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Fiscal Decentralization and Routine Conflict in Indonesia

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Abstract:

This study attempts to investigate whether fiscal decentralization is more effective to reduce routine conflict in provinces with good institutional quality. Our quantitative findings show that institutional quality does matter in explaining the fiscal decentralization – routine conflict nexus. In addition, both fiscal dependence and fiscal discretion are negatively and significantly correlated with the incidence of routine conflict and the deaths resulted from routine conflict. However, the qualitative results indicate that the phenomenon of elite capture occurs in every level of government.

Keywords: fiscal decentralization; routine conflict; Indonesia

JEL Classification: H110; H770; H830

Introduction

The conceptual basis of decentralization in the world has become a major debate amongst scholars. In this context, Oates (1972) assumes that there is no spillover effect between jurisdictions associated with public goods because the benefits of consuming these items are limited to individuals within the jurisdiction. Thus, larger and heterogeneous countries will benefit. However, the uniform level of public goods provision tends to be inefficient because each region has different social and economic characteristics. The argument shows that fiscal centralization can cause social unrest, which in turn, increases the risk of internal conflict and secession (Hechter 2000). This is due to the fact that the treatment of the central government over a particular region is considered unfair or discriminatory by the local population. On the other hand, by giving local governments greater control over economic affairs, as well as policies to design and implement policies taking into account the preferences of their citizens, fiscal decentralization can reduce the potential risks of internal conflict and secession (Tranchant 2010).

Turning to the fiscal decentralization – conflict nexus, Tranchant (2010) argues that fiscal decentralization is more effective when the ethnic distance between the largest group and population is the largest. Moreover, fiscal decentralization works better in rich countries as well as in poorer groups than in other populations, depending on the capacity of strong local governance. While Ezcurra (2015) finds that fiscal decentralization correlated negatively and significantly with the incidence of civil conflict. In Indonesia, Murshed and Tadjoeeddin (2008) state that fiscal decentralization can reduce routine conflict in Java. While Rusyiana and Sujarwoto (2017) find that there is no significant relationship between fiscal decentralization and communal conflict in all districts and villages in Indonesia.

Concerned with the lack of cross-province studies in Indonesia and the limited dimension of fiscal decentralization indicators as presented by Murshed and Tadjoeeddin (2008) as well as Rusyiana and Sujarwoto

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(2017), our study attempts to fill these gaps. In addition, the role of institutional quality in explaining the fiscal decentralization – conflict nexus will be elaborated in our study. Specifically, we want to investigate whether fiscal decentralization is more effective to abate routine conflict in provinces with good institutional quality.

1. Literature review

According to Rondinelli (1981), decentralization consists of three different but interdependent dimensions: the political, administrative, and fiscal dimensions. Political decentralization consists of the transfer of decision-making authority to elected local officials, who are accountable to their own constituencies. Administrative decentralization refers to the transfer of decision-making power in the management of public service functions such as recruitment decisions and salary fixing. Fiscal decentralization refers to the transfer of decision-making power to income and the assignment of expenditures to local governments. In practice, it is difficult to think of meaningful levels of fiscal decentralization without an effective level of political and administrative decentralization.

Over the past few decades, many central governments in some countries have essentially handed over political, administrative, and fiscal powers to local governments. According to data collected by Garman *et al.* (2001), over 80% of the 75 developing countries analyzed have undergone decentralization at the start of the millennium. Since then, the trend has only increased, including rich and poor countries, large and small populations, with different colonial origins.

Based on the conditions of a large number of countries that have implemented decentralization, Faguet (2014) provides some explanation of the reasons behind this phenomenon. Policymakers in other countries such as Peru, Cambodia, Mexico, India and Tanzania emphasize on reducing inequality in access as a goal of decentralization, in addition to increasing community participation and democracy, and to strengthening public accountability and government effectiveness in society. On the other hand, the provision of public services and goods in some countries such as Colombia, South Africa, and Ethiopia is designed to reduce ethnic conflict, and/or separatist movements.

From the above explanation, we can see that country size, population diversity, and expectations for achieving better institutional quality play a major role in decentralization. However, some empirical studies also show that the economic crisis can have an important role (Bahl and Linn 1992). The crisis has motivated many developing countries such as Indonesia to start a decentralization strategy. Before the Asian financial crisis of 1997, Indonesia was regarded as an "Asian Tiger", along with South Korea, Hong Kong, Taiwan and Singapore. However, the economic crisis that hit Indonesia in 1997, followed by the political crisis in 1998 and the fall of the Soeharto regime seems to expedite the decentralization process (Silver *et al.* 2001).

