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## Fiscal Subordination and Proposal Driven Dependency in West Sumatra's Local Budget

### Abstract

Fiscal decentralization has been undertaken to strengthen the fiscal autonomy of SNG and to enable them to monitor the achievement of local development priorities and public service delivery functions. Regional budget formation and bargaining may be affected in the long run by efficiency oriented fiscal transfer mechanisms and new institutional setups. Considering the allocation of fiscal transfers based on efficiency, this paper uses a qualitative case study approach to identify three issues: how sectoral fiscal transfers are allocated, how institutional mechanisms are used to access them, and how sectoral fiscal transfers are integrated into the budget process at the provincial level in West Sumatra. Field data was collected from a document analysis of fiscal transfer allocations and provincial budget planning documents, and semi structured interviews with government officials involved in budgeting and development planning processes. The findings revealed two dynamics. First, efficiency oriented fiscal transfer mechanisms reinforce structural fiscal dependence on centrally administered funding schemes. As a result, it is difficult for provincial governments to develop their own development programs, especially when the fiscal transfers do not cover minimum needs for a certain level of service. Second, the institutional design of proposal based transfer mechanisms shifts the locus of determination of many program priorities away from political debates in the provincial legislature toward technocratic administrative planning processes in regional governments' bureaucracies. As a result, many program priorities are determined at the planning stage before the provincial budget process, and not during it. Thus, the study adds to the literature on fiscal decentralization by shifting the attention to fiscal transfer systems, which affect both the allocation of financial resources across levels of government and the character of subnational governance. It shows that fiscal transfer systems also effectively shape regional fiscal autonomy and the budget deliberation process. Based on the findings, it argues for the study of intergovernmental fiscal transfer systems through the lens of regional governance.

### Keywords:

fiscal transfers; fiscal decentralization; fiscal autonomy; subnational governance; budget deliberation

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## Introduction

Indonesia's post 1998 reform agenda is dominated by fiscal decentralization, intended to achieve regional autonomy through increased fiscal capacity and public service delivery. It was anticipated that public expenditure decisions would become more efficient when made locally, in accordance with local conditions and priorities, with authority delegated to lower levels of government nearest to the citizens affected (Oates, 1999). In Indonesia fiscal decentralization was initiated as part of the political transition to stabilize the post authoritarian state after the fall of the centralized authoritarian state in 1998. Besides improving government efficiency, decentralization was also meant to help manage territorial conflicts and prevent further secessionist fragmentation (Aspinall, 2013). However, Indonesia's decentralization programme has had the effect of creating a permanent tension between greater regional autonomy and a need for central state control.

And if the evidence from recent fiscal reform is any guide, this tension may well have increased as a result of the very features of Indonesia's intergovernmental fiscal relations that have expanded the use of conditional transfers, proposal based allocation of transfers and performance based funding. While often framed as a technocratic reform of public financial management, the political economy of decentralization has long demonstrated that fiscal systems are also about designing the rules of the game and conditions of bargaining between different levels of government. Conditional transfers can shape regional patterns of policy prioritization and, through that, the balance of power between central and regional government.

The literature on fiscal decentralization, however, shows a rather mixed picture. Classical theory stressed the efficiency gains of decentralized decision making and local information (Oates, 1999). Others believe intergovernmental transfers have redistributive purposes, to equalize regional disparities, or to guarantee minimum levels of service across jurisdictions (Bird & Vaillancourt, 1999). Empirical findings of studies across institutions have been mixed. Local decentralization studies find positive developmental outcomes and limited or mixed findings for fiscal outcomes and local economic growth. Research has shown how decentralization has led to a greater degree of spending discretion for subnational governments in Indonesia, while subnational governments remain highly dependent on fiscal transfers from the central government (Hofman & Kaiser, 2004; Lewis, 2015). Other studies have shown the continued existence of the flypaper effect (transfer funds induce stronger local spending compared to locally generated funds; Kusumadewi & Rahman, 2007), and the role of political forces in reproducing forms of patronage politics and elite capture in decentralized institutions (Hadiz, 2010).

In addition, there are new changes to fiscal policy. Conditional transfers and proposal based allocation mechanisms determine how budgetary resources are allocated across regions. These tools promote regional competition for nationally distributed resources by providing each individual actor with an incentive to propose policies that meet the nationally

desired indicator values. While these mechanisms can enable better performance accountability and local coordination, they can also distort fiscal behavior by shifting the development agenda towards center-defined eligibility and target criteria.

