The KEM-PPKF not only contains regional macroeconomic projections but also reflects the fiscal policy strategies that the local government will pursue in the medium term. Therefore, this document plays a strategic role in ensuring coherence between fiscal policy planning and implementation. The Pasaman Regency Government has compiled the KEM-PPKF as part of its efforts to strengthen more targeted and measurable regional development planning.

Based on this description, this research is crucial to evaluate the level of alignment between regional fiscal policy, fiscal incentive outcomes, and macroeconomic performance within the context of fiscal decentralization in Pasaman Regency. This analysis is expected to provide an empirical overview of the effectiveness of regional fiscal policy and identify factors influencing this alignment.
Furthermore, the results of this study are expected to contribute to more strategic policy recommendations, particularly in efforts to increase regional fiscal independence, optimize the use of fiscal incentives, and strengthen coordination between the central and regional governments. Thus, fiscal decentralization is not merely a normative framework but can also be an effective instrument for promoting inclusive and sustainable regional economic development.

## METHODS

This study applies a qualitative descriptive approach as the primary research method, with the aim of comprehensively examining the level of alignment between regional fiscal policies, the acquisition of fiscal incentives, and the achievement of macroeconomic indicators in Pasaman Regency within the framework of fiscal decentralization implementation. The choice of this methodological approach is based on the consideration that the phenomena studied require a deep understanding of the context, dynamics, and relationships between variables that cannot be fully explained through a quantitative approach alone. A qualitative descriptive approach allows researchers to describe factual conditions and provide interpretations based on empirical data, policies, and official government documents in a comprehensive and contextual manner.

According to Creswell (2018), descriptive qualitative research is used to explore complex phenomena through contextual analysis and interpretation, not limited to mere numbers or statistical models. This paradigm emphasizes that understanding social reality and public policy requires interpretation that is sensitive to the nuances, dynamics, and complexities surrounding the object of study. In the context of this research, a descriptive qualitative approach is considered relevant considering that the issues studied are not solely quantitative, such as economic growth, poverty levels, or the realization of the Regional Revenue and Expenditure Budget (APBD), but also conceptual and procedural, namely how regional fiscal policies are aligned with macroeconomic targets and the principles of fiscal decentralization. Thus, the analysis focuses on interpreting the relationship between policies and achieved economic outcomes, as well as the factors that influence the creation of harmony or inconsistency between the two.

The selection of Pasaman Regency, West Sumatra Province, as the research location was based on the consideration that the region is one of the regions with a relatively high level of fiscal dependence on fund transfers from the central government. This condition makes Pasaman Regency an appropriate representative for studying the dynamics of fiscal decentralization implementation in Indonesia, especially for regions that still face challenges in achieving fiscal independence. Pasaman Regency was chosen because it has interesting fiscal policy dynamics that deserve in-depth study. On the one hand, the region has experienced increasing economic growth and a decrease in poverty rates in recent years, indicating development efforts that have had a positive impact on community welfare. However, on the other hand, its fiscal structure still shows a dominance of routine expenditures and a low contribution of Regional Original Income (PAD), reflecting structural dependence on external funding sources.

This research focuses on four interrelated indicators of alignment that form a comprehensive analytical framework. The first indicator is regional fiscal policy, which encompasses the structure of regional government revenue and expenditure. Analysis of this component includes an evaluation of the composition of regional revenue sources, both from local revenue (PAD) and central government transfers, as well as spending allocation patterns that reflect regional development priorities. The second indicator is fiscal incentives, specifically in the form of awards from the central government for regional fiscal performance in various aspects, such as successful inflation control, improved financial governance, or achievement of other development goals. These fiscal incentives are important because they reflect recognition of regional performance and have the potential to influence regional fiscal policy behavior in subsequent periods.

The third indicator is a regional macroeconomic indicator, which includes economic growth as measured by Gross Regional Domestic Product (GRDP), poverty rate, and inflation rate. These three indicators were chosen because they are the main benchmarks for evaluating the success of regional economic development and the achievement of public welfare. The fourth indicator is the context of fiscal decentralization, namely the extent to which regional fiscal autonomy is realized through effective and efficient policies. Analysis of this indicator includes an evaluation of regional capacity to independently design, implement, and evaluate fiscal policies according to local characteristics and needs.