Some scholars try to investigate the relationship between fiscal decentralization and conflict, without providing conclusive results. Tranchant (2010) investigates the relationship between fiscal decentralization, as measured by the share of sub-national government spending over total government spending, institutional quality, and ethnic conflict in the period 1985 - 2001. It uses the Minority at Risk (MAR) dataset and the estimated Generalized Method of Moments (GMM) system. He finds that institutional quality is important to correctly estimate the impact of fiscal decentralization. In addition, fiscal decentralization is more effective when the ethnic distance between groups and other populations is greatest and it works better in rich countries. Also, groups that are poorer than the rest of the citizens are those who benefit the most from fiscal decentralization, which must be accompanied by strong local state capacities.

Based on the Tranchant study, the fiscal decentralization indicator can be viewed solely on the expenditure side. To address this issue, Ezcurra (2015) uses the UCDP / PRIO dataset to investigate fiscal decentralization, as measured by the share of sub-national governments spending over total government spending, and the share of sub-national government revenue over total government revenue, and conflicts, as measured by all conflicts with 25 or more war-related deaths in a year, in 77 countries during the period 1972 – 2000. To minimize the issue of reverse causality due to the fact that in the face of internal conflict, countries can change the level of decentralization, he uses a two-year lagged value of fiscal decentralization indicators. Using the Instrumental Variable (IV) probit techniques, he finds that fiscal decentralization reduces the incidence of civil conflict.

While most cross-country studies are dominated by other forms of violent conflict such as revolutionary warfare and ethnic separation, several case studies of one country try to investigate the phenomenon of conflict, beyond civil war. Murshed and Tadjoeeddin (2008) broadly categorize violent conflict or group/collective violence into episodic and routine. The former constitutes an ethno-communal war together with separatist violence and regional separation. It has a major economic impact and internally displaces many people. The latter consists of ordinary violence along with group fights and vigilante violence. It is less likely to supersede inhabitants and relatively causes minor damage. In their research, they use the newly built UNSFIR dataset on social violence in

Indonesia and the negative binomial estimation techniques to examine the relationship between routine violence and fiscal decentralization in 98 districts on the island of Java over the period 1990 – 2003. They find that routine violence is negatively and significantly correlated with the impact of fiscal decentralization and the size of local government. Also, there is a bell-shaped relationship between income and violence where initially, growing prosperity induces violence before it actually decreases after the increase in average incomes.

Quantitative studies conducted by Murshed and Tadjoeeddin (2008) only cover the districts of Java and therefore, these findings can only be generalized in inter-district communal conflicts within the Island. Recently, Rusyiana and Sujarwoto (2017) use SUSENAS dataset to examine the relationship between decentralization and conflict in all districts and village levels in Indonesia from 2008 to 2014. Using multi-level logit regression, they find that administrative decentralization was negatively and significantly correlated with communal conflicts, while both fiscal and political decentralization are not. However, there are several weaknesses in their study, as follows.

First, their decision to link simultaneously the three dimensions of decentralization with conflict is methodologically flawed since the extent to which local governments receive authority in terms of administrative, political and fiscal is difficult to measure. Therefore, separate regression is needed. Second, this study has several measurement errors related to fiscal decentralization indicators and proxy variables of institutional quality. In the former, they use the logarithmic function of the district's general allocation fund (*Dana Alokasi Umum – DAU*) that is transferred by the central government. However, the indicators of local fiscal dependence and fiscal discretion are neglected in this study. Finally, their decision to use accessibility on television broadcasting as a means of measuring institutional quality can be considered inadequate methodologically.

2. Methodology

In this research, we use a sequential explanatory strategy where it is characterized by the collection and analysis of quantitative data in the first phase of the study, followed by the collection and analysis of qualitative data in the second phase built on the results from quantitative analysis (Creswell 2009). We assume that institutional quality can play an important role in explaining the relationship between fiscal decentralization and routine conflict in Indonesia. Quantitatively, the crime rates can be a proxy variable on the quality of government, reflecting the quality of law enforcement and the capacity of law enforcement in preventing and punishing criminals (Buonanno and Vargas 2017). Meanwhile, qualitatively, we argue that institutional quality can be illustrated by looking at the determination of intergovernmental fiscal transfer policies and their implementation at the local government level.

