



The Sequential Dynamics of Indonesia's Decentralization Reform: Explaining Intergovernmental Power Redistribution through Faletti's Sequential Theory

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Abstract. *Indonesia has implemented one of the world's most ambitious decentralization reforms since the 1998 Reformasi, transferring extensive administrative responsibilities, fiscal resources, and political authority to regional governments. Despite these institutional changes, the redistribution of intergovernmental power remains contested. Existing studies primarily examine administrative, fiscal, and political decentralization as separate institutional dimensions, offering limited explanation of how their sequencing shapes long-term central–local power relations. This study analyzes Indonesia's decentralization reform through Faletti's Sequential Theory of Decentralization using a normative legal research design supported by historical institutional analysis. Primary legal materials, including constitutional provisions and decentralization legislation enacted between 1999 and 2022, were examined alongside relevant scholarly literature. The findings indicate that Indonesia's decentralization followed an Administrative–Fiscal–Political (A→F→P) sequence in which administrative responsibilities were transferred before fiscal strengthening and political consolidation at the regional level. This sequence expanded regional governmental functions while preserving the central government's strategic control over institutional development and policy coordination. The study demonstrates that reform sequencing provides a more comprehensive explanation of Indonesia's decentralization trajectory than analyses focusing solely on legal or fiscal reforms. It also extends the application of Faletti's framework to a unitary state outside Latin America, contributing a process-oriented perspective for understanding intergovernmental power redistribution in decentralized governance.*

Keywords: *Decentralization; Indonesia; Institutional Reform; Intergovernmental Relations; Sequential Theory.*

Abstrak. Indonesia telah menerapkan salah satu reformasi desentralisasi paling ambisius di dunia sejak Reformasi 1998, dengan mentransfer tanggung jawab administratif, sumber daya fiskal, dan otoritas politik yang luas kepada pemerintah daerah. Terlepas dari perubahan kelembagaan ini, redistribusi kekuasaan antar pemerintah tetap menjadi perdebatan. Studi yang ada terutama meneliti desentralisasi administratif, fiskal, dan politik sebagai dimensi kelembagaan yang terpisah, menawarkan penjelasan terbatas tentang bagaimana urutan tersebut membentuk hubungan kekuasaan pusat-daerah jangka panjang. Studi ini menganalisis reformasi desentralisasi Indonesia melalui Teori Desentralisasi Sekuensial Faletti menggunakan desain penelitian hukum normatif yang didukung oleh analisis kelembagaan historis. Materi hukum primer, termasuk ketentuan konstitusional dan undang-undang desentralisasi yang diberlakukan antara tahun 1999 dan 2022, diperiksa bersama dengan literatur ilmiah yang relevan. Temuan menunjukkan bahwa desentralisasi Indonesia mengikuti urutan Administratif–Fiskal–Politik (A→F→P) di mana tanggung jawab administratif ditransfer sebelum penguatan fiskal dan konsolidasi politik di tingkat daerah. Urutan reformasi ini memperluas fungsi pemerintahan daerah sambil tetap mempertahankan kendali strategis pemerintah pusat atas pengembangan kelembagaan dan koordinasi kebijakan. Studi ini menunjukkan bahwa urutan reformasi memberikan penjelasan yang lebih komprehensif tentang lintasan desentralisasi Indonesia daripada analisis yang hanya berfokus pada reformasi hukum atau fiskal. Studi ini juga memperluas penerapan kerangka kerja Faletti ke negara kesatuan di luar Amerika Latin, memberikan perspektif berorientasi proses untuk memahami redistribusi kekuasaan antar pemerintah dalam tata kelola pemerintahan yang terdesentralisasi.

Kata kunci: Desentralisasi; Hubungan Antarpemerintahan; Indonesia; Reformasi Kelembagaan; *Sequential Theory*.