The analysis of the alignment between these four indicators aims to comprehensively evaluate whether fiscal policy in Pasaman Regency has been directed towards supporting regional economic development in line with national development targets. Furthermore, this study seeks to identify factors influencing the alignment and misalignment between regional fiscal policy and the achievement of macroeconomic indicators. By understanding these dynamics, it is hoped that policy recommendations can be generated that can improve the effectiveness of fiscal decentralization implementation at the regional level.

## RESULT AND DISCUSSION

### Analysis of Fiscal Policy and Macroeconomic Performance of Pasaman Regency for the 2020–2025 Period: An Academic Review.

### Macroeconomic Conditions of Pasaman Regency 2020–2025

In the context of regional development planning, macroeconomic performance analysis is an essential foundation for formulating and implementing optimal fiscal policies. Pasaman Regency, located in the northern region of West Sumatra Province, has an economic structure dominated by agriculture, trade, and services. This dominance of the primary sector indicates that the structural transformation of the regional economy is occurring gradually and has not yet shown a significant shift toward manufacturing or high-tech sectors.

According to data from the Central Statistics Agency of Pasaman Regency (2025), the Gross Regional Domestic Product (GRDP) at constant prices (ADHK) showed a steady recovery trend post-COVID-19 pandemic. Following a sharp contraction in 2020 due to restrictions on economic activity and supply chain disruptions, Pasaman's economic growth reached 3.37% in 2021, rising to 4.08% in 2022, and 4.41% in 2023. This accelerated trend reflects the normalization of economic activity, driven by the recovery of social mobility and increased public consumption.

This economic expansion was primarily supported by labor-intensive sectors such as agriculture and trade. The agricultural sector remains the backbone of the economy, given its dominant employment. Meanwhile, the trade sector is growing in line with increasing purchasing power. However, this growth rate is still below the average for West Sumatra province (around 5.2%), indicating that Pasaman's economic competitiveness remains relatively low regionally.

The main drivers of growth include increased household consumption due to improved incomes and expanded regional government spending as a fiscal stimulus through social and infrastructure programs. However, private investment has not seen a proportional surge due to limited infrastructure, market access, and regulations that are less conducive to business.

From a social welfare perspective, the poverty rate in Pasaman Regency fell to 6.02% by the end of 2025 (Databoks, 2025; source: BPS), reflecting progressive improvements in socioeconomic conditions. Compared to a decade earlier (above 9%), this achievement confirms the effectiveness of the local government's poverty alleviation program.

Per capita GRDP at current prices (ADHB) will also increase to IDR 38.25 million per capita per year by 2024, indicating an increase in average income and purchasing power. However, this increase does not necessarily guarantee equitable prosperity, given the disparities between regions, particularly between coastal and mountainous areas, in access to infrastructure and public services.

Another positive indicator is the decline in the open unemployment rate as the economy recovers, although employment is dominated by the informal sector. Future challenges include creating quality jobs and increasing labor productivity.

Academically, this situation has sparked a discussion between economic growth theory and the reality of regional development. Lewis's structural transformation model predicts a shift in labor from agriculture to modern industry and services to increase productivity. However, empirical studies in Indonesia show that this process is often non-linear, with the persistence of the agricultural sector as a pillar of stability and poverty reduction (Hubbansyah & Hakim, 2023; Muta'ali, 2019; Syaputra & Razani, 2025; Bustami & Qalbi, 2025).

Endogenous growth theory highlights investment, innovation, and human resource quality as key to transformation, but in Pasaman, structural barriers such as low private investment and infrastructure hinder diversification (Arham, 2014; Mansyur, 2024). Furthermore, the Kuznets hypothesis predicting temporary inequality is questioned by empirical evidence of sustained inequality without redistributive policies, as seen in the disparities in the Pasaman region (Arifin, 2005; Hidayaturrahman, 2026).

