

Decentralisation and Citizen Perception of Prosperity in Indonesia

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Abstract

This article contributes to research on the impact of decentralisation reforms on local and regional prosperity. Researchers argue that implementing decentralization reforms can encourage citizens to participate in policy making. To test the idea, this study examines the relationship between fiscal decentralisation, administrative autonomy, direct local elections, and citizen prosperity using the Indonesia Family Live Survey (IFLS) 2007. IFLS is a longitudinal survey that uses face-to-face interviews with adult Indonesians (N individuals = 29,000, N districts = 262). Using ordered logistic regression, we find that fiscal and administrative decentralisation increases the probability that citizens feel prosperous, while direct local elections do not appear to have this effect. This relationship is stronger when the decentralisation reform is conducted in a less-corrupt institutional environment. The findings suggest that decentralisation in the weak political system may improve local prosperity through the improved capacity of Indonesian districts to deliver public services rather than through the opportunities for citizens to participate in local elections.

Keywords: administrative decentralisation; citizen perceptions of prosperity; fiscal decentralisation; local elections

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INTRODUCTION

Over several decades, decentralisation reform has become a key governance issue across developing countries, usually to improve citizens' well-being (World Bank, 2008). Decentralisation may be an effective mechanism for promoting citizen prosperity because residents possess information regarding their personal needs and preferences, which may vary across regions and thus be overlooked in a centralised environment (USAID, 2006; Steiner, 2005; Smoke, 2015). While decentralisation is a multidimensional concept, previous research measures only one or two dimensions. For instance, the impact of fiscal decentralisation on the performance of government (Aritenang, 2011; Buser, 2011), regional disparities (Kyriacou et al., 2015), or the impact of political accountability on public service delivery (Eckardt, 2008; Sujarwoto, 2012).

The adoption of decentralisation is usually intended to bring government and citizens closer together. Governments are primary actors determining citizen prosperity through power over formal rules, social resources, and public policies (Kim & Kim, 2012).

Consequently, many developing countries have pursued decentralisation as a strategy to improve local government performance and citizen welfare (Dillinger, 1994; Andrews & Shah, 2003). In addition, organisations such as UNPAN, USAID, and the World Bank have pushed potential fund recipients in this direction (Platteau, 2004).

The existing research on decentralisation reform usually has focused on the macroeconomic implications of the transfers of political and fiscal to a lower level of government (Canaleta et al., 2004; Ezcurra & Pascual, 2008). Other researchers are concerned about the impact of reducing regional disparities (Rodriguez-Pose & Ezcurra, 2010; Kyriacou et al., 2013); and how the reform promotes economic growth (Gemmell et al., 2013). Only a few studies have attempted to assess the impact of decentralisation reforms on subjective citizen well-being or prosperity (Frey & Stutzer, 2010; Voigt & Blume, 2009; Gao et al., 2014; Sujarwoto & Tampubolon, 2015).

This study contributes to the existing literature in two folds; the main contribution is to present a rationale that decentralisation has a different relationship with how citizen perceive their prosperity. Fiscal and administrative decentralisations have a more significant relationship than political decentralisation, with the probability of citizens perceiving economic well-being. We provide an integrated analysis of the potential impact of fiscal, administrative, and political decentralisation on citizen perceptions of their prosperity using the ordered logistic regression. Rather than conducting a comparative study, we focus on decentralisation to the district level, the lowest local government level throughout Indonesia. In this way, this article compares Indonesian district-level governments rather than comparing several developing nations. The rationale of decentralisation in the context of public administration includes empowering citizens' better choices and voices to be involved in decisions that influence their lives. However, this research shows that better public service delivery may improve citizen prosperity rather than providing opportunities to participate in a district election.

Furthermore, the benefit of decentralisation may be hindered by a problem of corruption, collusion, and nepotism. In such cases, decentralisation can promote local prosperity more effectively in an environment with fewer corrupt institutions. To test this mechanism, the study interacts the implementation of decentralisation with the level of corruption, collusion, and nepotism in the district and local parliament, following Fisman and Gatti (2002). We constructed a dummy variable to measure corruption, collusion, and nepotism (CCN), based on the IFLS survey 2007 rounds that asked community leaders about corruption, collusion, and nepotism in the district office and local parliament in the district.

