Beyond Decentralization: Aligning Authority and Capacity in Local Government in Indonesia

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Abstract

Decentralization does not automatically improve governance performance, public services, or regional development. This article develops the Decentralization Capacity Alignment (DCA) conceptual framework to explain variations in decentralization performance through the alignment between delegated authority and local government capacity. The study uses a qualitative literature review covering fiscal federalism, comparative decentralization, state capacity, policy capacity, and studies of local government in Indonesia. The analysis applies an abductive, thematic-conceptual synthesis linking authority with fiscal, administrative, analytical, operational, political, and coordination capacities. The synthesis identifies four forms of misalignment: capacity deficit, fiscal misalignment, administrative misalignment, and coordination misalignment. The article's main contribution is to position the alignment of authority and capacity as an analytical mechanism for explaining decentralization performance, emphasizing that capacity adequacy must be assessed in relation to the functions and complexity of the authority involved. Policy implications include function-based capacity strengthening, adjustments to fiscal support, and stronger coordination and institutional incentives. The DCA framework should next be operationalized and empirically tested at the regency/municipality level in Indonesia.

Keywords: autonomy; capacity; policy; performance

I. INTRODUCTION

Decentralization is an important institutional change in contemporary government. The transfer of authority to local governments is expected to bring decision-making closer to the public, increase responsiveness to local needs, and strengthen accountability. In many countries, transferring authority from central to local government is viewed as a means of bringing decisions closer to communities, improving government responsiveness to local preferences, and strengthening accountability under certain institutional conditions (Faguet, 2014; Rodden, 2004). In the fiscal federalism tradition, the efficiency argument for decentralization rests primarily on the idea that governments closer to the public have better information about differences in local preferences and can therefore provide local public goods and services that better meet community needs (Oates, 1999). The benefits of decentralization thus depend not only on the formal transfer of authority, but also on the institutional context in which local governments use that authority accountably (Lewis, 2023; Liu et al., 2022).

The relationship between decentralization and government performance, however, is much more complex than the assumption that greater local authority will always produce better government. Comparative literature shows that decentralization's effects depend on institutional configurations, political incentives, and local government capacity (Faguet, 2014; Wu et al., 2015). Rodden (2004) specifically shows that decentralization has multiple dimensions that do not necessarily move together: fiscal, administrative, and political decentralization can produce different institutional configurations. Measuring decentralization by the share of government spending carried out locally may therefore yield

a different picture from measuring policymaking authority, discretion over budget use, or the ability to raise revenue independently (Hooghe et al., 2016; Rodden, 2004).

Following Indonesia's decentralization reforms, local governments gained broad authority and responsibilities for governance and public service delivery. However, applying the same decentralization framework has not produced uniform performance across regions. Some local governments have used their autonomy to improve services and innovation, while others face constraints in fiscal capacity, personnel quality, coordination, and institutions (Sintia et al., 2025; Srisaparmi et al., 2025).

Decentralization in Indonesia has not produced a clearly identifiable effect on national economic performance. They emphasize that differences in regions' initial conditions, limited mobility of production factors, and variations in the quality of local government institutions can prevent the development benefits theoretically expected from decentralization from materializing (Pepinsky & Wihardja, 2011). This finding is important because it shows that decentralization does not produce the same outcomes in every region. Its effects depend on institutional conditions, government capacity, and the political incentives facing each local government (Faguet, 2014; Hadiz, 2004; Pepinsky & Wihardja, 2011).

Faguet (2014) offers a similar perspective from the broader literature. His findings show that decentralization's effects on governance are conditional: decentralization can strengthen accountability, political competition, and government responsiveness, but the results depend heavily on institutional design, political incentives, and local context. In other words, decentralization creates both opportunities and risks, and its effects depend on the institutions surrounding it.

In Indonesia, Hadiz (2004) warns that approaches placing excessive emphasis on formal institutional design may fail to capture the politics of decentralization. Decentralization does not occur in a neutral institutional space; it unfolds in an arena of power struggles shaped by political-economic interests, patronage networks, and local elite configurations. Consequently, decentralization institutions formally designed to strengthen democracy and local accountability may be used by actors with greater political and economic resources, causing outcomes to diverge from the intended goals of institutional reform (Sabir et al., 2021).