This analysis illustrates not only growth achievements but also the gap between theory and empirical evidence. Therefore, regional development policies must be contextualized, optimizing the agricultural sector as the basis for inclusive and sustainable economic transformation.

**Regional Fiscal Policy Analysis**

Regional fiscal policy plays a crucial role in driving development while maintaining economic stability. In the 2020–2025 period, the Pasaman Regency Government intensified its fiscal strengthening policy through spending efficiency and optimizing Regional Original Revenue (PAD). According to a report by Antara News West Sumatra (2023), the 2023 Pasaman Regency Regional Budget (APBD) reached IDR 1.1 trillion, with realized spending as of July 2023 reaching IDR 468.4 billion, or 40.93% of the total budget.

In terms of revenue, the PAD target was set at IDR 108.3 billion, with realization of IDR 60.7 billion (56%), indicating improved local revenue management compared to the previous period. However, the PAD contribution to total regional revenue remains low (<10%), with primary reliance on central transfers such as the General Allocation Fund (DAU), Special Allocation Fund (DAK), and Village Fund (DD). This phenomenon indicates Pasaman's still limited fiscal autonomy, with fiscal policy tending to be administrative rather than autonomous.

The structure of regional spending reflects a similar pattern, with a dominant portion for routine expenditures (employee salaries and administration), while productive capital expenditures account for only 20–25% of the regional budget. Within the theoretical framework of Musgrave and Musgrave (1989), this condition indicates a suboptimal fiscal allocation function, as public resources are underallocated to sectors with the potential for high multiplier effects on economic growth.

Regional governments are also refocusing their budgets in response to the Rp61 billion reduction in the General Allocation Fund (DAU) in 2025, in line with the national deficit control policy. However, this measure limits fiscal space for priority programs, hampering increases in productive capital spending.

Academically, this situation has sparked discussions between fiscal decentralization theory and its implementation. Oates' (1972) theory and Musgrave's fiscal function emphasize decentralization to improve allocative efficiency, accountability, and independence through local revenue (PAD), assuming superior local information. However, empirical studies in Indonesia reveal high fiscal dependency, which limits fiscal flexibility and forces budgets to follow central government directives (Pabayo, 2025; Hummel & Kusumasari, 2025), as seen in Pasaman.

Fiscal illusion theory explains that dependence on central transfers reduces efficiency incentives and local revenue (PAD) because the fiscal burden is not fully felt by local communities (Tajuddin & Kessi, 2025). Empirically, transfer funds often increase operational spending rather than development (Aritenang, 2020). Furthermore, public finance theory highlights the superior multiplier effect of capital expenditure, but budget rigidity and employee obligations suppress its proportion (Iskandar & Saragih, 2019).

Another debate concerns the effectiveness of refocusing, which theoretically maintains macroeconomic stability but empirically reduces regional development spending (Suhendra, 2006; Fadli, 2016). In Pasaman, the DAU cuts created a trade-off between national stability and local needs.

This analysis reveals a gap between the theoretical expectations of fiscal decentralization and the reality: central government dependence, the dominance of routine spending, and limited fiscal space. Strengthening regional fiscal capacity requires increasing local revenue (PAD) and structural reforms in budget management to support sustainable and inclusive economic growth.

**Regional Fiscal Incentive Achievements**

Fiscal incentives are a crucial mechanism in central-regional financial relations to stimulate improved regional performance. According to a 2023 report from the Directorate General of Treasury at the Ministry of Finance, Pasaman Regency received Rp9.15 billion in fiscal incentives as a reward for successfully controlling inflation.

This achievement demonstrates the effectiveness of coordination between the Regional Government and the Regional Inflation Control Team (TPID) in maintaining price stability, which is essential for public purchasing power and sustainable economic growth.

However, their utilization tends to focus on short-term programs such as transportation subsidies and market operations, which, while temporarily relevant, have not yet generated significant structural impacts on regional economic capacity. Tanzi (2018) argues that fiscal incentives should not merely serve as rewards, but rather as drivers of policy innovation and sustainable fiscal strengthening, through infrastructure investment, MSME development, and the digitalization of regional taxation.