While the fiscal decentralization process in Indonesia has been widely studied, there are two analytical gaps in the existing literature. First, most studies have only conceptualized fiscal dependence in quantitative terms. In addition to this omission of institutional and political processes of fiscal dependence reproduction in budgeting systems, the proposal driven transfer mechanisms and their repercussions for regional planning priorities, bureaucratic incentives, and political deliberation in local budgeting institutions are hardly examined outside the scope of the fiscal dependence typology.

This study seeks to address the above research gaps by examining the political outcomes of such regional budget process among the fiscal efficiency reform in the Indonesian context. The central research question that this study seeks to answer, therefore, is how efficiency oriented fiscal transfer mechanisms reshape regional fiscal autonomy and political deliberation. The research used West Sumatra Province, which has limited fiscal capacity, homogeneous economic structure, and a high dependence on IFT. The research was focused on the budgetary process, studied in terms of the fiscal allocation behavior, the proposal based funding mechanism, and the deliberative role of the regional people's representatives (DPRD).

The analysis is conducted from two perspectives. The first is the concept of fiscal subordination, which refers to the persistence of formal decentralization despite a narrowing of effective fiscal autonomy through the use of centrally designed fiscal instruments that influence regional spending. Conceptually, our proposal driven dependency captures a shift towards a new pattern of fiscal dependency, in which regional governments compete for conditional federal grants through policy competitions coordinated by national policy indicators. Synthesizing our two concepts allows us to study politically motivated forms of fiscal interdependency in the context of a decentralized system, where fiscal instruments are used to coordinate and control regional governments.

The study has three main objectives, the first being to examine the role of recent fiscal efficiency reforms in influencing regional budgets. Second, it looks at how proposal driven transfer mechanisms generate new forms of fiscal dependence. Third, it looks at the implications of these for political deliberation and regional autonomy within provincial budgeting institutions.

The remainder of this article is structured as follows. The next section describes the research methodology and data sources. The paper presents the findings of study on financial architecture and proposal based funding architecture in West Sumatra in the following section. The discussion section then places these findings in the wider debate about fiscal decentralization and the political economy. The final section concludes with the implications of the paper for fiscal reform and sub-national governance in Indonesia.

## **Method**

This study adopts a qualitative research design and case study approach to investigate the political and institutional factors that shape regional budgeting. By taking a qualitative approach, this study shifts away from measuring fiscal flows quantitatively, providing an opportunity to examine the political dynamics behind power relations, bureaucratic interests, and political bargaining within subnational governments (Yin, 2018). The case study method is useful for investigating institutional practices embedded within particular political contexts and for exploring the actualizing potential of fiscal subordination and proposal driven dependency (Aspinall, 2013; Hadiz, 2010).

This research chose West Sumatra Province as a case study of fiscal dependency because it has a relatively low local revenue (Pendapatan Asli Daerah/PAD) base, a relatively homogeneous local economy structure, and is still dependent on intergovernmental fiscal transfers (Lewis, 2015). The unit of analysis is the provincial budgetary process, especially the ways in which the Regional Revenue and Expenditure Budget (Anggaran Pendapatan dan Belanja Daerah/APBD, the provincial budget, is drafted and approved by

provincial executive institutions and by the Regional People's Representative Council (DPRD) as well as the central government institutions regarding the budget allocations and priorities (Hofman & Kaiser, 2004).

We carried out semi-structured interviews with the main actors of regional fiscal governance between 2024 and early 2025 focusing on their perspectives, experiences and strategies in responding to the 2025 fiscal efficiency reform. The interviews focused on how proposed mechanisms for fund allocation and performance indicators shape and structure budget priorities and political negotiations in determining the APBD.

Informants were selected purposefully on the basis of their institution and their involvement in the fiscal decision-making process (Patton, 2015, p. 53). People interviewed were Bappeda officials, BPKAD/BKD officials, members of DPRD (especially members of the Budget Agency or Badan Anggaran and DPRD sectoral commissions), local experts on fiscal decentralization, and civil society actors working on budget transparency and fiscal advocacy. We interviewed a total of eighteen informants. These informants were identified through snowball sampling and selected from a pool of informants based on their calculated knowledge of local budgetary practices and negotiations (Noy, 2008). The number of interviews we conducted was sufficient to reach thematic saturation of research material.

The analysis uses secondary data derived from documentary and statistical materials to deepen the analysis of interview data and interpret the financial trends. Documentary evidence included national regulations such as laws, government regulations, ministerial regulations and presidential instructions on fiscal relations and intergovernmental transfer. Secondary data would also collect primary regional documents, namely the Regional Government Work Plan (RKPD), General Budget Policy and Provisional Budget Ceiling Priorities (KUA-PPAS) and the Annual Regional Budget (APBD), fiscal data from the Directorate General of Fiscal Balance of the Ministry of Finance, and financial documents from provincial financial management-receiving regional

work units (BPKAD). Most of all, they would show the structure of the revenue mix, transfer dependence, and expenditure priorities, which are the main elements of the political decision making in the budgeting process (Bowen, 2009).

