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# Implications of Law Number 1 of 2022 Concerning Central and Regional Financial Relations on the Implementation of Fiscal Decentralization

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## *Abstract*

Granting regional autonomy is an effort to empower regions in order to manage development in their regions; creativity, innovation, and independence are expected to be possessed by each region so as to reduce the level of dependence on the Central Government. What is more important is that with regional autonomy, the quality of services provided by the government to the community will increase, both services that are directly provided to the community and services that are not provided directly, such as the creation of public facilities and other social facilities. In other words, the provision of public goods and public services can be more guaranteed. This research uses normative juridical research methods in writing, as well as describing it descriptively and qualitatively with a problem formulation of the implications of Law Number 1 of 2022 concerning Central and Regional Financial Relations on the Implementation of Fiscal Decentralization. The new regulation of central and regional financial relations through Law Number 1 of 2022 is a new direction for implementing fiscal Decentralization in Indonesia. There is an improvement in the quality of environmental maintenance in areas producing natural resources which can be further increased because there is a portion of DBH that will be allocated based on environmental maintenance performance. Apart from that, regional taxation regulations are also a commitment from the central government to support regional independence while maintaining access to public services and the climate of the regional economy. By strengthening improvements in regional spending, of course, the quality of the APBD will be strengthened so that it is more efficient, effective, focused, accountable, and synergistic. Finally, by regulating national fiscal synergies, the community will enjoy more focused and sustainable regional development.

***Keywords:*** *Decentralization; Fiscal; Financial*

## *Introduction*

Granting regional autonomy is basically an effort to empower regions in order to manage development in their regions; creativity, innovation, and independence are expected to be possessed by each region so as to reduce the level of dependence on the Central Government. What is more important is that with regional autonomy, the quality of services provided by the government to the community will increase, both services that are directly provided to the community and services that are not provided directly, such as the creation of public facilities and other social facilities. In other words, the provision of public goods and public services can be more guaranteed.(Sun'an Muammil et.al, 2013) The provision of regional autonomy is expected to increase efficiency, effectiveness, and public sector accountability in Indonesia. With regional autonomy, regions are required to look for alternative sources of development financing without reducing the hope that there will still be assistance and sharing from the Central Government and use public funds in accordance with community priorities and aspirations. Under conditions like these, the role of private investment and regionally owned companies is highly expected to be the main driver of regional economic growth and development (engine of growth). The region is also expected to be able to attract investors to encourage growth. With regional autonomy, Decentralization occurs, which concerns regional financial management and economic planning, including preparing regional development programs and other planning that is delegated from the center to the regions. (Kharisma, 2013)

The consequence of the implementation of regional autonomy in Indonesia is the division of authority between the Central Government and Regional Governments (the national monetary and fiscal sectors are decentralized to the regions).(Hadi Sofyan et.al, 2013) The implementation of fiscal Decentralization and regional autonomy in Indonesia as a political consequence is currently at the point of no return, so the aspects being put forward are more about strengthening capacity and quality improvement. Thus, in the future, fiscal Decentralization and regional autonomy are expected to bring Indonesia towards inclusive and sustainable prosperity. All government efforts and work must, of course, receive full support from all related and interested parties in supporting the successful implementation of fiscal Decentralization and autonomy in Indonesia as a whole. Without the support of all parties, the government itself will undoubtedly not be able to implement it optimally, and the autonomy pendulum will actually move more often toward negative and destructive impacts. Coordination and willingness to support each other from all parties then become the main keywords both within the Central Government and between the Central Government and Regional Governments. These are all complex issues in an uncertain political environment, which in turn raises the question of whether Regional Autonomy is truly working towards effective Decentralization in the Indonesian context. (Adissya Mega et.al, 2019)

Fiscal Decentralization has had a positive impact on regional autonomy in Indonesia, although it has also had several other impacts. The fiscal decentralization policy provides opportunities for regional governments to utilize their regional economic potential. However, the implementation of the fiscal decentralization policy experienced various problems. One is that there are regions that are less prepared in implementing regional autonomy, especially in the distribution of central funds to regions that cannot be empowered, but instead gives rise to regional government dependence on the central government.