This issue leads to the article's central question: what happens when the authority granted to local government exceeds its capacity to use that authority effectively? This differs from asking whether local government has capacity at all. Local governments almost always possess some form of capacity. The issue is whether that capacity is adequate relative to the authority they must exercise, as reflected in debates about measuring local authority and policy capacity (Hooghe et al., 2016; Rodden, 2004; Wu et al., 2015). Capacity should therefore not be understood solely as an absolute attribute of a local government, but as capacity relative to the type, scale, and complexity of the functions it must perform. A local government may have competent personnel, a relatively sound planning system, and adequate fiscal capacity. Yet if it is assigned responsibilities far more complex than its administrative, analytical, fiscal, and coordination capabilities can support, decentralization may produce capacity overload a condition in which the demands of authority exceed available implementation capacity. Conversely, a region with relatively high capacity but very limited authority may experience underutilization of capacity, in which available capacity cannot be used optimally because its scope of authority is too narrow (Faiz et al., 2020).

To address this gap, the article develops the concept of Decentralization Capacity Alignment (DCA), which views decentralization effectiveness as the result of alignment between the authority granted to local government and the capacity available to exercise it. By connecting decentralization literature, which emphasizes the distribution of authority (Hooghe et al., 2016; Oates, 1999; Rodden, 2004), with policy-capacity literature, which emphasizes analytical, operational, and political competencies Wu et al. (2015), the article

argues that decentralization performance is determined not primarily by the level of autonomy or capacity considered separately, but by the alignment between them. The closer available capacity is to the capacity required by a given authority, the greater the degree of alignment. Conversely, the larger the gap between the two, the greater the misalignment.

Empirically, Indonesia's experience shows that applying the same decentralization design does not always produce uniform government performance across localities. Some local governments use their autonomy to improve public service quality, encourage policy innovation, and strengthen bureaucratic responsiveness. Others continue to face constraints, particularly in fiscal capacity, personnel quality, interagency coordination, and local political incentive structures that can undermine the effective exercise of authority. These differences indicate that decentralization outcomes are determined not only by the formal authority granted to local governments, but also by the institutional capabilities and resources available to exercise it (Shoesmith et al., 2020). Decentralization should therefore be understood not merely as the transfer of authority from central to local government, but as an institutional process that brings authority together with capacity, resources, coordination, and local political context (Hadiz, 2004; Pepinsky & Wihardja, 2011; Setiawan et al., 2022).

For this reason, the article seeks to broaden the decentralization debate by treating capacity as a relational variable. Capacity is understood not simply as an internal attribute of local government, but as an ability that must be assessed in relation to the type, scale, and complexity of delegated authority. From this perspective, local governments are not described as strong or weak in the abstract; rather, they are assessed as having either adequate or inadequate capacity for particular responsibilities. This shift matters because decentralization often fails not because of decentralization itself, but because the authority granted does not match the capacity available to exercise it (Hooghe et al., 2016; Rodden, 2004; Wu et al., 2015).

The article is organized as follows. The first section reviews decentralization and fiscal federalism literature to show how authority is allocated across levels of government on the basis of efficiency, local preferences, and externalities (Oates, 1999; Rodden, 2004). The second section discusses state-capacity and policy capacity literature to explain why administrative, analytical, operational, political, fiscal, and coordination capacities are prerequisites for exercising authority (Mann, 1984; Skocpol, 1985; Wu et al., 2015). The next section develops the DCA concept, explains forms of misalignment, and demonstrates its relevance to Indonesia while considering local politics and variations in regional institutions (Hadiz, 2004; Pepinsky & Wihardja, 2011). The final section presents theoretical propositions, policy implications, an empirical research agenda, and the conclusion.

Table 1. decentralization & capacitiy concept

Decentralization	Capacity
Decentralization is the distribution of fiscal, administrative, and political authority between central and local governments. It should be understood through multidimensional measures of how power is distributed across levels of government (Rodden, 2004). Fiscal: The transfer of financial-management authority to local government, including the ability to raise revenue, manage revenue sources, and determine the allocation and use of local budgets.	Policy capacity is the ability of individuals, organizations, and government systems to perform policy functions effectively through analytical, operational, and political capacities (Wu et al., 2015). Analytical: The ability to collect and analyze information, use data and empirical evidence, and formulate appropriate policy alternatives to identify and address public problems.

Administrative: The transfer of responsibility for government administration and public service delivery to local government, including authority over personnel management, program implementation, and operational arrangements tailored to local community needs. Political: The granting of authority to local government to make political decisions through representative institutions, local elections, and public-participation mechanisms for determining public policy.	Operational: The ability to manage human resources, budgets, organizations, and implementation instruments so that policies can be implemented effectively in accordance with established objectives. Political: The ability to build legitimacy, secure stakeholder support, manage competing interests, and develop coordination and consensus during policy formulation and implementation.