The data analysis involved three stages. Stage one involved a content analysis of regulatory documents and fiscal data to assess trends in fiscal allocations, budget composition, and technocratic requirements associated with proposal based funding mechanisms (Krippendorff, 2019). Finally, the province's structural fiscal constraints were mapped, which include quantitative factors such as the structure of the TKD (Transfer to Regions Funds, own source revenue (PAD), and the proportion of operational and capital expenditures. These factors form the basis for the institutional underpinnings of political bargaining on budget resources.

Second, interviews were analyzed using a thematic analysis, involving open coding for initial codes, axial coding for categories and their relations, and selective coding for analytic themes (Braun & Clarke, 2006), particularly concerning fiscal subordination and proposal driven dependency. Third, interview data were analyzed through the strategy of analytical triangulation with the data from documents and fiscal data. Fiscal data and budget tables were used to double-check informants' claims and to explain how the structural fiscal processes support and are reinforced by narratives of bureaucratic maneuvering, proposal competition, and political negotiation during APBD preparation (Denzin, 2012).

To increase the rigor of the research, source triangulation was used by comparing data from interviews, policy documents, and fiscal data, as were member checking procedures in which the interpretation of particular findings was verified with the research participants. An audit trail of the data collection and analysis procedures was also maintained to improve the study's credibility, transferability, dependability, and confirmability (Flick, 2018; Guba & Lincoln, 1994).

This study adhered to ethical principles, gaining consent from the participants prior to interviews taking place, as well as using pseudonyms

to protect their name anonymity. Participation was voluntary, and participants were informed that they could refuse to answer any questions or withdraw from the project at any point (Israel & Hay, 2006).

## Results

### Fiscal Gap and Structural Dependence

The results also indicate a considerable gap between the available public financial resources of the provincial government and the resources required to meet the provincial Minimum Service Standards (Standar Pelayanan Minimal/SPM) in West Sumatra. Furthermore, the gap suggests that the fiscal capacity of the provincial government is limited by its relatively low locally generated revenue (Pendapatan Asli Daerah/PAD). As a result, the provincial government is heavily dependent on transfers from the central government to fund development programs and provide public services.

In the fiscal year of 2025, IDR 43.77 billion of Special Allocation Fund (Dana Alokasi Khusus/DAK) were allocated for the provincial government of the West Sumatra. The priority sectors for fund distribution are health, secondary education, road construction and maintenance, and other basic

services, e.g., drinking water and sanitation. Table 1 shows how these allocations were distributed sectorally.

The largest share of provincial DAK allocation is for road connectivity (Table 1), followed by the health sector. In comparison, DAK for education and water supply infrastructure is smaller. However, while these transfers support key areas of development, they remain small compared to the broader financial requirements for sectoral service provision.

A more thorough fiscal gap would compare the DAK allocation with the estimated cost of achieving the Minimum Service Standards that can be seen in the following table (Table 2), which compares the DAK allocation with the estimated sectoral financial needs for West Sumatra.

The DAU and DAK, however, only covered about a small proportion of the financial requirements to provide the target services per sector. For example, the DAK for the health sector was smaller than 2.9 percent of the need. In education, these findings are even more pronounced, and less than one percent of the total estimated resource needs of the education system received actual transfers. Similar gaps exist in the allocation of transfers for road connectivity and water and sanitation provision, the difference between needs and transfers being stark.

**Table 1. Special Allocation Fund (DAK) by Sector, West Sumatra 2025**

Sector	Allocation (Thousand IDR)	Allocation (Billion IDR)
Health	14,539,912	14.54
Education (Senior High/Vocational)	2,192,307	2.19
Road Connectivity	17,100,000	17.10
Drinking Water & Sanitation	1,348,925	1.35
Total	43,773,795	43.77

Source: Ministry of Finance, *Transfer to Regions Book FY 2025 – West Sumatra Province*

**Table 2. Comparison of DAK Allocations with Estimated Minimum Service Standard (SPM) Requirements in West Sumatra, 2025**

Sector	Allocation (Billion IDR)	Estimated SPM Needs (Billion IDR)	Gap (Billion IDR)	Sufficiency (%)
Health	14.54	500	485.46	2.9
Education (SMA/SMK)	2.19	300	297.81	0.7
Road Connectivity	17.10	1000	982.90	1.7
Drinking Water & Sanitation	1.35	200	198.65	0.7

Source: Ministry of Finance (2024); estimated sectoral needs based on the national service standards.