In this study, we divide decentralisation into three areas of focus. First, the Fiscal autonomy of subnational governments is a key dimension of decentralisation (Faguet, 2004; Bardhan & Mookherjee, 2006; Enikolopov & Zhuravskaya, 2007). Because local governments should have sufficient revenues and decision-making power to effectively determine the level of expenditures to increase social welfare (Oates, 2006), fiscal decentralisation may promote citizen welfare. Transferring the power of collecting revenues and controlling expenditures from the central government to subnational governments may enable the lower-level government to stimulate its economic development (Jin et al., 2005; Kyriacou et al., 2013). Moreover, fiscal decentralisation may influence the district to promote citizen prosperity. Kyriacou et al. (2013), based on their study of 24 OECD countries from 1984 to 2006, argue that such decentralisation only reduces regional income

disparities in situations where good governance is already present. Based on this explanation, the first hypothesis of this study is as follows:

H₁: *Greater fiscal decentralisation to the district government has a significant positive relationship with perceived citizen prosperity.*

In addition, administrative decentralisation focuses on the level of policymaking authority controlling local public services (Schneider, 2003). Transferring administrative competencies to local governments should improve citizens' lives because subnational governments may be more likely to implement local policies that match citizen needs (Faust & Harbers, 2012). Administrative decentralisation implies that the local government has the power to arrange a local policy specifically to address the demands of local citizens (Oates, 2006). This process ensures that public goods and services match local citizens' needs and preferences. Transferring over 2.5 million civil servants to subnational governments would thus seem a clear devolution, whereas retaining control over the generation of revenues would seem like delegation at the very most. Based on these arguments, the second hypothesis of this study is as follows:

H₂: *Greater administrative decentralisation to the district government positively correlates with perceived citizen prosperity.*

Finally, political decentralisation is delegating political authority, responsibilities, and power to the sub-national governments to provide services and facilitate local development (Rondinelli et al., 1984; Eckardt, 2008; Sujarwoto, 2012). Political decentralisation may enhance citizen prosperity by accommodating citizen participation and allowing citizens to provide information about their needs to the administrators who have the power to formulate relevant policies (Seabright, 1996; Eckardt, 2008; Sjahrir et al., 2014). Sjahrir et al. (2014) demonstrate that political accountability is the key to controlling overspending and that there is less administrative overspending in Indonesian districts with greater political competition. Another way political decentralisation may improve citizen prosperity is by encouraging citizens to actively monitor the government's performance (Grindle, 2007). More generally, bringing the government closer to the people may enable citizens to demand better services and inform leaders directly when unacceptable services are being provided. Likewise, locally elected officials may actively demand more of their civil servants (Eckardt, 2008). Therefore, political accountability may create proper incentives to promote citizen welfare. Based on these reasons, the third hypothesis of this study is as follows.

H₃: *Greater political decentralisation to the district government positively correlates with perceived citizen prosperity.*

RESEARCH METHOD

Data

In order to answer whether decentralisation leads to a greater or lower citizens' prosperity level, this study combines two data sources. First, the individual-level information is extracted from the Indonesian Family Life Survey (IFLS) 2007. The survey interviewed individual respondents, their households, and the communities in which they live (Frankenberg & Thomas, 2000). The participation rate is relatively high, 92%, and the estimated lost households between waves are around 5 per cent (Thomas et al., 2012). The questions on citizen prosperity and local governance to residents aged 15 years or older

provide a sample of approximately 29,000 respondents or roughly 100 respondents per district. Meanwhile, district-level information was obtained from the annual statistics released by the National Bureau of Statistics of Indonesia (BPS).

The dependent variable in this study is an indicator measuring perceptions of relative prosperity. The indicator employed in this study is an ordinal variable constructed from perception data measuring citizens' perceived position in the six-step poor-rich ladder in each sample district as of 2007. The IFLS only asked the prosperity perception questions in the fourth wave, which reads: "Please imagine a six-step ladder where on the bottom (the first step) stand the poorest people and on the highest step (the sixth step) stand the richest people. On which step are you today?". We recode the answers, so the citizen prosperity variable (CITIZEN) is coded as one if "poor", two as "moderate", and three if "rich".

This study utilises the three decentralisation reforms as valuable proxies. First, fiscal decentralisation refers to the local government's autonomy in managing its revenues and expenditures to optimise local needs (Zhang & Zou, 1998; Ebel & Yilmaz, 2002). Consequently, the two constructed measures are the proportions of total district revenue over total district revenue (FISDEC1) and the ratios of district development expenditures over routine expenditures (FISDEC2). According to Schneider (2003), the more significant portion of revenues collected by districts (FISDEC1) illustrates the districts' fiscal self-reliance. Meanwhile, the expenditure allocation indicates districts' activities to deliver public services to meet citizen needs versus general government administrative costs. Consequently, this study follows the World Bank (2008) in using the ratio of total development expenditures to routine expenditures to measure the efficiency of fiscal decentralisation in improving citizen prosperity.