The legal instruments used in regulating fiscal Decentralization include Law Number 23 of 2014 concerning Regional Government and Law Number 33 of 2004 concerning Financial Balance between the Central and Regional Governments. These two laws are the result of revisions to Law Number 22 of 1999 concerning Regional Government and Law Number 25 of 1999 concerning Financial Balance between the Central and Regional Governments, which were issued during the Reform era. (Adissya Mega et.al, 2019) Other legal instruments that regulate the implementation of fiscal Decentralization can be seen in the state finance law package, which is a stipulation for state financial policy reform in which three regulations are in the area of state finance. The first is Law Number 17 of 2003 concerning State Finances, which stipulates general principles in managing state finances, one of the points of which is openness in the management of state finances, which is intended to strengthen the foundation for implementing regional autonomy in Indonesia. Second, Law Number 1 of 2004 concerning State Treasury states that in the context of implementing Decentralization and regional autonomy, regions have been given broad authority, as well as the funds needed to carry out this authority. Third, Law Number 15 of 2004 concerns the Examination of the Management and Responsibility of State Finances, which also concerns Regional Finances. (Adissya Mega et.al, 2019)

## *Research Method*

Currently, there are new provisions regarding fiscal Decentralization, namely Law No. 1 of 2022, concerning Financial Relations between the Central Government and Regional Governments. With this provision, Law No. 28 of 2009 concerning Regional Taxes and Regional Levies and Law No. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, as well as partially repealing Law No. 11 of 2020 concerning Job Creation and Law No. 23 of 2014 concerning Regional Government which relates to financial relations between the central government and regional governments. Thus, it is necessary to analyze the implications of Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments as provisions governing the implementation of fiscal Decentralization. Qualitative descriptive with problem formulation, What are the legal provisions relating to fiscal decentralization? And What are the implications of Law Number 1 of 2022 concerning Central and Regional Financial Relations on the Implementation of Fiscal Decentralization?

## *Result and Discussion*

### A. Fiscal Decentralization

Decentralization is a tool to achieve one of the goals of the state, namely providing better public services and creating a more democratic public decision-making process. The concept of Decentralization consists of political Decentralization, administrative Decentralization, and fiscal Decentralization. Decentralization is a transfer of authority from the central government to the regional government to regulate and administer the region based on the real conditions surrounding it. Decentralization is the transfer of government authority by the Central Government to autonomous regions to regulate and administer government affairs within the framework of the Unitary State of the Republic of Indonesia (NKRI). (Sidik Machfud, 2001)

Fiscal Decentralization is one of the mechanisms for transferring funds from the APBN in connection with state financial policy, namely to realize sustainable fiscal sustainability and provide stimulus to community economic activity. So, the fiscal decentralization policy is hoped to create an equal distribution of financial capabilities between regions. With the amount of authority for government affairs handed over to autonomous regions.(Muammil sun'an et.al, 2015)

Fiscal Decentralization is a consequence of the implementation of regional autonomy in Indonesia. Just like regional autonomy, fiscal Decentralization basically has the aim of increasing regional potential, in this case from a fiscal perspective. The 1945 Constitution of the Republic of Indonesia mandated that the Unitary State of the Republic of Indonesia be divided into provinces and then subdivided into districts and cities. Each region has the right and obligation to regulate and carry out its own government affairs within its authority by adjusting the financial capacity of the region concerned.

District and city areas. Each region has the right and obligation to regulate and carry out its own government affairs within its authority by adjusting the financial capacity of the region concerned.

Regional autonomy is the right and authority of a region to regulate and manage its own government affairs in accordance with the interests of the people of that region. The implementation of the regional autonomy system is a mandate given by the 1945 Constitution of the Republic of Indonesia, the Second Amendment of 2000, to be implemented based on laws specifically formed to regulate regional government. (Kurniawan D, 2012) The history of regional autonomy in Indonesia began during the era of independence. This history stopped when government centralization was implemented in the New Order era. Then, the decentralization journey continued along with the development of the reform era in Indonesia. However, the unpreparedness of institutions and society to face Decentralization has resulted in vertical and horizontal imbalances.(Nurhemi et.al, 2015) According to Said, there are four perspectives that underlie the positive aspects and four perspectives that underlie the negative aspects of regional autonomy. Four perspectives underlie the positive aspects of regional autonomy, namely the means to:

1) Democratization.
2) Help improve the quality and efficiency of government.
3) Promote national stability and unity, and
4) Advancing regional development.