Decentralization is an important concept in governance that describes the distribution of authority, responsibilities, and resources between central and local government. It should be understood multidimensionally because the distribution of governmental authority cannot be measured through a single aspect alone. Decentralization comprises three dimensions fiscal, administrative, and political with distinct but interrelated characteristics and mechanisms. Fiscal decentralization concerns the allocation of financial management authority, including local governments' ability to raise revenue, manage revenue sources, and determine spending allocations according to local needs. Administrative decentralization concerns the allocation of responsibility for governance and public service delivery, including personnel management, program implementation, and the organization of government activities. Political decentralization concerns the distribution of political decision-making authority to local governments through legitimate governing institutions and mechanisms for representation and public participation. These three dimensions show that decentralization involves not only the transfer of formal authority, but also the distribution of resources and responsibilities that enables local governments to perform their functions in ways suited to local circumstances and community needs (Rodden, 2004).

Decentralization gives local governments room to adapt policies to the problems, potential, and preferences of communities in their jurisdictions. This authority enables them to identify local needs in context, set development priorities, and deliver public services suited to local social, economic, and geographic conditions. Nevertheless, granting authority does not automatically ensure effective government. Differences in fiscal capacity, human-resource quality, organizational governance, and political support can affect each region's ability to use its authority. Measuring decentralization should therefore consider the fit between formal authority, available resources, and responsibility for government functions. In public-administration research, decentralization can explain the extent to which governmental authority is distributed to local governments, while successful implementation must be analyzed further in terms of local governments' ability to manage that authority to produce responsive policies and public services.

Policy capacity describes the ability of individuals, organizations, and government systems to perform policy functions, from understanding public problems to formulating, implementing, and evaluating policies. It emphasizes three main dimensions: analytical capacity, operational capacity, and political capacity. These dimensions show that policy success depends not only on the quality of problem analysis, but also on an organization's ability to implement decisions and a government's ability to build political support. Analytical capacity involves identifying problems, gathering information, processing data, using

empirical evidence, and developing relevant policy alternatives. It enables government decisions to be based on an adequate understanding of root causes, community needs, and the consequences of different policy choices. Operational capacity includes managing human resources, budgets, organizational structures, coordination, and policy implementation instruments. Political capacity concerns the ability to build legitimacy, secure stakeholder support, manage competing interests, and sustain support for policies (Wu et al., 2015).

Policy capacity is important because the authority obtained through decentralization must be matched by the ability to use it effectively. Local governments need analytical capacity to identify community needs and set development priorities based on data and empirical evidence. At the same time, operational capacity is needed to translate decisions into programs and activities through budget support, competent personnel, clear task allocation, and coordination among local government agencies. Political capacity is also needed to build constructive relationships with local legislatures, communities, interest groups, the private sector, and other stakeholders so that policymaking and implementation receive sufficient support. Weakness in any one dimension can create a gap between the authority held and the policy outcomes achieved. Analytical, operational, and political capacity can therefore be used to assess local governments' ability to manage decentralized authority, translate it into policy action, and achieve governance and public-service objectives.

II. METHOD

This article uses a qualitative approach based on a qualitative literature review to develop the Decentralization Capacity Alignment (DCA) analytical framework. The literature reviewed covers five main strands: (1) fiscal federalism; (2) comparative federalism and the measurement of decentralization; (3) state capacity; (4) policy capacity; and (5) studies of decentralization and local government in Indonesia. Priority was given to literature providing foundations for the distribution of authority, measurement of decentralization, concepts and dimensions of government capacity, or empirical findings on variations in local government performance, fiscal and administrative capacity, local politics, institutional coordination, and public services in Indonesia. Key references include Oates (1999), Rodden (2004), Mann (1984), Wu et al. (2015), Hadiz (2004), Pepinsky & Wihardja (2011), Setiawan et al. (2022), and Shoesmith et al. (2020). The review involved critical reading of concepts, theoretical assumptions, analytical dimensions, indicators, and relevant findings from each literature strand. To organize the analysis, the literature was mapped onto two analytical sides: the authority side, which explains the distribution, scope, and characteristics of local government authority; and the capacity side, which explains the government's ability to manage and exercise that authority. This mapping was used to identify connections and gaps between the two perspectives, which have tended to develop separately.