Second, administrative autonomy is measured by the district's control of local revenue. The proportion of the district's revenue from taxes signals the level of district control over resources (Schneider, 2003). Suppose a district has the power to control the collection of local revenues. In that case, the district can develop tax incentive programs that encourage local entrepreneurs to help build a conducive environment and offer credit to local business people. Consequently, this study employs the percentage of district tax revenue to total district revenue as a proxy of administrative decentralisation (ADMINDEC).

Finally, political decentralisation emphasises incorporating local citizens' interests into the local policymaking process (Fox & Aranda, 1996; Schneider, 2003). Following Schneider (2003), this study uses district head election as a proxy to measure the degree of political accountability at the district level. Districts with leaders selected by free and fair local elections are assumed to have more autonomy in the policymaking process than those local elites chosen by the former centralised regime who had started their term before the direct election regulation. The 2007 rounds of the IFLS asked community leaders how a leader was selected, which was used in this study to measure political decentralisation (POLDEC). Accordingly, we classify the POLDEC as the following dummy variable: political autonomy if a leader is a result of direct local elections with voters being all residents (code "1"); otherwise is coded "0" if community elites select a leader. Table 2 reports descriptive statistics for the decentralisation variables.

This study includes a range of control variables, addressing macroeconomic variables, geographic coverage of services, and individual characteristics. To control for important macroeconomic variables that could influence citizen prosperity, we include several variables, such as the real gross domestic product (GDP) at the constant price,

unemployment rates, and inflation rates, all at the provincial level (Alesina et al., 2004; Diener et al., 1993). In addition, to address the effect of geographic location, we constructed dummy variables representing respondents living in urban/rural areas and on Java Island /not on Java Island.

Following Fisman and Gatti (2002), this study examines the interaction between the decentralisation of government activities and corruption, as measured by a dummy variable to measure CCN. The dummy variable is constructed based on questions in the IFLS 2007 rounds that asked community leaders about corruption, collusion, and nepotism in the district office and local parliament.

Econometric method

This study employed an ordered logistic model to examine the impact of decentralisation on the individual's perceived prosperity level. The independent variables are political decentralisation, administrative bureaucracy, and fiscal decentralisation. The control variables are socio-demographic variables, such as gender, age, education, marital status, employment status, district inflation, GDP, urban, java, and unemployment. Specifically, we estimate the following regression:

$$P(Prosp_{id} = m) = \alpha + \sum_{j=1}^3 \beta_j DM_d^j + \sum_{k=1}^K \gamma_k x_i^k + \sum_{l=1}^L \theta_l s_d^l + e_i \quad (1)$$

Where $Prosp_{id}$ is the individual i 's reported prosperity level living in district d . The values are discrete and range from 1 to 3. The variables of interest are DM_d^j and decentralisation measure j in district d . This study uses three decentralisation measures: fiscal, administrative, and political decentralisation. X and S are control variables, capturing individual and district-level socio-economic characteristics. Finally, e is the error term.

RESULTS AND DISCUSSION

Table 1. Perceived Prosperity in Indonesia, 2007-2008.

Perceived Prosperity	All	Rural	Urban	Java	Non-Java
Number of					
Observations	28,978	13,528	15,450	16,669	12,309
Poor (%)	29.43	34.93	24.61	27.5	32
Moderate (%)	69.3	63.88	74.03	71	66.98
Wealthy (%)	1.28	1.19	1.35	1.47	1.02
Pearson Chi ²		369.8674	p.val.=0.00	76.6234	p.val.=0.00

Source: RAND 2015, IFLS 4th wave question HH SC

Table 1, which shows the distribution of prosperity levels for the sample, indicates that most respondents posited themselves as "moderate" on the rich-poor ladder in 2007. Urban residents are much more likely to perceive wealth than rural people. Not surprisingly, urban people enjoy more facilities than rural people because urban districts' economic activities are dominated by manufacturing, trade, service, and hospitality. Meanwhile, the agriculture and agro-business sector drives rural economic activities (Nurcholis, 2005). Furthermore, it

is also interesting to find that those who live on Java island, where the capital city of Indonesia is located, are more likely to feel wealthy than citizen who lives on other islands.