In the case of Indonesia, Murshed and Tadjoeeddin (2008) categorize violent or group / collective violence into episodic and routine. In this study, the dependent variable used is routine conflict measured in terms of incidence and death. Such data can be obtained from the National Violence Monitoring System (*Sistem Nasional Pemantauan Kekerasan – SNPK*). The following panel data models will be used in cross-province level estimation:

$$C_{it} = \beta_0 + \beta_1 FD_{it} + \beta_2 Ins_{it} + \beta_3 (FD_{it} \times Ins_{it}) + \beta_4 X_{it} + \varepsilon_{it} \quad (1)$$

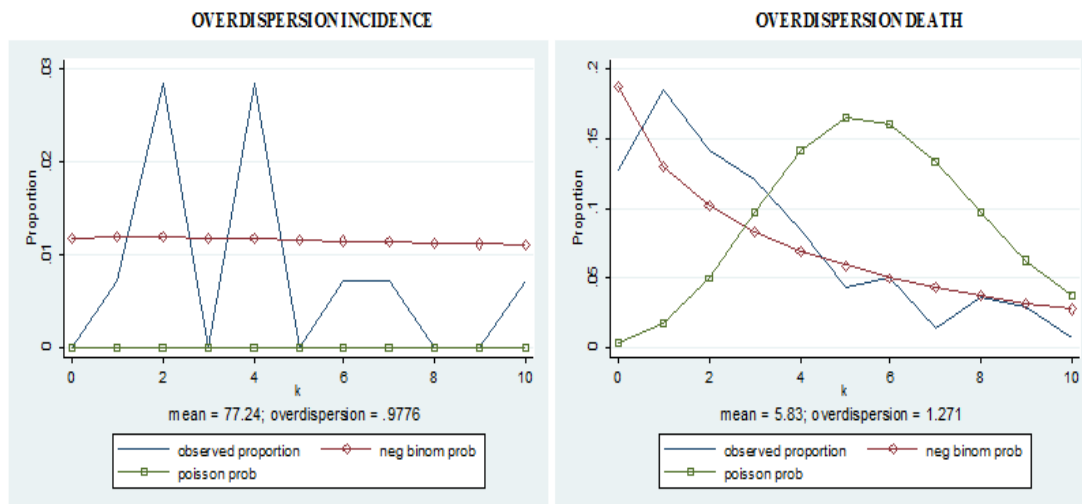
Where subscript *i* denotes 32 provinces, *t* denotes the year of observation, 2005 – 2014. *X_{it}* is a control variable vector assumed to have an influence on conflict, and ε is an appropriate interruption term. According to the economic theory of conflict and civil war, the level of development plays a key role in this context (Newman, 1991). We use the Gross Regional Domestic Product (GRDP) per capita taken from the Central Bureau of Statistics (*Badan Pusat Statistik – BPS*) to capture the differences that exist in development across the sample provinces. Thus, provinces with higher GRDP per capita tend to have stronger regional capacity (Fearon and Laitin 2003). We also include the average years of schooling, as low levels of education are associated with lower opportunity costs to engage in violence (Østby and Urdal 2010, cited in Tadjoeeddin *et al.* 2016). In addition, we include the Headcount Poverty Rate and the horizontal inequality indicators (Group Gini) as they are the driving forces in the conflict (Tadjoeeddin and Murshed 2007 and Tadjoeeddin *et al.* 2016). Some demographic variables such as ethnic fractionalization, distance, and population size also serve as control variables because they have been used by many authors in investigating conflicts (Tranchant 2010, Ezcurra 2015, Tadjoeeddin *et al.* 2016). Another control variable included in the equation is the criminal rate as a proxy variable of institutional quality because it can reduce the risk of conflict through interplay with fiscal decentralization (Tranchant 2010). All of these data can be obtained from BPS.