The literature analysis used a thematic-conceptual synthesis with an abductive approach. It began by identifying tensions between normative and theoretical assumptions about the benefits of granting authority to local governments and empirical findings showing variation in decentralization performance across regions. Decentralization literature was used to understand how authority is allocated and how local autonomy is expected to affect government performance, while state capacity and policy capacity literature was used to identify the abilities needed to exercise that authority effectively. The readings were then compared and synthesized to trace circumstances in which granted authority exceeds available capacity, as well as circumstances in which existing capacity cannot be fully used because the scope of authority is limited. This process led to the argument that variations in decentralization performance cannot be adequately explained by the extent of authority or capacity considered separately, but must be understood through the degree of fit between

granted authority and the fiscal, administrative, analytical, operational, political, and coordination capacities available to exercise it (Faguet, 2014; Pepinsky & Wihardja, 2011; Setiawan et al., 2022). On the basis of this synthesis, the article formulates the DCA concept and its misalignment mechanisms, and develops theoretical propositions that can be tested in future empirical research. As a qualitative literature review, this study is not intended to be a systematic literature review that counts all publications in a database; it uses no primary data and conducts no statistical testing. These limitations are consistent with the article's conceptual-theoretical purpose. The resulting propositions are therefore presented as an initial framework for subsequent empirical research, particularly studies at the regency/municipality level that can test whether alignment between authority and capacity explains variation in decentralization performance in Indonesia.

III. RESULTS AND DISCUSSIONS

A. Result

Literature Gap

The literature, consisting of five main strands, can be grouped into two broad strands. The first is authority centered literature, comprising fiscal federalism and administrative and political decentralization. It explains the distribution of authority. The second is capacity centered literature, covering analytical, operational, and political capacity. It explains government capabilities. The problem is that these two strands are often analyzed separately (Mann, 1984; Oates, 1999; Rodden, 2004; Skocpol, 1985; Wu et al., 2015). In practice, however, local governments always face both conditions simultaneously: they receive particular authority while also having capacity that is limited, variable, and not always suited to the demands of that authority. The relationship between decentralization and government performance therefore cannot be explained solely by the extent of local authority, it must also be analyzed through the fit between the authority side and the capacity side, which decentralization and government capacity literature have tended to discuss separately.

Table 2. Three key gaps that form the basis for developing the DCA concept.

Relational dimension	Mechanism	Diagnostic value
Authority and capacity are measured, but their relationship has not yet been sufficiently established as a distinct theoretical variable.	Decentralization does not adequately explain the mechanism through which misalignment between authority and capacity leads to implementation failure, although governance and policy-capacity literature emphasizes institutional incentives, organizational capacity, and policy competencies.	Decentralization and capacity have different dimensions and do not necessarily move together.

These three gaps explain the need for this theoretical article. Without a relational concept, decentralization research tends to conclude generally that decentralization succeeds in some places and fails in others. This conclusion is descriptively correct, but it does not adequately explain the institutional mechanisms behind such variation. DCA is intended to address this gap by asking whether a given authority has a corresponding level of capacity, and in which dimensions the mismatch occurs. Thus, DCA is not merely a combination of

two existing concepts. It changes the unit of causal analysis from decentralization as a single variable to alignment between authority and capacity as an explanatory mechanism.

The Concept of Decentralization Capacity Alignment

DCA is built on three basic assumptions synthesized from the literature on decentralization and policy capacity (Rodden, 2004; Wu et al., 2015).

Assumption 1: Authority generates capacity requirements.

Within the Decentralization Capacity Alignment (DCA) framework, every governmental responsibility creates specific capacity requirements that must be met for the responsibility to be carried out effectively. Delegating or transferring authority does not automatically ensure that the ability to perform the relevant government function is available. For example, authority in the health sector requires professional staff, planning skills, information systems, financing, procurement, and oversight and coordination mechanisms. Infrastructure-development authority, meanwhile, requires technical planning, project management, procurement, quality control, and cross-sector coordination. These requirements may differ across fields and regions because of differences in the complexity of responsibilities, geographic characteristics, service scale, and communities' socioeconomic conditions. This perspective is consistent with Rodden (2004), who emphasizes the relationship between the distribution of authority and fiscal dimensions in decentralization, and Wu et al. (2015), who explain that policy implementation requires a combination of analytical, operational, and political competencies. Thus, the more complex the demands of a responsibility, the more varied the capacities needed to carry it out; formal authority alone is insufficient to ensure effective local governance.

Capacity requirements are also dynamic because they can change with technological developments, shifts in community needs, and growing public-problem complexity. For example, a local government that previously delivered health services through conventional administrative systems may face new capacity requirements when it must integrate health data, develop digital services, and coordinate responses to cross-regional health issues. Similarly, infrastructure management and disaster-risk reduction increasingly require risk-analysis skills, the use of spatial data, interagency coordination, and adaptation to environmental change. Howlett (2015) emphasizes the importance of analytical capacity in policy formulation, while Wu et al. (2015) show that policy capacity should be understood as a combination of competencies that enables governments to respond to policy demands. This implies that capacity adequate in one period may no longer be adequate when the nature of authority and the policy environment change. In DCA, therefore, alignment is not a permanent condition but a fit between capacity demands and local government's actual capacity that must be reviewed periodically. DCA analysis must consequently consider not only the scope of authority at a given time, but also changes in the capacity requirements associated with it.