Four perspectives underlying the negative aspects of regional autonomy, namely;

1) Creating unexpected fragmentation and division.
2) Weakening the quality of government.
3) Creating greater disparities between regions and
4) Allows for greater balancing of democratic direction.(Abidin Said Zainal, 2008)

The implementation of autonomy must be carried out in accordance with the concept of autonomy, which is interpreted as the handover of central government affairs to the regions, except for the five powers that are used for the survival of the nation. However, outside the five excluded powers, they must be handed over to the regions. By considering the handover of these affairs as an effort to reduce the burden and duties of the Central Government. (Makhfudz M, 2013) Apart from that, in order to equalize responsibilities. In accordance with a democratic system, government responsibility can be shared equally by all members of society through functional and territorial centralization. This can create government stability in general.

Implementation of Regional Autonomy provides great opportunities for regions to improve their own financial performance. Regions have the authority to manage and improve their own local resources.(Setiaji Wirawan et.al 2007) However, the implementation of regional autonomy, which is often twisted into "autonomy," has resulted in a great need for regions to develop various regional financial schemes to finance the shift of various authorities from the center to the regions.(Siregar B. Pratiwi, 2017)

Fiscal Decentralization has so far had a positive impact on regional autonomy in Indonesia, but it has not been specifically regulated by law. Existing legal instruments in regulating fiscal Decentralization are now useful for encouraging regional economic growth, developing regional economic activities, and becoming the basis for creating legislative regulations regarding fiscal Decentralization in the future. The fiscal decentralization policy provides an opportunity for regional governments to utilize their own regional economic potential to solve various problems. Regional governments can formulate regional regulations regarding fiscal Decentralization in their regions based on these matters so that decision-making is more listened to by the community because it is in accordance with the character and potential of the region. Therefore, the relationship between inequality and demands for autonomy is complex and depends on regional characteristics. (Sambanis Nicholas et.al, 2014) Regional Governments can also provide input to the Central Government for regulations regarding fiscal Decentralization at a higher level, namely legislation.

In addition to having a positive impact, the implementation of fiscal Decentralization also enables acts of corruption because it provides opportunities for Regional Governments to manage the potential benefits of their regions. For perpetrators of corruption in the regions, apart from the APBD, the budget that is often the target of corruption is the regional expansion budget. (Saputra Bambang et.al 2012) One of the recent cases is the corruption of the APBD by 45 members of the Malang DPRD regarding funds used to build public facilities. This deserves joint attention from the central government and the community because the APBD is fundamental to the regional economy. (Pradiptyo R Suprayitno, 2015) Previous research discussed the effects of fiscal decentralization policies as a representation of the implementation of regional autonomy policies, which have a parabolic (hump-shaped relationship) effect on regional economic growth in situations where Fiscal Decentralization still has a low positive effect on economic growth but after reaching its highest point, the effect of fiscal Decentralization on economic growth is negative. (Sumardi, 2015) discusses the effect of fiscal Decentralization on corruption at the regional (provincial) government level in Indonesia. Socioeconomic and demographic criteria, together with political factors, influence the level of fiscal autonomy of local governments in Greece. (Psycharis Y, 2015)

## B. Legislative Arrangements Relating to Fiscal Decentralization

Regional autonomy is the basis for implementing regional autonomy as stated in the constitution, namely the 1945 Constitution of the Republic of Indonesia Articles 18, 18 A, and 18 B. The regional autonomy system is generally written in Article 18 to be further regulated by law. Article 18, paragraph (2) states, "Provincial, district and city governments regulate and manage government affairs themselves according to the principles of autonomy and assistance duties." Furthermore, in paragraph (5), it is written, "Regional governments exercise the broadest possible autonomy except for government affairs which are determined by law to be matters of the Central Government." Paragraph (6) of the same article states, "Regional governments have the right to establish regional regulations and other regulations to carry out autonomy and assistance duties.