Academically, this phenomenon has sparked a debate between the theoretical design and empirical implementation of fiscal incentives. Modern fiscal federalism theory positions incentives as performance-based transfers to foster efficiency, innovation, and inter-regional competition through reward mechanisms (Jin, Qian, & Weingast, 2005; Kluza & Wójtowicz, 2024).

Empirical studies, however, reveal a discrepancy with theoretical expectations: local governments often allocate incentives to short-term, politically motivated programs, rather than structural investments (Wang, 2017). Incentives are effective for temporary targets such as controlling inflation, but lack long-term transformational impact due to institutional constraints and political priorities (Tregub & De Iacob, 2022), as seen in Pasaman.

The literature further emphasizes the dependence of success on policy design and close monitoring; without long-term indicators, effectiveness declines (Li, 2016; Zhao et al., 2021). Thus, there is a disparity between normative goals as a tool for sustainable development and the reality of short-term orientation.

The achievements of Pasaman's fiscal incentives reflect successful economic stabilization, particularly in inflation, but highlight the limitations of structural transformation. Optimization requires a long-term strategy to strengthen the regional economic foundations.

**Evaluation of Fiscal and Macroeconomic Policy Alignment**

Fiscal policy alignment was evaluated through an analysis of the relationship between policy orientation and macroeconomic indicator performance. Overall, there was partial alignment between regional fiscal policy and the macroeconomic dynamics of Pasaman Regency.

From the policy orientation aspect, the regional government applies the principle*money follows*program for priority-based budgeting. However, its implementation is hampered by coordination between regional agencies, with gaps between planning and implementation requiring systematic addressing.

In macroeconomic indicators, the trend of economic growth and poverty reduction is positive, but fiscal independence is not optimal, the ratio of PAD to total revenue is <15%, indicating limited fiscal autonomy.

Regarding fiscal incentives, their receipt reflects good central-regional coordination, although their utilization has not yet had a transformational impact, so that the alignment is administrative rather than substantial.

Academically, this condition gives rise to discussions between theoretical frameworks.*policy alignment*and the reality of implementation. Theory*policy coherence*and fiscal-macroeconomic alignment emphasizes that fiscal consistency with macroeconomic objectives results in stable growth, poverty reduction, and sustainable prosperity (Shah, 2006; Oates, 1972).*money follows*programs should ensure allocations support strategic priorities with measurable impact.

Empirical studies, however, indicate partial alignment: fiscal decentralization in Indonesia is not always economically convergent (Aritenang & Chandramidi, 2023), influenced by implementation and institutional capacity. Findings by Rahman, Sakti, and Thompson (2026) show a suboptimal positive fiscal-growth relationship due to weak coordination, as in Pasaman.

The theory of fiscal decentralization assumes that PAD strengthens alignment, but*low fiscal autonomy trap*in general in Indonesia limits effectiveness (Pabayo, 2025; Herianti & Marundha, 2024), hindering the sustainability of macro achievements.

The fiscal incentive debate highlights the theoretical expectation of central-regional alignment, but the empirical is limited to short-term indicators without structural transformation (Basuki, 2023; Jalil et al., 2020) consistent with Pasaman.

This evaluation revealed a disparity between normative and substantive alignment: fiscal policies are conceptually aligned, but suboptimal implementation, low independence, and non-strategic incentives limit impact. Improving alignment requires improved planning, institutional strengthening, and reform of regional fiscal governance.

**Fiscal Decentralization and Regional Economic Independence**

Fiscal decentralization grants regions the authority to manage public finances and determine development priorities according to local needs. In the context of Pasaman Regency, the implementation of fiscal decentralization still faces various structural challenges.

The dominance of central government transfers, which account for over 80% of total regional revenue, indicates low fiscal independence. This reflects a gap between the authority granted and the fiscal capacity of regional governments. This aligns with the concept of asymmetric decentralization developed by Oates (1999), which explains that an imbalance between responsibility and capacity can hinder the effectiveness of decentralization.

However, some progress has been made, such as the implementation of the system*e-budgeting*and strengthening performance-based planning. These steps demonstrate that local governments are beginning to move toward more modern and transparent fiscal governance. The adoption of information technology in regional financial management systems is a positive step that needs to be developed sustainably.