Assumption 2: Local government capacity is multidimensional.

Local government capacity is multidimensional because the ability to exercise authority is determined not only by fiscal resources and the number of personnel, but also by analytical, operational, and political competencies and the institutional support available. Wu et al. (2015) explain that policy capacity encompasses these three dimensions of competence at three levels: individual, organizational, and system wide. In local government practice, this can be seen when a regency has a relatively large development budget but lacks the ability to analyze community needs, coordinate programs across local agencies, or manage policy

implementation effectively. Conversely, a region with limited fiscal resources may use what it has more effectively if it has competent personnel, an adaptive organization, and the ability to collaborate with central government, the private sector, and communities. This shows that the volume of resources available does not always reflect a government's substantive ability to produce effective policies (Wu et al., 2015).

Within the Decentralization Capacity Alignment (DCA) framework, the multidimensional nature of capacity means that capacity gaps must be identified according to the types of competence and institutional levels required to exercise particular authority. For example, flood-control responsibilities require analytical capacity to map risks, operational capacity to build and maintain infrastructure, and political capacity to coordinate local and central governments and communities in river-basin management. Weakness in any one of these dimensions can obstruct the achievement of objectives even if the other dimensions are relatively adequate. This is consistent with state-capacity perspectives that emphasize institutions' ability to formulate and implement policies, as well as policy-capacity literature distinguishing individual competencies, organizational capabilities, and system-level support (Skocpol, 1985; Wu et al., 2015). DCA therefore cannot assess local government capacity solely through aggregate indicators such as local revenue or personnel numbers; it must also consider the fit between the capacity profile available and the specific demands of the authority being exercised.

Assumption 3: Outcomes depend on alignment.

Within the Decentralization Capacity Alignment (DCA) framework, decentralization outcomes are determined not only by the extent of authority granted to local governments or their level of capacity, but also by the fit between the demands of that authority and the capacity available to exercise it. Alignment does not mean that all regions must have the same absolute capacity; rather, available capacity must be proportionate to the complexity of functions, responsibilities, and policy implementation needs. This perspective is consistent with Rodden (2004), who emphasizes the importance of political and fiscal dimensions when measuring and comparing decentralization. Wu et al. (2015) also explain that policy capacity consists of complementary analytical, operational, and political competencies, meaning that weakness in one dimension can limit the effectiveness of the others. Howlett & Ramesh (2016) further show that critical capacity deficits can become a source of governance failure when institutional capabilities are insufficient to meet policy demands. For example, a local government with limited fiscal resources and technical personnel may not necessarily perform poorly if its responsibilities are suited to its capacity and supported by adequate guidance and coordination mechanisms. Conversely, a region with a relatively large budget and sufficient personnel may experience policy failure if the complexity of its responsibilities exceeds its implementation capabilities.

In an empirical setting, a regency assigned responsibility for infrastructure development and flood-risk reduction, for example, needs technical planning, financing, project implementation, and coordination across regions and levels of government. If these responsibilities are not matched by relevant capacity, construction may be delayed, poorly integrated, or fail to deliver the expected benefits to the public. This illustrates why decentralization should be assessed not only by the distribution of formal authority and fiscal resources, but also by institutional ability to perform the functions that have been transferred (Rodden, 2004; Wu et al., 2015). When a capacity gap becomes a critical constraint, the solution does not always have to be additional funding or personnel; it may instead involve interregional cooperation, technical support from central government, institutional strengthening, or a more suitable division of functions. This approach is consistent with Howlett & Ramesh (2016) argument that identifying capacity deficits should focus on institutional barriers that actually undermine governance effectiveness. DCA therefore views

decentralization performance as a matter of fit among authority, resources, and institutions, rather than simply a question of whether local capacity is high or low. Alignment is also dynamic because capacity requirements can change as public problems become more complex, authority changes, and policy-environment demands evolve.

Forms of Misalignment

DCA makes it possible to identify at least four forms of misalignment: capacity deficit, fiscal misalignment, administrative misalignment, and coordination misalignment. This classification links dimensions of authority in decentralization literature with dimensions of capacity in policy-capacity and state-capacity literature (Mann, 1984; Rodden, 2004; Wu et al., 2015).