The formal decentralization policy, which began in 2001, aims to stimulate the regional economy and reduce income inequality between regions in Indonesia. The first statutory regulation that based fiscal Decentralization on regional autonomy was Law Number 5 of 1975 concerning the Principles of Regional Government. At that time, the results from the implementation evaluation showed that the degree of fiscal Decentralization was high and regional inequality was large. So, fiscal Decentralization in Indonesia's reform era was first implemented based on the renewal of statutory regulations, namely Law Number 22 of 1999 concerning Regional Autonomy and Law Number 25 of 1999 concerning Financial Balance between the Central Government and Regional Governments. In Law Number 22 of 1999, it is written that the implementation of regional autonomy must take into account regional economic capacity, regional potential, socio-cultural, socio-political, population, and area. This law also stipulates that the freedom given to regions must be proportional, which is realized by utilizing regional resources in a fair and responsible manner. The implementation of regional autonomy must be in accordance with the spirit of the constitution and aim to increase regional independence within the framework of the Unitary State of the Republic of Indonesia. Law Number 25 of 1999 strengthens and supports Law Number 22 of 1999 by guaranteeing the availability of fiscal resources for Regional Governments and supporting the implementation of regional government, which is integral to the central government. (Faisal Akbar Nasution, 2011).

The implementation of fiscal Decentralization in the Reform era officially began on January 1, 2001. The fiscal decentralization policy, which began in 2001, aims to encourage regional economies and reduce income inequality between regions in Indonesia. This process began with the ratification of Law Number 22 of 1999 concerning Regional Government and Law Number 25 of 1999 concerning Financial Balance between the Central and Regional Governments. These two regulations have undergone several revisions, most recently Law Number 23 of 2014 concerning Regional Government and Law Number 33 of 2004 concerning Financial Balance between the Central Government and Regional Government. Initially, the implementation of fiscal Decentralization in Indonesia was aimed at creating aspects of independence in the regions. As a consequence, regions then receive a delegation of authority in all fields, except authority in the fields of foreign policy, defense, security, justice, monetary, fiscal, and religious. After three decades of the New Order, 1967-1998, Indonesian society was in the process of an important transformation towards a more democratic era. (Setiawan Bakti et.al, 2007)

The second phase of implementing fiscal Decentralization in regional autonomy was marked by reforms in state financial policy through the establishment of a package of state finance laws containing three regulations in the field of state finance. The first is Law Number 17 of 2003 concerning State Finance, which stipulates that general principles include both principles that have long been known in the management of state finances, such as the annual principle, the principle of universality, the principle of unity, and the principle of specialization as well as the principles of new principles as a reflection of best practices (application of good principles) in managing state finances, including accountability, results-oriented, professionalism, proportionality, openness in managing state finances, financial audits by free and independent audit bodies and are intended to strengthen the basis for implementing Decentralization and regional autonomy in the Unitary State of the Republic of Indonesia. Second, Law Number 1 of 2004 concerning the State Treasury states that in the context of implementing Decentralization and regional autonomy, regions have been given broad authority, as well as the funds needed to carry out that authority. Third, Law Number 15 of 2004 concerns the Examination of the Management and Responsibility of State Finances, which also concerns regional finances.

In the third phase, Law Number 22 of 1999 was replaced by Law Number 32 of 2004 concerning Regional Government, then replaced again by Law Number 23 of 2014 which contained a clear definition of regional autonomy in Article 1 number 6, namely the rights, authority and obligations of autonomous regions to regulate and manage their own government affairs and the interests of local communities within the system of the Unitary State of the Republic of Indonesia. Law Number 25 of 1999 was replaced by Law Number 33 of 2004 concerning the Financial Balance between the Central Government and Regional Governments. So, from the description above, legislation regarding fiscal Decentralization in Indonesia is experiencing development. However, until now, there has been no legal regulation that lex specialis regulates fiscal Decentralization in regional autonomy.

The implementation of autonomy is one system option that can be used by the government to accelerate the creation of social welfare. Autonomy is an effort to distribute the responsibilities of the central government equally. Then the burden of responsibility is distributed to local governments, down to the lowest level. (Makhfudz M, 2013) Since the enactment of Law Number 22 of 1999 concerning Regional Government and Law Number 25 of 1999 concerning Financial Balance between the Central Government and Regional Governments, each of which has subsequently been refined. In Law 23 of 2014 and Law 33 of 2004, Regional Governments have the authority to manage regional finances independently. Balancing funds are the core of fiscal Decentralization. Balancing Funds are funds sourced from APBN revenues allocated to the Regions to fund Regional needs in the context of implementing Decentralization. The Balancing Fund aims to reduce the fiscal gap between the Government and Regional Governments and between Regional Governments. Based on Art 287 Law Number 23 of 2014 concerning Regional Government The balancing fund consists of: a) DBH; b) DAU; and c) DAK. Based on Minister of Finance regulation Number 187/Pmk.07/2016, since 2016 the balancing funds have been changed to general transfer funds (Profit Sharing Funds and General Allocation Funds) and Special Transfer Funds (physical and non-physical Special Allocation Funds). (Badrudin, 2017)