Table 2 presents statistical tests for our total sample using Stata 13 software. Our empirical estimate supports our hypothesis that higher fiscal and administrative bureaucracy creates conducive environments to enhance citizens' economic well-being. In particular, the efficiency in managing expenditure to deliver public services, including health, education, and infrastructure, seems to be associated positively with the probability of a higher perceived prosperity level. The proxy for administrative bureaucracy – the percentage of tax on the land product – is also positive and significantly associated with the prosperity level perception. Surprisingly, political decentralisation is negatively associated with improving citizens' prosperity levels. Presumably, direct local elections produce more fragmented control in the district, weakening political accountability and incentives for local governments to create a favourable environment to increase the probability of higher prosperity.

The individual control variables present that males perceive themselves as having lower prosperity levels than females. Educated individuals have higher prosperity levels than illiterate persons. People with higher household expenditure consider themselves to have higher prosperity levels than their counterparts, specifically when the local government allocates more development expenditure than financing routine activities. Being married provides more economic well-being than not being married.

Then, this study also uses macroeconomic variables to explain the differences in citizen prosperity. Living in a large district significantly impacts individual prosperity levels, and the local unemployment rate negatively impacts citizens' economic well-being perception. As expected, local GDP seems to positively impact the perception of economic well-being, although with a minimal effect. Finally, the local inflation rate and citizen prosperity have a positive relationship. In addition, we also address the effect of geographic location in the model. The result shows that living in an urban district on Java island is likely to make citizens feel more prosperous than other islands, but the associations found are insignificant.

Furthermore, this study includes the interaction of decentralisation and the practice of corruption, collusion, and nepotism. Based on the test results, the probability of enhancing citizen prosperity is even more significant when political decentralisation is implemented in a less corrupt, collusive, and nepotistic environment. The probability is presented below in Table 3. The margin tells us that implementing direct election in a more- corrupt, collusion and nepotism environment reduces the probability of being in a higher prosperity level. Political decentralisation reform may be counterproductive in low-quality governance districts. Underdeveloped checks and balances cause districts to form officials' clientelistic networks (Manzetti & Wilson, 2007) and employ elite capture (Platteau, 2004). Consequently, it reduces local governments' ability to enhance citizen prosperity.

Table 2. Relationship between Decentralisation and Level of Prosperity.

Dep. Var. = level of prosperity	Coef	SE	Coef	SE	Coef	SE	Coef	SE
Revenue Decentralisation (fisdec1)	0.016	0.089	0.057	0.717	0.287**	0.11	0.265**	0.111
Revenue Decentralization X district corruption			0.420**	0.043				
Revenue Decentralization X parliament corruption			0.478**	0.026				
Expenditure Decentralisation (fisdec2)	0.000***	0	0.000***	0	0.000***	0	0.000***	0
Expenditure Decentralization X district corruption			-0.001	0.004				
Expenditure Decentralization X parliament corruption			-0.003	0.004				
Administrative Decentralisation	0.000***	0	0.000**	0	0.045	1.01	0.000**	0
Administrative Decentralization X district corruption					-0.045	1.01		
Administrative Decentralization X parliament corrupt.					0.233	1.019		
Political Decentralisation	-0.171***	0.051	-0.279***	0.065	-0.289***	0.063	-0.102	0.086
Political Decentralization X district corruption							-0.313***	0.097
Political Decentralization X parliament corruption							-0.141	0.112
Sex (1=male)	-0.170***	0.036	-0.169***	0.043	-0.182***	0.042	-0.170***	0.044
Education	0.7996***	0.033	0.746***	0.04	0.751***	0.039	0.743***	0.04
Household Expenditure	0	0	0.0000*	0	0	0	0	0
Working Status (1=work)	0.045	0.039	0.018	0.048	0.023	0.047	0.006	0.048
Marital Status (1=married)	0.225***	0.041	0.243***	0.049	0.241***	0.048	0.243***	0.049
Household Size	0.008	0.006	0.0075	0.007	0.0079	0.006	0.0088	0.007
Age	0.002	0.001	0.001	0.001	0.001	0.001	0.001	0.001
Size of Village	0.0000*	0	0	0	0	0	0	0
Total Population Village	0	0	0	0	-0.0000*	0	-0.0000*	0
Number of Households in Village	0	0	0	0	0	0	0.0000*	0
Local Unemployment Rate	-0.0409***	0.0067	-0.049***	0.009	-0.052***	0.008	-0.057***	0.009
Log Local GDP	0.171***	0.161	0.174***	0.037	0.218***	0.035	0.201***	0.04
Local Inflation Rate	0.081***	0.0161	0.079***	0.021	0.095***	0.021	0.062**	0.02
Urban (1=urban)	0.249	0.0418	-0.007	0.078	0.082	0.05	0.085	0.052
Java (1=Java)	0.028	0.059	0.096*	0.051	-0.06	0.08	0.024	0.075
No. of obs	16789		11217		11783		11783	
Cutoff Point 1	6.76	0.948	6.49	1.226	7.92	1.17	7.83	1.16
Cutoff Point 2	12.286	0.954	11.958	1.232	13.382	1.181	13.29	1.17
Chi-square	956.77		675.41		684.88		695.1	
Pseudo-R2	0.043		0.045		0.043		0.044	