Capacity Deficit

This occurs when the level of authority is relatively high but administrative, fiscal, analytical, operational, or coordination capacity remains low (Setiawan et al., 2022; Wu et al., 2015). Capacity deficit is the most intuitive form of misalignment because local governments receive complex functions without commensurate capacity support (Rodden, 2004; Wu et al., 2015). In practice, capacity deficit can arise when a local government is given broad responsibility for basic services but lacks sufficient technical personnel, information systems, or planning capability. As a result, formal authority does not translate into service-delivery capacity. A region may be able to prepare planning documents and allocate budgets, yet fail to connect programs to the public's actual needs. This form of misalignment is often visible in sectors requiring minimum service standards, technical expertise, and continuous monitoring (Setiawan et al., 2022; Siswidiyanto & Sahputri, 2023; Wu et al., 2015).

Fiscal Misalignment

This occurs when responsibilities require substantial financing but available fiscal resources are insufficient or lack enough discretion to fund service needs (Lewis, 2023; Oates, 1999; Rodden, 2004). Fiscal misalignment is not the same as dependence on central government. In countries where economic capacity varies across regions, central transfers can promote equalization if they are sufficient, stable, and suited to local governments' responsibilities (Kis-Katos & Sjahrir, 2017; Lewis, 2023; Oates, 1999). The main problem arises when fiscal transfers do not match the burden of local responsibilities or create weak incentives for performance. Lewis (2023) shows that greater local fiscal resources in Indonesia do not always improve service quality because of limitations in spending capacity, accountability, and performance incentives. Kis-Katos & Sjahrir (2017) also find that the effects of fiscal and political decentralization on local public investment vary by sector and depend on local political context. Recent findings by Astriana & Khoirunurrofik (2024) reinforce this argument: fiscal decentralization is associated with governance performance, but its effects vary according to the characteristics of regencies/municipalities and regions. Fiscal misalignment is therefore not merely a budget shortfall; it is a mismatch among authority, fiscal discretion, spending capacity, and institutional incentives.

Administrative Misalignment

This occurs when local governments have broad authority but their personnel, organization, procedures, or administrative systems are inadequate for exercising it (Evans & Rauch, 1999; Mann, 1984; Wu et al., 2015). Administrative misalignment may arise when local organizational structures do not match the functions they must perform. Local government agencies may be organized according to a uniform administrative model even

though regional needs differ substantially. Urban areas, archipelagic regions, border areas, and disadvantaged regions require different configurations of organizational capacity. If the bureaucratic structure is too rigid, decentralized authority will not produce the expected policy flexibility (Evans & Rauch, 1999; Mann, 1984; Shoesmith et al., 2020).

Coordination Misalignment

Coordination misalignment is important in a unitary state such as Indonesia because many public problems poverty, transportation, health, the environment, employment, and regional development extend beyond administrative boundaries. A region may have authority and internal capacity but still fail if coordination between central and local government, across regions, and across sectors is weak. Shoesmith et al. (2020) show that uniform local-governance models perform poorly in regions facing administrative, social, fiscal, and coordination constraints. Jati (2024) adds that Indonesia's shift toward an administrative-technocratic model of decentralization strengthens central local dependence through targets, indicators, fiscal transfers, and policy guidance. Within DCA, these findings show that formal authority is effective only when supported by adaptive coordination capacity ((Jati, 2024; Shoesmith et al., 2020). Coordination also determines the success of public programs involving multiple actors. Health services, infrastructure, and regional development require synchronized financing, data, institutions, and implementation. Setiawan et al. (2022) show that local government capacity includes operational and political abilities to coordinate resources and policy processes, while Efendi et al. (2025) argue that overly uniform local-agency structures can constrain institutional responsiveness. Without coordination and adaptive structures, decentralization risks producing policy fragmentation, duplicated programs, and weak links between planning, financing, and implementation.

Fiscal Dependence and Regional Autonomy

One important issue in understanding decentralization in Indonesia is local governments' dependence on central transfers. Intuitively, fiscal dependence is often regarded as evidence that regional autonomy has not been realized. The DCA perspective, however, allows the issue to be examined more precisely. In a system with unequal economic bases across regions, fiscal equalization is necessary to ensure that regions with low revenue capacity can still provide public services. Fiscal federalism theory has long identified redistribution and equalization as important functions of central government (Oates, 1999). In other words, the more relevant measure is not how large central transfers are, but whether the overall fiscal capacity of local government is sufficient to exercise the responsibilities assigned to it.