Fiscal Decentralization in Indonesia is specifically for Decentralization of expenditure, namely fiscal Decentralization, which is used for regional expenditure, and the amount is determined by the discretion of each Regional Government. Fiscal Decentralization in Indonesia focuses on Decentralization on the expenditure side, so that the authority to levy regional taxes and regional levies is relatively limited. However, regions are given broad authority to make expenditures according to regional priorities and needs. Most of the transfer funds to regions are block grants (can be used freely by regions and are fully accountable at the regional level, namely to the DPRD). (Nurhemi et.al, 2015)

In implementing fiscal Decentralization, the principle money should follow functions is a principle which must be considered and implemented, meaning that every handover or delegation of government authority has consequences for the budget needed to carry out that authority. In implementing fiscal Decentralization, it is necessary to have a central government that is capable of supervising and enforcing the law so that the principle of money follows function can be implemented consistently and explicitly. This is to avoid the transfer of financial resources that are already controlled by the regions but are not followed by decentralization tasks which are the responsibility of the regions.

Fiscal Decentralization in Indonesia is implemented through Transfers to Regions and Village Funds (TKDD). TKDD is a component of State Expenditure which has a very important role as a fiscal policy instrument in strengthening the implementation of fiscal Decentralization to accelerate regional development with the main aim of improving the quality of public service delivery and social welfare. In the structure of State Expenditures in the APBN, TKDD consists of two large parts, namely Transfers to Regions (TKD), which are allocated to provincial, district, and city areas, and Village Funds, which are given to villages. TKDD consists of 4 (four) main elements, namely:

i. Balancing Funds, consisting of (i) General Transfer Funds (DTU), namely a type of transfer fund allocated to fund the implementation of government affairs which fall under regional authority, taking into account aspects of autonomy, as well as balance and equalization of regional financial capacity, including the General Allocation Fund (DAU ) and Profit Sharing Funds (DBH); (ii) Special Transfer Funds (DTK), namely funds allocated to regions to fund activities that have been directed or determined to be used to improve public services and achieve national priorities, consisting of Physical Special Allocation Funds (DAK) and Non-physical DAK.

ii. Regional Incentive Funds (DID), which are allocated to provide incentives and at the same time as an instrument to spur improvements in regional performancefinancial management, government administration, development, basic public services, and community welfare.

iii Special Autonomy Funds (Otsus), Additional Infrastructure Funds (DTI), and Special Funds (Dais), namely types of transfer funds allocated specifically to regions that receive asymmetric autonomy policies in accordance with law, namely Papua Province, West Papua Province and Aceh Province, as well as DI Yogyakarta Province.

Iv Village Funds, which are allocated to villages as a source of village income from the APBN to fund village development and community empowerment in accordance with village laws.

Regulation of financial relations between the center and regions is based on:

1) Article 18A of the 1945 Constitution of the Republic of Indonesia Post-Amendment.
2) Law no. 22 of 1999, Law no. 32 of 2004, Law no. 23 of 2014, Law no. 11 of 2020 Job Creation.
3) Law No. 18 of 1997 was amended by Law No. 34 of 2000, replaced by Law No. 28 of 2009 concerning Regional Taxes & Levies,amended by Law 23 of 2014, and Law 11 of 2020, revoked by Law No. 1 of 2022.
4) Law no. 25 of 1999, Law no. 33 of 2004, Law no. 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments.
5) PP No. 55 of 2005 concerning Balancing Funds
6) PP No. 58 of 2005 was replaced by PP 12 of 2019 concerning Management Regional Finance.