Note: ***, **and * indicate significance at the 1%, 5%, and 10% levels, respectively

Source: Secondary data processed by Stata

Table 3. Percentage of Perceived Prosperity based on District Political Decentralization and Level of Corruption.

District	Poor Condition		Wealthy Condition	
	Less Corrupt	More Corrupt	Less Corrupt	More Corrupt
No Political Decentralisation	0.25	0.23	0.012	0.014
Political Decentralisation	0.27	0.31	0.011	0.009

Source: Secondary data processed by Stata 13

Interestingly, the implementation of revenue decentralisation interacted with corruption collusion and nepotism indexes (both in district and parliament), increasing the probability of higher citizen prosperity. By bringing revenue management closer to the citizen and empowering the citizens so that citizens can hold those in positions of leadership accountable, the local government could focus on increasing citizen prosperity. Table 4 presents that revenue decentralisation in the more corrupt districts impacts better citizens' perceptions of relative prosperity.

Table 4. Percentage of Perceived Prosperity based on District Revenue Decentralization and Level of Corruption.

Parliament	Poor Condition		Wealthy Condition	
	Less Corrupt	More Corrupt	Less Corrupt	More Corrupt
No Revenue Decentralisation	0.26	0.28	0.011	0.01
Revenue Decentralisation	0.27	0.21	0.01	0.015

Source: Secondary data processed by Stata 13

This study examine the effect of fiscal, administrative and political decentralisation on citizen prosperity in Indonesia. The statistically significant results support the hypothesis that administrative and expenditure decentralisation promotes higher citizen prosperity. These results also support Tiebout's (1956) idea, the pioneer of decentralisation, that transferring taxation and spending powers to the regional government can ensure that local policies are relevant and appropriate to local needs.

In particular, implementing administrative decentralisation means that local governments have the authority to set the local tax rate and base. The taxation power is necessary to maximise the regional government's ability to distribute the policy (Hankla, 2009; Linder, 2010). A close examination of Indonesia's policy reveals that the decentralisation law limits setting taxation rates (World Bank, 2003). The local taxes remain a responsibility of the national government; even though shared with the subnational government, regional governments lack the power to mobilise their resources to improve the local welfare. Consequently, administrative decentralisation gives the local government the authority to set the tax incentive packages to attract investors to invest in their districts and increase local economic (local GDP) growth, finally helping to reduce the local unemployment level (Brodjonegoro, 2004). The local government can cooperate with the private sector to improve regional economic development to promote local prosperity. The

local economic development through local GDP growth and job creation will eventually affect the improvement of citizens' income.

The expenditure decentralisation explains the creation of independent regional spending authorities. Hankla (2009) argues that regional governments should be free to control their expenditure based on the needs of the people they represent or an essential voice in creating the local budget. The expenditure decentralisation encourages the local executives and legislature to plan their budget based on policy needed by the local people, so the increasing amount of development expenditure on the spending budget will lead to better delivery of services and developmental outcomes.

Moreover, the result of this study also explains that fiscal decentralisation in Indonesia increases local prosperity. However, when revenue decentralisation is implemented in a region that experiences more corruption, collusion, and nepotism, the result shows a positive relationship with the effort to promote citizen prosperity; in other words, fewer people feel poor. Corruption has been a significant issue in Indonesia. In the first year Transparency International conducted its corruption perceptions index (1995), Indonesia had the highest corruption perception among the 41 nations. The figure had not changed much since Indonesia was tied at 137 of 158 nations in 2005. However, in 2014, the most recent year released, Indonesia improved substantially and was ranked 107 out of 174 nations (Transparency International, 2016).