Nevertheless, they provide an indication of the scale of the fiscal gap the provincial government faces in its provision of public goods. Although intergovernmental transfers such as DAK represent additional sources of fiscal revenues, their size is insufficient for the provincial government to close the gap between its fiscal capacity and the cost of achieving agreed service standards in various sectors.

Interview evidence from provincial officials further reinforces this. One official from the provincial planning agency explained the dependence on central transfers to implement development programs:

“If we rely only on provincial revenue, many development programs cannot be implemented, he said. Transfers from the central government become the main source of funding.” (*Informant 3, Provincial Planning Agency*)

Local fiscal revenues are insufficient for the financing of development programs. Therefore, provincial governments are dependent on fiscal transfers for financing of planned sector investments that cannot be financed solely by PAD. A second informant underscored the inflexibility of the provincial budget structure:

“Most strategic programs depend on central transfers, he said. Without them, the provincial budget would mainly finance routine expenditures.” (*Informant 7, Provincial Financial Management Agency*)

The configuration of provincial budgets is constrained by available intergovernmental transfers. A high proportion of locally raised revenue is spent on recurrent costs (wages and salaries, operating and maintenance, and administration) and very little is available for development expenditure in the absence of national transfers.

On the whole, quantitative and interview evidence reveal the presence of persistent fiscal disequilibrium within the provincial budget, characterized by a constant mismatch between the availability of fiscal resources and the technical need for service delivery by sectors, which leads

to structural fiscal dependence for financing development programs on transfers from central government. Also, the degree of provincial fiscal autonomy depends on the availability of national transfers that guide how provincial governments prioritize development needs during a budget cycle.

## Proposal Based Transfer Mechanism

Apart from the gap in public finances itself, the use of certain intergovernmental transfers can affect the behavior of provincial governments. In Indonesia, certain categories of intergovernmental grants (such as Special Allocation Fund or DAK) require regional governments to submit technical proposals to receive the grants. In contrast, proposal based transfers are allocated through an administrative screening process whereby the regional governments submit proposals that show the programs proposed meet national policy priorities and technical eligibility requirements rather than being allocated via formula based on fiscal variables.

Accordingly, provincial agencies are required to prepare detailed proposals for projects that include objectives, technical specifications, cost estimates, implementation timelines and project performance indicators, having regard to the sectoral development priorities of the central government. To properly determine regional development needs taking into account national priorities, numerous provincial government departments are normally involved in the preparation of proposals for projects.

The proposals submitted by agencies are then taken through the various institutional steps in the national tier and reviewed by the sectoral ministries for technical feasibility and compliance with national sectoral standards, by the national planning institutions for adherence to national priorities and programmatic consistency, and by the Ministry of Finance, which in the course of the national budget process allocates the fiscal transfers to the states.

The institutional stages of such a proposal-based transfer mechanism are summarized in Table 3.

At the provincial level, fiscal transfers are subject to a multi-layer governance process prior to

approval. At the regional level, sectoral agencies identify development programs and projects eligible for particular kinds of fiscal transfer schemes, as shown in Table 3. Proposals are then combined bilaterally and multilaterally by the Regional Development Planning Agency (Bappeda) to coordinate and ensure that the proposed programs and activities are aligned with the provincial development plan and national policy frameworks.

Requests for project proposals are coordinated across government agencies, with provincial authorities examining technical documents and reconciling program indicators with national ministries' norms and standards, and aggregating budget estimates in the detailed form that central government agencies require. The proposals submitted through national planning and budgeting systems are subjected to a technical review by the relevant sectoral ministries. These are the ministries which have been assigned by the government to be responsible for specific policy areas. Ministries are permitted to propose amendments if the submissions are not consistent with all administrative and technical aspects.

Interview data indicate that provincial agencies devote considerable administrative effort to ensuring that proposals comply with the technical guidelines issued by the central ministries. One informant involved in proposal preparation explained:

“The proposal must follow detailed technical guidelines. If the format or indicators do not match the ministry’s requirements, the proposal

may not be approved.”(*Informant 5, Sectoral Agency*)

This statement highlights the importance of technical compliance in the proposal process. Provincial agencies must ensure that proposed programs adhere closely to the predefined formats, performance indicators, and implementation standards established by the national ministries.

Another informant emphasized the competitive dimension of the proposal process:

“Many regions submit proposals for the same program. We must ensure that our proposal aligns with national priorities so that it can be approved.”