Our main variable of interest lies in the β_1 coefficient, which measures the effect of fiscal decentralization level on the routine conflict. Here, fiscal decentralization in Indonesia is measured by the share of intergovernmental fiscal transfers to total local government revenues. This indicator can indicate the ratio of fiscal dependence of local governments on intergovernmental fiscal transfers from the central government. In this study, we also used the ratio of fiscal discretion calculated from the total amount of unconditional intergovernmental transfers to total local

government revenues. This indicator shows how far local governments have discretion in optimizing block grants. The data on both indicators is based on the realization of Local Revenue and Expenditure Budget (*Anggaran Pendapatan dan Belanja Daerah – APBD*) issued by the Ministry of Finance on a regular basis.

As we mentioned earlier, routine conflict is measured in terms of incidence and deaths. Such variables are clearly in the form of count data that may take on any non-negative integer value, including zero. Our dependent variable is discrete but there is evidence of overdispersion in the data in which variance is greater than mean. Thus, negative binomial model might be the popular alternative (Cameron and Trivedi 2005). We conducted preliminary test showed a sign of overdispersion and hence, negative binomial in a panel model is appropriate (see Figure 1).

Figure 1. Overdispersion on Incidence and Death from Routine Conflict



The datasets we obtained were relatively unbalanced (see Table 1). We inspected that most of variations were within variation rather than between variation. Thus, we suspect that the fixed effect in the form of negative binomial regression would be appropriate to illustrate the relationship between fiscal decentralization and routine conflict. Related to the dependent variable, the incidence of routine conflict and the magnitude of death rate due to routine conflict is at a relatively moderate level. Meanwhile, the indicators of fiscal decentralization, the ratio of fiscal dependence and local fiscal discretion are relatively high at 76% and 70%. From the perspective of institutional quality, crime rates on average are relatively moderate. On the other hand, indicators of horizontal inequality are relatively high in Indonesia, while poverty indicators are at a relatively moderate level.

Table 1. Summary of Statistics

	Observation	Mean	Std. Deviation	Min	Max
Incidence	141	77.24	110.51	1	775
Death	141	5.83	8.79	0	63
Fiscal Dependency	319	76.43	10.13	42.65	95.82
Fiscal Discretion	319	70.06	8.82	40.14	87.10
Crime	256	18.03	10.11	1.30	55.7
Fiscal Dep x Crime	256	1,382.90	832.11	83.51	4,548.22
Fiscal Dis x Crime	256	1,258.50	747.18	78.75	3,809.12
Group Gini	320	0.35	0.04	0.26	0.46
Poverty	320	15.40	8.16	3.95	42.12
GRDP per capita (log)	320	9.46	0.90	7.68	11.80
Distance (log)	320	7.96	0.84	6.41	9.65
Population (log)	320	15.16	1	13.44	17.65

Since fiscal decentralization is one of the political responses of episodic violence, we ignore the phenomenon of reverse causality in the relationship between fiscal decentralization and conflict. An econometric analysis was conducted on February 2018, preceded by a literature review phase on January 2018 and data collection phase on March 2018.

The results of the econometrics analysis will then be followed by qualitative fieldwork around May 2018. In this context, the initial design validation of the optimal model of fiscal decentralization based on government quality is conducted in two ways:

- Expert Judgment. According to Moleong (2007), expert judgment is a form of triangulation in a qualitative approach. Expert judgment is done by way of utilizing researchers or other observers for the purpose of re-checking the results of research. In this way researchers can compare the results of the research with studies or other research results. There are two (2) experts involved in this research, as follows:
 - expert on fiscal decentralization;
 - expert on public policy.
- Focus Group Discussions (FGDs). This method is very common in social research to collect general information from different perspectives (Creswell 2013). Because it emphasizes perceptions among people with similar backgrounds, FGDs can be useful for exploring general information about the planning and implementation of fiscal transfers. Such general information could be the basis for capturing more detailed and specific information when researchers conduct semi-structured interviews. In our research, we have conducted six (6) FGDs. Two FGDs are focussed on stakeholders at the national level, ranging from the central government bureaucrats level (e.g. Ministry of Finance, Ministry of Home Affairs, and Ministry of Planning and Development) to the members at House of Representative (*Dewan Perwakilan Rakyat – DPR*). Other four FGDs are emphasized on stakeholders at the provincial and districts / cities level, ranging from government apparatus level (Local Secretary, Local Development and Planning Agency, and Local Government Unit Agencies) to the member of Local Parliament (*Dewan Perwakilan Rakyat Daerah – DPRD*).

With regard to the scope of the fieldwork, we will use a case study approach in West Java province. Yin (2009) argues that case studies are empirical investigations that examine contemporary phenomena in the context of real life. This is particularly useful when the boundary between phenomena and context is unclear.