1. INTRODUCTION

Since the late twentieth century, decentralization has become a prominent governance strategy adopted by many countries to improve democratic accountability, administrative efficiency, and public service delivery. In unitary states, decentralization is commonly understood as the transfer of governmental authority from central institutions to subnational governments while preserving national sovereignty (Faletti, 2004). Indonesia represents one of the most significant examples of this transformation. Following the “1998 Reformasi”, successive governments enacted constitutional and legislative reforms that restructured central–regional relations. Through successive decentralization laws, regional governments acquired broader responsibilities in public administration, expanded fiscal resources, and greater political participation (White & Smoke, 2005). More than two decades after decentralization began, the central government retains strategic control, raising the question of whether decentralization redistributed intergovernmental power or merely reorganized administrative responsibilities (Rodden & Wibbels, 2002).

Previous studies have extensively examined Indonesia's decentralization from constitutional, fiscal, political, and public administration perspectives (World Bank, 2003). Legal scholars have primarily focused on the evolution of regional autonomy legislation and constitutional arrangements, whereas economists and public administration researchers have emphasized fiscal decentralization, local governance performance, and democratic accountability (Rodden, 2002; World Bank, 2003). Although these studies have generated valuable insights, they generally evaluate administrative, fiscal, and political decentralization as relatively independent institutional reforms (Valsecchi, 2012). Such approaches provide limited explanation of how the chronological order of reform implementation influences the evolution of intergovernmental power relations (Butt & Parsons, 2014; Waddell, 2005). More importantly, the mechanisms through which successive reforms reinforce, constrain, or reshape subsequent institutional developments remain insufficiently explored. Consequently, an analytical gap persists regarding how reform sequencing affects the long-term redistribution of governmental power in Indonesia's decentralized governance system.

This study addresses this gap by applying Faletti's Sequential Theory of Decentralization to reconstruct Indonesia's decentralization trajectory between 1999 and 2022. Viewing decentralization as a sequential institutional process rather than a series of independent legal reforms, the study examines how administrative, fiscal, and political reforms collectively shaped intergovernmental power relations. In doing so, it extends the application of Faletti's framework beyond its original Latin American context and provides a process-oriented

explanation of why extensive decentralization reforms may coexist with the continued predominance of central authority in a unitary state.

2. THEORETICAL STUDY

Decentralization and Intergovernmental Relations

Decentralization has become a fundamental institutional reform in contemporary public governance, particularly within unitary states where governmental authority, administrative responsibilities, fiscal resources, and decision-making powers are transferred from the central government to subnational authorities while preserving national sovereignty. Beyond improving administrative efficiency, decentralization seeks to strengthen democratic accountability, enhance public service delivery, and promote regional participation in policymaking. Consequently, decentralization is closely linked to intergovernmental relations, which concern the distribution and coordination of authority, responsibilities, and resources across different levels of government.

Existing studies have examined decentralization from constitutional, public administration, economic, and political perspectives, focusing respectively on legal reforms, institutional performance, fiscal arrangements, and democratic governance (Hadjpakdee, 2025; Nelson, 2026). Although these studies have significantly advanced the understanding of decentralization, they predominantly assess its institutional outcomes rather than the sequence through which reforms evolve. Consequently, the dynamic interaction among successive decentralization reforms and its implications for intergovernmental power redistribution remains insufficiently explored.

Faletti's Sequential Theory of Decentralization

This study adopts Faletti's Sequential Theory of Decentralization as its principal analytical framework to explain how the sequencing of decentralization reforms shapes intergovernmental power redistribution (Faletti, 2004). Unlike conventional approaches that examine administrative, fiscal, and political decentralization as separate institutional dimensions, Faletti argues that the order in which these reforms are implemented significantly influences their institutional outcomes. Administrative decentralization transfers governmental functions and public service responsibilities, fiscal decentralization reallocates financial resources and expenditure authority, while political decentralization expands democratic representation and local autonomy. Rather than viewing these reforms as independent policies, Sequential Theory conceptualizes decentralization as a cumulative institutional process in which earlier reforms create policy feedback, reproduce power structures, and shape

subsequent institutional choices through path-dependent mechanisms (Faletti, 2004). Consequently, identical decentralization policies may generate different political outcomes depending on their sequence of implementation, making the theory particularly relevant for explaining Indonesia's decentralization trajectory and its implications for intergovernmental power redistribution.