(*Informant 9, Provincial Planning Agency*)

This suggests that the proposal based system creates competition among the provincial governments for limited financial resources. This competition arises from the fact that the province may submit competing proposals for similar programs, based on which the central government approves the proposals depending on their contribution towards the national development agenda.

In sum, these results suggest that, in addition to formula allocation, proposal based fiscal transfers may be determined by regional governments' ability to put forward technically compliant project proposals. Regional governments with more planning institutions and higher levels of bureaucratic coordination are therefore likely to

**Table 3. Institutional Process of Proposal Based Fiscal Transfer Allocation**

Stage	Institutional Actor	Key Activities
Identification of eligible programs	Provincial sectoral agencies	Identify development programs aligned with national funding schemes
Proposal preparation	Bappeda and sectoral offices	Prepare technical proposals and supporting documentation
Administrative submission	Provincial government	Submit proposals through national planning and budgeting systems
Technical evaluation	Sectoral ministries	Assess compliance with technical guidelines and national priorities
Final allocation decision	Ministry of Finance	Determine fiscal transfer allocations within the national budget

Source: Compiled from interview data and national fiscal transfer regulations.

benefit more from a proposal based fiscal transfer system.

More broadly, the inferential results show that the proposal based transfer mechanism constrains provinces' fiscal space by requiring the provincial government to align its development goals with national sectoral priorities. Regional governments applying for proposal based funding must spend effort in preparing technically complete proposals to meet the eligibility requirements of the centrally defined fund. Second, the bureaucratic procedures surrounding the proposal process favor the technocratic role of Bappeda and sectoral line agencies with planning functions at the provincial level. Efficiency-oriented fiscal transfer mechanisms therefore shape the budgetary process at the provincial level not only through the provision of financial resources but also through the institutionalization of a bureaucratic process which governs how priority development initiatives are selected and negotiated in provincial budget formulation.

### **Administrative Restructuring of Budget Planning**

The design of the fiscal transfers has also shaped how provincial budgeting processes are internally organized. Interviews indicate that proposal preparation has increasingly become a part of regional planning activities in the provinces. Instead of seen as an add-on to routine administration, proposal preparation has increasingly become part of the very early stage of development planning in provincial bureaucracies.

The provincial agencies draft transfer proposals as part of Regional Government Work Plan (RKPD) preparation, the first stage of the regional government annual planning cycle, whereby the sectoral agencies identify those development programs that are eligible to be implemented by the central government through transfer programs. One interpretation is that, as the consideration of the eligibility for intergovernmental transfers was already done before the Regional Revenue and Expenditure Budget (APBD) negotiation process, the inclusion of transfer proposals in Regional

Government Regulation is done to assist with the budgeting process.

The importance of proposal preparation has improved the role of technocratic planning bodies within provincial and kabupaten/kota bureaucracies. At the provincial level, the Regional Development Planning Agency (Bappeda) and its sectoral offices prepare proposal documents, check them against the technical guidance issued by the relevant national ministries, and liaise with the central government agencies that evaluate proposals for funding. In this particular view, planning agencies serve as facilitators and coordinators of processes to connect regional plans and national funding programs.

Initially, the sectoral agencies draft proposals based on their regional and sectoral priorities. These proposals are then filtered as the Bappeda adds up and examines whether the proposals are in accordance with the provincial development plan, as well as whether they are technically compatible with government policy directives, typically defined by the central level. After the process of internal coordination of the provincial government is completed, proposals will be then submitted to the relevant ministries for review and will often undergo multiple rounds of revision.

One planning official explained how this process influences the program design:

“Proposal preparation has become a part of our routine planning work. Many programs are designed from the beginning to match funding schemes from the central government.”  
*(Informant 2, Provincial Planning Agency)*

This shows that regions' participation in fiscal transfer schemes shapes regional development planning. To be eligible for transfers, development programs are often prepared with eligibility criteria established by national ministries. Consequently, provincial agencies may modify their programs, budgeting, and performance indicators in order to meet the conditions set forth to gain access to these transfers.

Another informant emphasized the administrative workload associated with the proposal process:

“Preparing proposals requires extensive documentation and coordination across agencies. Often the proposal must be revised several times to meet ministry requirements.” (*Informant 11, Provincial Sectoral Office*)

In addition, bureaucratic procedures for obtaining fiscal transfers have become increasingly complex. This involves preparing proposals that contain technical specifications, feasibility studies, and performance indicators. It also requires coordination between the bureaucratic units of the provincial government and constant communication with central government institutions that are responsible for approving the proposals.