In Indonesia, this debate matters because central transfers remain the primary source of funding for many local governments. If fiscal dependence is simplistically understood as a failure of autonomy, central government may be encouraged to reduce transfers without considering service needs. Conversely, if transfers are understood as part of an alignment design, the main issue is not simply their size, but whether they support local responsibilities, encourage performance, and reduce capacity inequalities across regions (Kis-Katos & Sjahrir, 2017; Lewis, 2023; Oates, 1999).

Politics as the Link between Autonomy and Capacity

Decentralization does not take place in a technocratic vacuum. Hadiz (2004) shows that decentralization in Indonesia must be understood through power relations and political interests. Decentralization institutions can be used by local actors with political and economic resources, meaning that formal institutional design does not automatically produce democratic or effective government. From the DCA perspective, politics is not merely an

external factor. It affects the distribution of authority, resource allocation, budget priorities, bureaucratic recruitment, officials' incentives, coordination, and the use of administrative capacity (Bardhan, 2002; Bardhan & Mookherjee, 2000; Hadiz, 2004).

A region may have formally adequate administrative capacity, yet that capacity may not be used for development purposes if political incentives encourage resource allocation to activities that yield short-term electoral gains or strengthen local patronage networks (Bardhan, 2002; Bardhan & Mookherjee, 2000; Hadiz, 2004). DCA must therefore not be reduced to an administrative theory. It is a theory of political-institutional alignment because capacity produces performance only when used within political and institutional incentive structures that support it (Bardhan & Mookherjee, 2000; Faguet, 2014; Hadiz, 2004). The literature on elite capture also warns that decentralization can strengthen local actors with greater economic and political resources when local accountability mechanisms are weak (Bardhan, 2002; Bardhan & Mookherjee, 2000). Within the DCA framework, elite capture can be understood as a condition in which formal capacity and authority are directed toward narrow interests rather than public goals. Local government capacity must therefore always be considered alongside the quality of accountability and the structure of local political incentives (Bardhan & Mookherjee, 2000; Hadiz, 2004).

Decentralization in Indonesia as Institutional Misalignment

When DCA theory is applied to Indonesia, decentralization problems can be understood through five key relationships: authority and administrative capacity, authority and fiscal capacity, authority and political capacity, authority and coordination, and capacity and institutional quality (Hadiz, 2004; Pepinsky & Wihardja, 2011; Setiawan et al., 2022).

The expansion of local functions is not always accompanied by improvements in bureaucratic quality at the same pace. Local governments also receive substantial service-delivery responsibilities, while their own-source revenue capacity varies widely. At the same time, local elections create a mechanism of electoral accountability but can also produce political incentives that do not always align with long-term development interests. Fragmented authority across sectors and levels of government further increases the need for coordination (Hadiz, 2004; Kis-Katos & Sjahrir, 2017; Setiawan et al., 2022; Shoesmith et al., 2020).

Pepinsky & Wihardja (2011) findings on regional heterogeneity, immobile production factors, and variations in local institutional quality reinforce the argument that the effects of decentralization in Indonesia depend heavily on local context. More recent studies strengthen this argument. Shoesmith et al. (2020) show that uniform local-governance models can perform poorly in eastern Indonesia, where administrative, social, and fiscal capacity is constrained. Setiawan et al. (2022) show that the analytical, operational, and political capacities of local governments contribute to public service delivery. These findings support the claim that variations in Indonesia's decentralization performance cannot be explained solely by formal autonomy status, but must be analyzed through the fit between authority and capacity.

Decentralization Capacity Alignment as a Mechanism

The DCA mechanism can be understood as a sequence of relationships. Decentralization assigns particular authority to local government. That authority creates capacity requirements, including fiscal, administrative, analytical, operational, political, and coordination capacity. These requirements are then compared with the actual capacity available to the local government. If actual capacity is adequate for the demands of the authority, alignment occurs; if not, misalignment emerges, potentially weakening policy implementation and reducing government performance (Faguet, 2014; Rodden, 2004; Wu et

al., 2015). The causal relationship proposed in this article is therefore not a direct link between decentralization and government performance, but a conditional one. Decentralization can improve government performance only when the authority granted matches available capacity and is supported by political incentives that encourage the use of capacity for public service and regional development (Faguet, 2014; Rodden, 2004; Wu et al., 2015). This mechanism also explains why decentralization reforms can produce different outcomes even when their formal design is the same. Two regions may receive the same authority, but the first may have technical personnel, fiscal capacity, information systems, and leadership capable of coordinating program implementation, while the second does not. In this situation, the same authority creates the same capacity requirements, but actual capacity differs. That difference produces variation in outcomes. In other words, DCA shifts the focus of analysis from the amount of authority to the quality of fit between authority and capacity.