With the existence of new provisions regarding fiscal Decentralization, namely Law No. 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments. With this provision, Law No. 28 of 2009 concerning Regional Taxes and Regional Levies and Law No. 33 of 2004 concerning Financial Balance between the Central Government and Regional Governments, as well as partially repealing Law No. 11 of 2020 concerning Job Creation and Law No. 23 of 2014 concerning Regional Gov ernment which relates to financial relations between the central government and regional governments. Based on Law no. 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments, Financial Relations between the Central Government and Regional Governments include:

a. Providing regional revenue sources in the form of taxes and levies;

b. TKD management

c. Management of Regional Expenditures

d. Granting authority to carry out Regional Financing; And

e. Implementation of national fiscal policy synergy. (Government Regulation, 2022)

Regional Transfers (TKD) are funds sourced from the APBN and are part of state expenditure allocated and distributed to the Regions to be managed by the Regions in order to fund the implementation of Government Affairs which fall under the authority of the Regions. TKD, as a source of Regional Revenue, is aimed at reducing fiscal inequality between the center and the regions (vertical) and fiscal inequality between regions (horizontal), as well as encouraging regional performance in realizing equal distribution of public services throughout the region. TKD includes DBH, DAU, DAK, Special Autonomy Funds and Special Funds, as well as Village Funds.

The Government and DPR RI have adopted the Draft Law on Financial Relations between the Central Government and Regional Governments as Law Number 1 of 2022 concerning Financial Relations between the Central Government and Regional Governments (UU HKPD). Complementing the Law on Harmonization of Tax Regulations which was recently passed, aimed at improving national finances in terms of income, the HKPD Law aims to increase national financial expenditures, including the transfer of expenditures to regions in a more structured, measurable, transparent, accountable and fair manner, to achieve equal distribution of income, and of course beneficial to society. Overall, this is part of the reform agenda in the fiscal and structural fields to achieve Advanced Indonesia 2045. (Alit Ayu Meinarsari et.al, 2022)

With the promulgation of the HKPD Law, it is hoped that it can overcome the inequality of problems and overlapping regulations in question, as well as the government's form and steps during the pandemic of course still being in line with the concept of regional autonomy, where there is economic equality and fulfillment of community services throughout Indonesia, and of course still maintaining upholding the principle of justice, which does not mean the amount is the same for all regions. The new direction for strengthening central and regional financial relations continues to position regions as subjects, regions are given regulatory authority but are still given pillars to achieve community welfare or economic equality. Economic equality is an effort to provide broad opportunities for citizens to have a minimum income, clothing, food and shelter as fairly as possible. (Astuti Meti, 2017)

**C. Implications of Law Number 1 of 2022 concerning Central and Regional Financial Relations on the Implementation of Fiscal Decentralization**

The regulation of financial relations between the central government and regional governments is reflected in the 4 (four) pillars which are the main foundation of the HKPD Law, with the aim of strengthening the quality of fiscal Decentralization with effective and efficient allocation of national resources through transparent, accountable Central and Regional Financial Relations. and fair, namely:

i. Improving transfer policies to regions in order to develop central and regional financial relations by reducing vertical and horizontal disparities

ii. Designing a local tax system that supports the efficient allocation of national resources.

iii. Improving the quality of regional spending; And

iv. Alignment of central and regional spending to optimize the delivery of public services and fiscal sustainability. (Alit Ayu Meinarsari et.al, 2022)

Strengthening the quality of fiscal Decentralization is carried out through two major policies, namely improving fiscal resources allocation and strengthening better spending in the regions. The HKPD Law is designed to increase regional fiscal capacity, such as increasing the DBH portion, providing other types of DBH options, more precise DAU calculations, strengthening local taxing power, and expanding access to financing for regions. Meanwhile, on the spending side, this law encourages better spending in the regions by strengthening the quality and synergy of regional financial management. support for human resource development in the regions and support for strengthening Regional APIP capabilities. Better spending regulations are solely carried out to assist regions in strengthening their financial management in order to accelerate the achievement of state goals. The improvement materials contained in the HKPD Law are:

1. The DBH allocation concept aims to minimize vertical imbalance, strengthen aspects of allocation certainty, encourage regional performance and pay attention to regional externalities.

2. The allocation of DAU is not only to equalize financial capacity but also to equalize the quality of public services in the regions.

3. DAK will be focused on fulfilling national priorities.

4. The HKPD Law continues to provide fiscal incentives for regional performance achievements to continue to motivate regions to perform.