These findings illustrate broader trends in technocratic government, where public governance reforms are increasingly reliant on expert knowledge, standardization and performance evaluation as heuristics to manage complex processes of policy making in public administrations (Christensen & Lægheid, 2025; Peters, 2021). These systems often feature bureaucratic actors as the key links between policy frameworks and operational programs, and place decision making processes within administrative routines rather than limiting them to political venues.

The results also reveal the role of fiscal transfers in the multilevel fiscal governance framework in which policy implementation requires continuous coordination with subnational authorities (Dougherty & Nebreda, 2023; Hooghe & Marks, 2020). Fiscal transfers thus function not only as financial resources but also as institutional arrangements that shape the interactions amongst administrative actors at different levels of government. The proposal based system creates channels of coordination through which provincial agencies engage with national ministries during the planning and budgeting process.

Taking these observations together suggests that the fiscal transfer mechanisms have been built into provincial planning and budgeting processes. The system has also contributed to the institutionalization of technocratic planning practices, as well as strengthening bureaucratic coordination between provincial governments and

national ministries. These mechanisms reshape development programs’ planning, coordination, and prioritization within a multilevel fiscal governance framework in the provincial budgetary process.

More specifically, the results suggest that efficiency-oriented fiscal transfer mechanisms have an important impact on the internal workings of provincial budgetary institutions. By requiring technically detailed project proposals and standardized evaluation criteria, transfer mechanisms induce regional governments to internalize transfer constraints when planning sectoral or regional developmental programs. Provincial planning agencies are therefore increasingly acting as technocratic intermediaries that align regional developmental programs with national funding schemes. In this way, efficiency oriented fiscal transfers influence not only the allocation of fiscal resources but also the institutional setting and decision making processes in which the provincial budgeting practices evolve.

### **Transformation of Budget Deliberation in the APBD Process**

Nevertheless, the use of budgeted intergovernmental fiscal transfers funds in the budgetary process also plays an important role. Interviews with provincial government officials and the Regional People’s Representative Council (DPRD) suggest that the availability of sectoral transfer funds for certain spending categories considerably impacts development agenda-setting during the annual Regional Revenue and Expenditure Budget (APBD) deliberation processes.

In the formal budgetary cycle, the APBD is to undergo a political deliberation process to ensure that development priorities proposed by the executive and local government are considered, deliberated, negotiated, and adjusted by the members of the DPRD so that regional development priorities of the government can be fulfilled and met, while remaining accountable to the local populace. The influence of fiscal transfer schemes administered at the national level also affect the dynamics of these deliberations.

Programs eligible for national transfer funding are likely seen at an earlier stage in the planning process as they are a potential source of additional funding and provincial agencies are likely to give priority to programs eligible for national transfer funding such as infrastructure, health services, and certain education programs through the Special Allocation Fund (DAK). In many cases, the availability of outside funding will be an important factor when provincial agencies develop a program.

A member of the provincial legislature explained how the availability of fiscal transfers influences the political justification of development programs during budget discussions:

“When a program can obtain support from central transfers, it becomes easier to justify during budget discussions.” (*Informant 14, Provincial Legislature*)

Another reason was the assumption that programs funded through the national funding schemes would be cheaper, as the provincial budget just had to pay its share in financing the program. Thus, such programs often have stronger support in negotiations between the executive and legislative branches of government.

Another informant emphasized that the orientation of many programs is already shaped before the formal stage of legislative deliberation begins:

“By the time the APBD proposal reaches the DPRD, many programs have already been adjusted to match available transfer schemes.” (*Informant 16, Provincial Legislature*)

This suggests that the executive branch already lays out their priorities at the program level at the planning stage. Provincial agencies often estimate what programs they would like to submit for APBD funding prior to the submission of the draft APBD. Thus, by the time the executive branch presents the draft APBD to the DPRD, the priorities for development efforts appear largely predetermined by the institutional structure of available fiscal transfers.

Transfer mechanisms may also set specific sequences for planning and budgeting, often requiring that project proposals and technical documents are available in advance. As a result, these are often taken into account by provincial institutions in the preparation of the Regional Government Work Plan (RKPD). In consequence, the development programs are often strategically directed before the political debate stage of the budget cycle.

The findings also indicate that when flagship programs are adopted mainly for the purpose of meeting national allocation requirements, the deliberative aspect of the DPRD in setting development priorities is reduced. Instead, deliberation within the DPRD tends to focus on reallocating the budget for existing programs rather than reorienting the priorities of a sector.

These findings suggest the potential for fiscal transfers to affect not just the programmatic composition of provincial budgets but also the institutional process by which provincial development priorities are set. Transfers tied to specific sectors may lead provincial institutions to align their own development planning processes with national funding mechanisms. Transfers also impose administrative requirements, which may structure the timing and ordering of program preparation.