Research Positioning

Existing studies on Indonesian decentralization have extensively examined constitutional reform, fiscal arrangements, regional autonomy, and local democratic institutions, yet relatively few have investigated how the sequencing of decentralization reforms shapes long-term intergovernmental power relations (Hasrul et al., 2026; Miladiyah, 2025; Mukhlis et al., 2025). Most analyses assess administrative, fiscal, and political decentralization as separate institutional reforms, overlooking their cumulative interactions and path-dependent consequences. Addressing this gap, this study reconstructs Indonesia's decentralization trajectory through Faletti's Sequential Theory by examining how the sequential implementation of decentralization reforms influenced the redistribution of authority between the central and regional governments. By integrating normative legal analysis with historical institutional interpretation, the study provides a process-oriented explanation of Indonesia's decentralization and extends the empirical application of Sequential Theory beyond its original Latin American context.

3. RESEARCH METHOD

This study employs normative legal research using statutory, conceptual, and historical approaches to examine Indonesia's decentralization reform through Faletti's Sequential Theory. The analysis interprets decentralization as a sequential institutional process rather than a series of independent legal reforms (Christiani, 2016). The study used documentary legal materials comprising constitutional provisions, statutes, government regulations, official explanatory documents, scholarly books, peer-reviewed journal articles, policy reports, and relevant legal doctrines, selected for their relevance to the institutional evolution of decentralization and intergovernmental power relations.

Legal materials were classified into Faletti's three dimensions of decentralization—administrative, fiscal, and political—and analyzed chronologically to examine how successive reforms shaped intergovernmental power relations (Faletti, 2004). The findings were then interpreted through Sequential Theory to explain the implications of reform sequencing for intergovernmental power redistribution. Table 1 summarizes the research design, including the

research approaches, legal materials, analytical framework, and analytical technique adopted in this study.

Table 1. Research Design.

Component	Description
Research Design	Normative legal research with historical institutional analysis
Research Approach	Statutory, conceptual, and historical approaches
Unit of Analysis	Indonesia's decentralization reforms (1999–2022)
Primary Sources	Constitution, statutes, government regulations, official explanatory documents
Secondary Sources	Books, journal articles, policy reports, and legal doctrines
Analytical Framework	Faletti's Sequential Theory of Decentralization
Analytical Technique	Chronological legal interpretation and sequential institutional analysis
Research Output	Explanation of intergovernmental power redistribution through reform sequencing

4. RESULTS AND DISCUSSION

The analysis indicates that Indonesia's decentralization should not be interpreted merely as a succession of constitutional amendments and statutory reforms. Instead, the findings demonstrate that decentralization evolved through a sequential institutional process in which each reform phase conditioned the implementation of subsequent reforms. This sequential trajectory shaped not only the allocation of governmental responsibilities but also the long-term balance of power between the central government and regional governments. Consequently, the effectiveness of decentralization cannot be explained solely by the legal content of individual statutes; rather, it depends on how administrative, fiscal, and political reforms were introduced and institutionalized over time (Faletti, 2004; Garmendia, 2021; Pierson, 2000). Table 2 presents the sequential pattern of Indonesia's decentralization reform, identifying the dominant reform phases, their legal foundations, and the resulting implications for intergovernmental power redistribution. This summary provides the empirical basis for the subsequent analysis.

Table 2. Sequential Reform Pattern and Its Implications for Intergovernmental Power Redistribution in Indonesia.

Reform Phase	Dominant Reform	Principal Legal Basis	Institutional Outcome	Implication for Intergovernmental Power
Phase I (1999–2004)	Administrative decentralization	Law No. 22/1999; Law No. 25/1999	Transfer of administrative responsibilities to regional governments	Administrative capacity expanded, while strategic governmental authority remained centralized

Phase II (2004– 2014)	Fiscal consolidation	Law No. 32/2004; Law No. 33/2004	Strengthening of fiscal transfers and regional budget capacity	Regional implementation capacity increased, but fiscal dependence on the central government persisted
Phase III (2014– 2022)	Political and Institutional Consolidation	Law No. 23/2014; Law No. 1/2022	Clarification of governmental functions and fiscal governance	Democratic legitimacy increased under stronger central coordination and regulatory oversight