5. Changes in regional taxation policies are carried out in order to increase local taxing power, including through:

   a. Restructuring and consolidating types of regional taxes and regional levies and simplifying the types of regional levies (16 types of regional taxes to 14 types of taxes and rationalization of Regional Levies from 32 types of services to 18 types of services).

   b. Opening up additional levy options which will be further regulated in Government Regulations, such as levies for control of oil palm plantations.

   c. Introducing the Opsen PKB and Opsen BBNKB schemes to provide a guaranteed source of income for district/city governments without burdening taxpayers.

   d. Encouraging ease of doing business and job creation, and smoothing incentives for micro and micro-enterprises. (Alit Ayu Meinarsari et.al, 2022)

Improvements to the regulations in the HKPD Law, when compared with Law no. 33 of 2004, are in line with the four pillars of improvement. A form of policy improvement to reduce vertical and horizontal inequality is through redesigning the management of transfers to regions (TKD) to reduce inequality and encourage improvements in the quality of spending, which is carried out by improving transfers to regions based on performance. (Government Regulation, 2004) The regulation of Revenue Sharing Funds (DBH) in the HKPD Law aims to increase regional fiscal capacity, provide certainty of distribution to regional governments, increase responsibility for DBH management based on the principle of performance/result distribution, support strengthening state revenues, and effectively handle negative externalities of natural resource extraction. (SDA). This is reflected in changes in policy design, including:

1) Increase in the portion of Tobacco Excise Profit Sharing Funds (DBH CHT) from 2% to 3%.

2) Allocation based on actual T-1 revenue; and

3) The allocation also considers processing areas. (Government Regulation, 2022)

The General Allocation Fund (DAU) is designed to reduce financial inequality between regions, by allocating it more focused on public services. What is different from the previous arrangement is that DAU is not "one size fits all" but calculated using a cluster approach and taking into account region and economy. The nomenclature of Special Allocation Funds (DAK) has also changed due to the consolidation of regional grants into DAK, so that DAK consists of (i) physical DAK, (ii) non-physical DAK, and (iii) regional grants. The aim is to increase spending efficiency at the central and regional levels and to catch up with services in less developed areas.

Other parts of TKD are the Special Autonomy Fund, DIY Special Fund, and Village Fund, all of which are regulated by strengthening performance targets. Previously, the nomenclature for types of central to regional spending used the term "TKDD", but through the HKPD Law, Village Funds have been integrated as part of Transfers to Regions (TKD) as stated in Article 106. The nomenclature of Village Funds included as part of TKD will provide space for the government center to play out the spirit of performance-based village work governance. (Alit Ayu et al., 20120 This is believed to encourage more focused, measurable, and accountable village performance.

Even though Regional Incentive Funds are not included in the TKD section of the HKPD Law, this does not mean that the central government will not provide fiscal stimulation to regions. Fiscal stimuli/incentives can be provided using the APBN law because regional efficiency assessment indicators have a dynamic nature. Therefore, flexibility must be used in providing fiscal incentives so that the quality of competition can continue to improve, which in turn will improve the quality of local governments as competition participants.

Another step to reduce vertical and horizontal inequality is that regional governments can also finance regional debt while still prioritizing the principles of prudence and fiscal sustainability. The introduction of sharia schemes is expected to increase the utilization of regional financing. In addition, to reduce the limitations of funding sources in the regions, it is regulated to accelerate the development of funding synergies, which can be sourced from the APBN, APBD, K/L Expenditures or BUMN and BUMD, the concept of funding synergies will open up space for the development of inter-regional cooperation to overcome an increasingly serious problem, especially for metropolitan areas. Regional Endowment Fund arrangements can be used for regions that already have very high financial capacity and relatively good quality of public services; this arrangement is an option for intergenerational benefits, with a wider range of benefits, and can also provide support for regions that have been successful in Indonesia.

*Local taxing power* improvements have been made in line with the concept of realizing fiscal independence; PDRD policy changes aim to help increase regional income while maintaining public access to mandatory basic services and ease of doing business, and of course, continuing to create a climate of innovation in the region. The PKB and BBNKB Opsen Scheme is to provide certainty of revenue to district/city governments without burdening taxpayers because the PKB and BBNKB options replace the PKB and BBNKB profit sharing. Apart from that, through this Opson, the synergistic effect of provincial, district/city levies will increase. Environmental issues, which are also a common concern, especially the impact of carbon emissions, are addressed with the exception of motor vehicles based on renewable energy (non-fossil energy), which are not included in the motor vehicle tax (PKB) and BBNKB objects.