Across the board, the results suggest that efficiency-based fiscal transfer mechanisms greatly constrain provincial governments through a variety of complementary channels. Specifically, structural dependence on national transfers limits provincial governments’ ability to self-finance development programs. Proposal-based allocation systems also increase bureaucratic coordination through administrative procedures. Considering this, the APBD process may be further politicized by the development priorities being decided within proposal-based allocation systems before consideration by the legislature. We turn to a broader discussion of the implications of these dynamics for regional fiscal autonomy and political deliberation in the next section.

## Discussion

Overall, the results indicate that provincial government disbursements are still underfunded by

fiscal transfers. As a result, provincial governments have limited fiscal autonomy to implement development programs. This is consistent with the common vertical fiscal imbalance in decentralized governance systems, in which a larger proportion of revenue raising authority is given to the central government compared to the important expenditure responsibilities that subnational governments are tasked with (R. W. Boadway & Shah, 2010; Dougherty & Nebreda, 2023). Intergovernmental transfers are employed in these systems of fiscal decentralization to help rectify this imbalance by ensuring that regional governments have adequate resources to provide minimum levels of public services and to address inter-region equity (Bahl & Bird, 2018; Dougherty & Nebreda, 2023).

Recent literature on fiscal federalism has also shown that subnational reliance on transfers as the primary source of revenue may be a source of structural lock-in, with subnational governments required to conform their development goals to the existing transfer schemes instead of prioritizing them through the fiscal process (Ahmad & Brosio, 2015; Rodden, 2019). It may also create disincentives for subnational governments to invest in own-source revenue capacity as the sustainability of provincial fiscal policies is connected to intergovernmental transfers (Faguet, 2014; Onofrei et al. , 2022). This pattern is reflected in the present study's results at the provincial level. In fact, given that the fiscal responsibilities of provinces exceed their own source revenues, the extent of the fiscal autonomy exercised by provincial governments is determined not only by the financial resources at their disposal, but also by the system of intergovernmental transfers in place.

The structural dependencies are also present at the level of the institutional mechanism through which some of the fiscal transfers are accessed. The study found that several of the fiscal transfer schemes are accessed through technically-detailed provincial government proposals to the national sectoral ministries. This aligns with a global trend of governments using conditional or performance-based transfers to improve government spending efficiency and its alignment with national deve-

lopment priorities (R. Boadway et al. , 2025; Dougherty & Nebreda, 2023). In multilevel governance regimes, these transfers also align the policies of central government and lower subnational governments, serving as instruments for policy coordination.

As a result of this institutional structure, proposal-based transfers create a set of administrative incentives that affect the design of regional development programs. Provincial agencies must meet technical requirements, as well as sectoral priorities, set by national ministries in order to receive transfers from the national government. The literature analyzing fiscal governance has concluded that the bureaucratic behavior is affected by the fact that the available grants to local governments depend on their ability to design programs which are designed following the national policy frameworks (Faguet, 2014). The results of this study confirm that the mechanism acts as a channel through which institutional coordination is established between provincial and national policy objectives. Based on the evidence of the provincial programs accounting for transfer schemes, this implies that such systems influence not only the distribution of funds but also regional calculated planning.

Transfer arrangements also affect institutional design within the provincial planning and budgeting bureaucracies. When fiscal transfers operate effectively, they can generate institutional reorganization of the system of provincial government. Provincial planning processes begin to reflect the technical requirements of intergovernmental transfer access. Planning agencies and provincial fiscal management units play a leading role in translating national fiscal frameworks into subnational development plans. Recent scholarship suggests that fiscal transfer reform often empowers technocratic institutions in subnational governance since they act as the mediators for linking national priorities with local development programs (Onofrei et al. 2022.). In this context, bureaucracies responsible for regional planning are tasked with ensuring that subnational programs conform to national frameworks and administrative imperatives.

This type of institutional setting reinforces the importance of administrative capacity for the

management of the intergovernmental fiscal relations system, since it requires provincial governments to take into account not only local needs, but also the requirements of the national line ministries in technical, performance and procedural terms. As such, fiscal decentralization generates new forms of technocratic coordination between the center and the periphery, where fiscal transfer mechanisms become an institutional channel wherein provincial planning processes are integrated into national development policy.

These bureaucratic effects subsequently help inform the political settings of provincial budgetary processes. As such, the research finds that many development programs are already pre-packaged and organized around specific transfer modalities prior to their substantive debate in the provincial assembly. Multilevel governance studies suggest that fiscal transfers can shift power within decentralized systems, as eligibility for development funds is mostly defined by institutions set by central government (Rodden, 2019). Thus, regions that rely on large transfers are usually forced to adopt a central government's development policy instead of setting their own.