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In addition, Lewis and Chakeri (2004) present that many district leaders travel to Jakarta, where the central government is located, to lobby the executives and legislators to ensure a more significant allocation of unconditional grants from the central government. When revenue decentralisation is implemented, revenue autonomy introduces the concept of a pro-people budget (Brodjonegoro, 2004). The local executive and legislative have to be transparent in the planning and budgeting, so the local voters can hold the elected officials accountable. Besides that, the revenue autonomy encourages the local government to explore opportunities for generating additional resources locally. In this case, the money would be increased, allowing the local governments to fund their operations and implement development programs based on local needs and priorities. Consequently, with the increasing share of the local government's revenue in the local budget, the local government can reduce its dependency on the central government, support local accountability and development, and promote local prosperity.

Finally, the dummy on political decentralisation seems to significantly reduce local citizens' prosperity. As political decentralisation increases local power and influence, local leaders can use such power to enrich themselves by imposing various unethical practices, such as bribery and nepotism, embezzlement of funds, and endless scandals. Consequently, this unethical conduct is detrimental to promoting local prosperity. In this case, the implementation of direct local elections in Indonesia reduces the ability of the local government to promote citizen welfare.

Furthermore, political decentralisation to promote citizen welfare is worse when the district implements a direct election with a higher incidence of corruption, collusion, and nepotism. Studies by Hofman and Kaiser (2002), Aspinall and Van Klinken (2011), and Choi (2004) explain that direct election may increase corruption in local politics in Indonesia through money politics and nepotism. Thus, it may be no surprise that corruption could precipitate Indonesian poverty. However, Aspinall and Van Klinken (2011) conclude in their book that illegal practices by state officials in Indonesia are not just aberrations of the state. However, instead, they are the basis of the Indonesian state. Such a high occurrence of corrupt practices has hampered the benefit of political decentralisation and undermined the promotion of local prosperity.

CONCLUSION

There are several ways that decentralisation can impact poverty in its different dimensions. This study has attempted to theoretically and empirically understand how decentralisation

promotes local prosperity. Theoretically, the study has built on the decentralisation reform using a prosperity-level framework to emphasise conditions under which local governments can improve their districts to enhance citizens' economic welfare. Empirically, the analysis focuses on the response after the decentralisation reform.

The general hypothesis tested in this article is that the individual's prosperity level is significantly determined by the effectiveness of fiscal authority transfer, administrative bureaucracy, and a political accountability system that ensures citizen involvement in government actions. The main empirical results show that the local expenditure assignment and administrative bureaucracies are significantly associated with improving citizen prosperity, while political decentralisation significantly decreases citizens' welfare. It shows that decentralisation can influence local prosperity by assigning expenditure responsibility to lower government levels and tax-raising power, which the literature has so far neglected. On the contrary, the implementation of direct local elections induces unethical uses of power that lead to corruption and hamper an effort to promote local prosperity. Moreover, the interaction variables show that revenue decentralisation helps promote local prosperity in the corrupted districts. If local governments rely on local revenue, the regional government can focus on implementing the programs based on local preferences. In addition, relying on local revenue also will help to increase accountability. The local citizens are more likely to hold the elected officials accountable since local development is mainly financed from their local revenue, which would, in turn, affect the prosperity level. On the other hand, implementing direct local elections in the more corrupt districts worsens the prosperity level because the son of the regions dominates the elected officials. So this practice leads to the rise of nepotism and abusive power, causing higher corruption and less effectiveness in promoting local prosperity.

Although the data availability limits the conclusiveness of the results, this study provides insights into the practice of decentralisation. In a country with a flawed institutional system, the district's quality is much more critical for improving citizen prosperity than establishing direct local elections. The results also suggest that the ultimate objective of decentralisation should increase economic growth and, more importantly, improve citizen prosperity through better service delivery. Thus, the importance of the role of districts in improving prosperity levels in a decentralisation context should not be underestimated.

This paper has some limitations, and we employ longitudinal data from the IFLS in 2007 only because the IFLS round 2014 has slightly different questions from the previous IFLS, especially questions about CCN. Meanwhile, since 2007, the law concerning decentralisation has been amended to develop a more robust system. Consequently, this study could not address issues after 2007 that may provide different results. We leave this for future research.

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