The HKPD Law can improve the quality of regional expenditure management by regulating regional expenditure budgets that make them more efficient, oriented, synergistic, and sustainable. First, increasing the efficiency of regional spending by facilitating and simplifying regional priority programs, as well as preparing regional spending based on price standards. Second, strengthen regional expenditure discipline and set limits, namely no more than 30 percent for personnel spending and at least less than 40 percent for infrastructure spending, with a transition period of 5 years. Third, the quality of human resources for financial management in regional governments should be improved, and the supervision aspects carried out by BPKP should be improved.

The regulations related to regional spending above have the aim of maintaining the subsidy function of the APBD to finance public services and improve people's welfare. The problem with regional spending so far is, of course, related to the realization that it cannot improve the implementation of development in the region; several things that influence this include:

i. Delays in implementing budgets and activities due to incompatibility of PBJ (ULP) in the regions, inadequate planning in the regions, and discretion

Regional heads tend to be more careful in carrying out expenditures and try to change the composition due to fulfilling their political promises, and

ii. Implementation recording results are lower than real conditions.

As the final pillar of the HKPD Law, it is designed to improve the alignment of central and regional policies so that synergy between the central government and regional governments in achieving state goals can run in harmony. Implementation of this synergy will promote the development of interconnected information systems that can consolidate central and regional finances, as well as effective monitoring and assessment systems. The implementation of this synergy, of course, is to overcome the problems of disharmony that occur, for example, which is often referred to by the Minister of Finance, namely the construction of the Umbulan SPAM strategic project, although this project was completed in 2021, this project cannot be used directly by the community because there are problems in the distribution network, which should be built by local governments. This harmonization policy is carried out by aligning central and regional fiscal policies, establishing policies for determining cumulative deficit limits and regional debt financing, controlling regional spending in emergency conditions, and synergizing standard charts of accounts.

The new regulation of central and regional financial relations through Law Number 1 of 2022 is a new direction for implementing Decentralization in Indonesia. The community will receive improvements in the quality of basic services and public government services, which will be more evenly distributed in accordance with the goals of regional autonomy. There is an improvement in the quality of environmental maintenance in areas producing natural resources which can be further increased because there is a portion of DBH that will be allocated based on environmental maintenance performance. Communities that live directly adjacent to areas producing natural resources can be more secure because regional governments that are directly adjacent receive funding from the revenue-sharing fund, which can be used to overcome negative externalities. Apart from that, regional taxation regulations are also a commitment from the central government to support regional independence while maintaining access to public services and the regional economic climate. Strengthening improvements in regional spending, of course, will further strengthen the quality of the APBD so that it is more efficient, effective, focused, accountable, and synergistic. finally, by Arranging national fiscal synergy, the community will enjoy more focused and sustainable regional development.

## *Conclusion*

Fiscal Decentralization is a mechanism for transferring funds from the APBN that regulates how funds are shared between levels of government and how regional funding sources are found to support public sector activities. The current fiscal decentralization arrangements are based on Law Number 1 of 2022 concerning the Central Government and Regional Government Financial Relations Law (HKPD Law), which has been ratified and promulgated. This policy is a combination of the Financial Balance Law between the Central Government and Regional Government (UU Number 33 of 2004) with the Regional Taxes and Retributions Law (UU Number 28 of 2009), which is the government's choice in strengthening the implementation of regional autonomy in terms of spending and allocation. Transfer to the region. Several aspects related to the substantive content of the HKPD Law are essential:

1. The HKPD Law is a regulation that aims to improve policies in the field of regional financing so that they become simpler but still maintain the principle of prudence;

2. The HKPD Law strengthens regional taxation and levy reform by simplifying the types of regional taxes and regional levies to reduce collection administration costs And

3. The HKPD Law is a fiscal synergy that aims to make central and regional actions more harmonious so that national development targets and higher economic growth can be more easily achieved efficiently and effectively.

Thus, the new regulation of central and regional financial relations through Law Number 1 of 2022 is a new direction for implementing fiscal Decentralization in Indonesia. There is an improvement in the quality of environmental maintenance in areas producing natural resources which can be further increased because there is a portion of DBH that will be allocated based on environmental maintenance performance. Apart from that, regional taxation regulations are also a commitment from the central government to support regional independence while maintaining access to public services and the regional economic climate. By strengthening improvements in regional spending, of course, the quality of the APBD will be strengthened so that it is more efficient, effective, focused, accountable, and synergistic. Finally, by regulating national fiscal synergies, the community will enjoy more focused and sustainable regional development.

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