Fiscal federalism researchers writing about local fiscal governance have also observed that transfers can shape the politics of subnational budgets. For example, if development policy is conditional on the transfer, important decisions about its design will be made in administrative planning, rather than in negotiations in the legislature (Dougherty & Nebreda, 2023; Onofrei et al. , 2022). There is evidence that the same is true for provincial budgets, where, due to the composition of available fiscal transfers, many program priorities are already determined before the draft budget reaches the provincial legislature. The business of deliberation for the provincial legislature, therefore, is not so much in questioning development priorities as in reallocation of program resources.

Taken together, these findings suggest two ways in which the efficiency-oriented fiscal transfer affects provincial budgetary decisions. The first, and clearest, is to reinforce structural provincial fiscal dependence on centrally administered fund-

ing programs. The second constraint arises from these mechanisms increasingly dictating provincial budget priorities following the model of national transfer programs, rather than the use of local development priorities. Most program prioritization occurs at the technocratic planning phases within regional agencies that interface with national transfer programs regarding development proposal assessments. Legislative debate at the provincial level during the budgeting period typically seeks not to prioritize new programs but rather to bargain over modifications to programs already planned by the administration.

Accordingly, the findings of this research show that in the case of the provincial level, efficiency-oriented fiscal transfer arrangements determine the nature of subnational statehood by effecting a simultaneity of fiscal autonomy and political reasoning in the provincial budget process. That is, centre-administered transfer arrangements nullify the provincial government's ability to set preferences for its own development priorities, and can be seen to limit regional fiscal autonomy in practice. Consequently, eligibility criteria and conditions associated with transfer financing turn key decisions on program design and priority-setting ahead of legislative debate and approval into technocratic planning processes. Therefore, efficiency-oriented fiscal transfer schemes perform not only a fiscal allocation function between different levels of government, but also a procedural function that rebalances technocratic administrative planning against political debate during provincial budgetary deliberation processes.

## Conclusion

The article analyzes the implications of efficiency oriented fiscal transfer arrangements on local fiscal autonomy and inter-governmental political bargaining in provincial budgetary processes. Based on an empirical analysis the paper shows that fiscal transfers do not only play a redistributive role, but also direct local budgets. Rather, they are institutional mechanisms that shape how the relationship between the central government and regional governments is formed

and shape budget priorities between the levels of government.

This study contributes to the literature of fiscal decentralization by assessing how efficiency oriented transfer mechanisms shape subnational governance through two interlinked processes of structural fiscal dependence on central government funding systems. Transfers are designed to correct vertical fiscal imbalances and incentivize the provision of subnational public services; however, the institutional design of funding mechanisms constrains subnational governments' fiscal autonomy. Development priorities within each province are often limited to such programs and projects as are covered by the various transfer programs.

Second, these findings suggest that efficiency oriented transfer mechanisms change the budget deliberation dynamics within the provincial budgeting process. Most program prioritization occurs at technocratic planning stages when regional agencies prepare program proposals acting within the limits of national policy and sectoral policy standards and guidelines. The result is a shift of many of the critical elements of budget decision making away from legislative bargaining and into administrative decision making in the arena of regional bureaucracy. Thus when the provincial legislature engages in policy deliberation many of the programmatic priorities have already been set by fiscal transfer arrangements.

By outlining these dynamics, this study speaks to contemporary debates in the fields of fiscal decentralization and multilevel governance. Existing work on fiscal transfers has largely focused on their redistributive effects or how they affect the regional fiscal space. Because transfer mechanisms also affect institutional practices and political relations in subnational budgeting systems, efficiency-oriented transfers affect not only the allocation of fiscal resources but also budget priorities and the processes of bargaining over different budget items.

In terms of policy implications, the results imply that fiscal decentralization need not only focus on the size of fiscal transfers, but also on the design of fiscal transfer systems to take into account

the level of fiscal autonomy in each region, as well as the impact of technocratic and democratic control on the budgeting process at the local level. Transfers that support accountability and are aligned with regional priorities can help improve the effectiveness of fiscal decentralization.

The evidence presented here indicates that efficiency-oriented fiscal transfer arrangements are central to the effectiveness of regional governments in supporting both their fiscal capacity and governance. A better understanding of the institutional structure of intra-governmental public finance is a prerequisite for a more equitable inter-governmental fiscal arrangement that maintains an effective provision of public goods under a decentralized governance structure.

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