Going forward, comprehensive efforts are needed to increase regional fiscal capacity through diversification of revenue sources, increased investment, and strengthening of regional leading sectors. In this way, fiscal decentralization can truly promote economic independence and sustainable development. Sustainable improvements in fiscal capacity will enable regional governments to be more responsive to community needs and better able to face future development challenges.

## CONCLUSION

This study has comprehensively examined the dynamics of fiscal decentralization implementation in Indonesia with a particular focus on regional fiscal policy in Pasaman Regency, West Sumatra Province, using a qualitative descriptive approach that allows for an in-depth understanding of various fundamental aspects related to the relationship between regional fiscal policy, the achievement of fiscal incentives, and the performance of macroeconomic indicators within the framework of regional autonomy. Fiscal decentralization as a paradigm for regional governance has become an integral part of the Indonesian state system since the enactment of Law Number 33 of 2004 concerning Fiscal Balance between the Central Government and Regional Governments, which is a manifestation of the state's commitment to realizing governance that is closer to the people, more responsive to local needs, and more effective in encouraging equitable and sustainable economic development.

The implementation of fiscal decentralization in Indonesia is not merely a transfer of administrative authority, but also requires a fundamental transformation in the perspective and practice of public financial management at the regional level. Regional governments are required to have adequate fiscal capacity, including the ability to tap potential Regional Original Revenue (PAD), manage public spending efficiently, and optimally utilize transfers from the central government. This fiscal capacity is a key prerequisite for regional independence in designing development policies tailored to the needs and aspirations of local communities.

This study found that the implementation of fiscal decentralization in Pasaman Regency reflects a complex dynamic between efforts to strengthen fiscal capacity and the various structural challenges still faced. As a region with an economic structure dominated by the agriculture, plantation, and trade services sectors, Pasaman Regency faces unique challenges in realizing sustainable structural economic transformation. This dependence on the primary sector indicates that the economic diversification process is still ongoing and requires comprehensive, long-term policy support.

Despite various efforts by the local government, Pasaman Regency's economic growth remains relatively lower than the West Sumatra Province average of 4.41% in 2023. This indicates that the region's economic competitiveness still requires intensive strengthening, particularly in attracting private investment and developing leading economic sectors. Meanwhile, community welfare indicators show encouraging progress, with the poverty rate experiencing a significant decline to 6.02% in 2025.

However, this decline in poverty rates has not been fully accompanied by increased regional fiscal independence. This is reflected in the continued high dependence on central government transfers, such as the General Allocation Fund, Special Allocation Fund, and Village Fund. The dominance of fiscal transfers indicates that the contribution of Regional Original Revenue to total regional revenue remains relatively low, thus limiting regional fiscal space to design innovative policies responsive to local needs.

This study found that fiscal policy in Pasaman Regency is not fully aligned with the achievement of expected macroeconomic indicators. The gap between policy planning and implementation impacts the effectiveness of regional economic development. The alignment issues stem from limited fiscal capacity, the dominance of routine spending, and a lack of coordination between regional and national development planning.

Fiscal incentives from the central government are a crucial component of the financial relationship between the central government and regional governments. While the provision of fiscal incentives reflects administrative alignment between regional policies and national priorities, their effectiveness in driving structural change in the regional economy requires further study, as they tend to be used for short-term programs with limited impact on long-term fiscal capacity.

Based on these findings, this study recommends strengthening fiscal capacity through diversification of Regional Original Income sources, increasing spending efficiency by prioritizing productive capital expenditure, strengthening central-regional coordination in formulating development priorities, improving fiscal incentive mechanisms that consider long-term impacts, developing human resources in the field of regional financial management, and increasing transparency and accountability in regional financial management.

The successful implementation of fiscal decentralization depends on the commitment and cooperation of various parties, from the central government and regional governments to the community. Sustained efforts and innovation are required in designing policies that encourage inclusive and sustainable regional economic development. Thus, fiscal decentralization will not merely serve as a normative framework but can also become an effective instrument for realizing public welfare and equitable development throughout Indonesia.

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