B. Discussion

Theoretical Implications

The article's first contribution is to shift the unit of analysis in decentralization from authority as a single variable to the relationship between authority and capacity. Conventional literature often asks whether a country is too centralized or too decentralized. DCA shows that this question is insufficient because both decentralization and capacity are multidimensional. The more appropriate question is not simply whether decentralization should be expanded or curtailed, but whether local governments have sufficient capacity to exercise the authority assigned to them.

The second contribution is to introduce a relational conception of capacity. Capacity is no longer understood as an absolute figure, but is assessed in relation to the functions that must be performed. The third contribution is to introduce misalignment as a mechanism of decentralization failure: failure occurs when granted authority is not supported by commensurate fiscal, administrative, analytical, political, or coordination capacity. Decentralization failure therefore need not be caused by decentralization being too broad or too narrow; it may result from a mismatch between authority and capacity. The fourth contribution is to bring decentralization literature together with capacity literature so that the relationship between the distribution of authority and the ability to implement policy can be analyzed more systematically. Decentralization literature provides the authority side, while capacity literature provides the capacity side. DCA supplies a theoretical mechanism connecting the two by assessing whether granted authority is proportionate to the capacity available to exercise it. Thus, DCA expands the debate from how much regional autonomy exists to whether authority structures, fiscal resources, organizational capacity, and political incentives form a mutually supportive configuration (Faguet, 2014; Rodden, 2004; Wu et al., 2015).

Another theoretical implication is that DCA creates opportunities for more nuanced comparative analysis. Researchers can compare regions not only by their level of autonomy or capacity, but also by patterns of alignment and misalignment. Two regions may both have low capacity, yet one may experience fiscal misalignment while the other experiences coordination misalignment. Different diagnoses require different policy responses.

Policy Implications for Decentralization in Indonesia

DCA theory has important implications for local-government policy in Indonesia because decentralization design needs to account for the alignment among authority, capacity, fiscal transfers, and intergovernmental coordination. First, central government should not measure decentralization success solely by the amount of authority transferred,

because formal authority does not always reflect actual discretion or local implementation capacity. Second, capacity strengthening should not follow a uniform approach. If capacity needs are determined by the burden of authority, capacity development should be function-based and tailored to the weakest capacity dimension in each region. Third, fiscal transfers should be viewed as part of the capacity-alignment mechanism, rather than simply as local dependence, because transfers can equalize fiscal capacity when designed around service needs and the burden of local responsibilities. Fourth, the allocation of authority should be accompanied by capacity-building requirements: identifying the fiscal, administrative, analytical, operational, political, and coordination capacities needed to perform delegated functions. Every expansion of authority should be followed by an assessment of the required capacity, the actors responsible for providing it, funding sources, coordination mechanisms, and performance indicators. Fifth, oversight systems should move beyond an approach focused primarily on compliance and also assess the fit between capacity and authority.

These policy implications require a change in how central government designs support for local administrations. Support cannot be limited to general training or compliance with administrative procedures. What is needed is function-based capacity mapping: which sectors fall under local responsibility, what capacities are needed to manage them, which capacity dimensions are weakest, and which support instruments are most appropriate. With this approach, capacity-strengthening policies can be more selective, measurable, and relevant to local governments' responsibilities. DCA also implies a need for stronger coordination among fiscal-transfer policies, the division of governmental responsibilities, the design of local government organizations, and performance evaluation systems. If these four elements operate independently, decentralization risks producing fragmentation. Fiscal transfers may increase without improving capacity, the allocation of authority may change without organizational support, and performance evaluations may assess results without considering whether local governments have the capacity required to achieve them.

IV. CONCLUSION

This article concludes that the central issue in decentralization is not simply whether local authority is too broad or too limited, but whether the authority granted to local governments aligns with the fiscal, administrative, analytical, operational, political, and coordination capacities available to exercise it. Through the concept of Decentralization Capacity Alignment, the article shows that decentralization performance depends on the degree of fit between authority and capacity, as well as on the political incentives and intergovernmental coordination that determine how capacity is used. The article's theoretical contribution lies in shifting decentralization analysis from formal autonomy toward institutional fit, thereby explaining why local governments with relatively similar authority can produce different governance outcomes. In policy terms, the argument shows that decentralization reform cannot rely solely on expanding authority or increasing fiscal transfers; it must also assess the capacity required to perform specific functions. Future research should operationalize DCA and test it empirically across Indonesian regencies and municipalities using panel data capable of capturing variation in authority, capacity, and local government performance.

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