The first finding shows that Indonesia's decentralization was initiated through the transfer of administrative responsibilities rather than the redistribution of strategic governmental authority. The enactment of Law (UU) Number 22 of 1999 fundamentally transformed the relationship between the central government and district or municipal governments by delegating extensive public service responsibilities to regional administrations (UU Nomor 22, 1999). This reform represented a significant departure from the highly centralized governance model of the New Order (*Ordo Baru*) period, as regional governments obtained wider discretion in managing education, health, public works, licensing, and other local governmental affairs. Nevertheless, constitutional authority over national legislation, foreign affairs, defense, monetary policy, judicial administration, and macroeconomic governance remained firmly vested in the central government, while subsequent legislative reforms continued to define the scope of regional authority through nationally enacted legislation (Crouch, 2010; Horowitz, 2013; UU Nomor 22, 1999; UU Nomor 23, 2014; UU Nomor 32, 2004).

From a sequential perspective, administrative decentralization established the institutional foundation for subsequent reforms. Although regional governments assumed broader administrative responsibilities, strategic authority remained centralized. Consequently, the initial reform phase redistributed governmental functions rather than intergovernmental power, creating a path-dependent trajectory that shaped subsequent fiscal and political reforms (Collier & Collier, 2002; Faletti, 2004; Mahoney, 2000).

The second finding demonstrates that fiscal decentralization functioned principally as an institutional mechanism supporting administrative reform instead of creating autonomous regional fiscal sovereignty. Through Law Number 25 of 1999, subsequently strengthened by Law Number 33 of 2004 and modernized under Law Number 1 of 2022 concerning Central and Regional Financial Relations, Indonesia substantially expanded intergovernmental fiscal transfers, revenue-sharing arrangements, and regional expenditure authority (UU Nomor 1, 2022; UU Nomor 25, 1999; UU Nomor 33, 2004). These reforms enabled regional governments to finance newly delegated administrative responsibilities and improve public service provision across geographically diverse regions. The underlying rationale of fiscal

decentralization was consistent with the broader literature emphasizing improved allocative efficiency, responsiveness to local preferences, and enhanced service delivery through decentralized fiscal management (Agrawal et al., 2024; Aritenang & Chandramidi, 2023; Jin & Rider, 2022; Sofilda et al., 2023).

Despite this considerable expansion of regional fiscal resources, the analysis indicates that fiscal autonomy remained institutionally constrained by nationally determined transfer mechanisms, equalization formulas, and regulatory oversight. Regional governments exercised discretion over expenditure priorities, yet the legal framework governing fiscal decentralization continued to be designed, revised, and supervised by the central government. Consequently, fiscal decentralization increased regional implementation capacity without fundamentally changing the distribution of fiscal authority between different levels of government. Rather than producing fiscal independence, the reform reinforced a cooperative intergovernmental arrangement in which regional financial capacity continued to depend upon nationally coordinated fiscal policy. This finding reinforces Faletti's proposition that fiscal decentralization may strengthen local governance while simultaneously reproducing existing institutional power structures when implemented after administrative decentralization (Agrawal et al., 2024; Jin & Rider, 2022; Sofilda et al., 2023).

5. CONCLUSION AND RECOMMENDATION

This study demonstrates that Indonesia's decentralization reform is best understood as a sequential institutional process rather than a series of independent legal reforms. Applying Faletti's Sequential Theory, the findings reveal that Indonesia followed an Administrative–Fiscal–Political (A→F→P) reform sequence, in which administrative decentralization preceded fiscal strengthening and political consolidation. Although this sequence expanded the administrative and fiscal capacities of regional governments, it did not fundamentally redistribute intergovernmental power, as the central government retained strategic authority over regulatory coordination and institutional supervision. These findings highlight the importance of reform sequencing as a key explanatory factor in understanding Indonesia's decentralization trajectory and extend the empirical application of Faletti's Sequential Theory to the context of a unitary state.

Future decentralization reforms should consider not only the substance of legal changes but also their institutional sequencing to achieve a more balanced distribution of authority between the central and regional governments. This study is limited to a normative legal analysis supported by historical institutional interpretation and therefore does not evaluate the

practical implementation of decentralization across regions. Future research is encouraged to integrate empirical approaches, including comparative case studies and mixed-methods designs, to examine how reform sequencing influences governance outcomes and intergovernmental relations in different regional contexts.

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