West Java was chosen as a case study based on several arguments. First, the growth rate of West Java increased from 5.6% in 2005 to 6.33% in 2013 (BPS 2005 - 2013). A recent study from Miranty *et al.* (2013) shows that from 2001 to 2010, there was an increase in vertical inequality in West Java. They also revealed that although West Java experienced a slight decrease in poverty between 2001 and 2010, the poverty rate in West Java was categorized as moderate in 2001 and 2010. Second, West Java consists of 27 regencies and cities, which is the fifth largest after East Java, Central Java, North Sumatra, and Papua in terms of number of local governments. Under these conditions, West Java province can be a perfect case study to investigate the “intermediary” role of the provincial government’s in bridging the expectations of the central government and the aspirations of district/city governments in their working areas. Third, among other provinces in the Java corridor, the fiscal dependency ratio in West Java accounted for 50 percent of total revenues. However, when compared with other provinces, this number is relatively small, which is the fourth lowest after DKI Jakarta, Banten, and Bali. In this case, West Java can be a good example to test the adequacy of intergovernmental fiscal transfers.

Since the province of West Java consists of 27 districts/cities, researchers will not collect qualitative information from all districts because it is limited by time and cost. Instead, we will focus on the stakeholders in city of Depok and regency of Bekasi because they are categorized by the Ministry of Finance as high and low fiscal capacity, respectively (Ministry of Finance 2016). In addition, these two regions have different profile in terms of natural resources where regency of Bekasi is associated with resource-rich region while city of Depok is closely related to the growth in manufacture and services sector.

3. Results

In Table 2, we try to investigate whether the effects of fiscal decentralization on routine conflicts are straightforward as set forth in models (1), (2), (5), and (6) or they can be explained by the predictive value of the fiscal decentralization indicator originating from the regression of the institutional quality indicators and their interaction with fiscal decentralization indicators, as set out in models (3), (4), (7), and (8). Using the hausman test, a negative binomial regression with a fixed effect that constitutes province and year will be applied across the model.

In relation to the direct effects, fiscal dependency and fiscal flexibility have no significant effect on the incidence of routine conflicts and deaths from routine conflicts in Indonesia. Meanwhile, the crime rates which serve as a proxy variable of institutional quality is able to correlate positively and significantly to the incidence of routine conflict where an one standard deviation increase in crime rate will increase the incidence of routine conflict by 1.72 and 2, respectively when fiscal discretion and fiscal dependence are included in the calculation. Also, the interactive terms between fiscal dependence and crime rates as well as between fiscal discretion and crime rates are negatively and significantly correlated with the incidence of routine conflict. This indicates that fiscal decentralization can reduce the incidence of routine conflict in Indonesia at the provincial level by improving the

quality of law enforcement and by enhancing the capacity of law enforcers in preventing and punishing criminals. Specifically, an increase in the interaction terms between local fiscal dependence and the criminal rate, as well as between the local fiscal discretion and the crime rate of one standard deviation will decrease the incidence of routine conflict by 2.5 and 1.5, respectively. In addition, horizontal inequality and poverty rate are negatively and significantly correlated with the incidence of routine conflict in Indonesia.

In models (3), (4), (7), and (8), the fiscal decentralization indicators are the predictive value from the regression of the institutional quality indicator and their interaction with the fiscal decentralization indicators. We also added predictive value of horizontal inequality stemming from the regression of the gross regional domestic product (GRDP) per capita to test the Kuznet's hypothesis (1955). We can see that both fiscal dependence and fiscal discretion are negatively and significantly correlated with the incidence of routine conflicts and deaths from routine conflicts. Specifically, a one standard deviation increase in fiscal dependence and fiscal flexibility will decrease the incidence of routine conflict and death due to conflict routine by 0.41 and 0.35, respectively. In addition, when fiscal dependence and fiscal margin are taking into account, poverty rates are negatively and significantly correlated with routine conflict events. Specifically, an increase in the poverty rates of one standard deviation will decrease the incidence of routine conflicts by 0.65 and 0.8, respectively. Tadjoeidin *et al.* (2016) also find similar results and hence, this phenomenon contradicts to our expectations.

Table 2. Negative Binomial Regression between Fiscal Decentralization and Routine Conflict

	Incidence (1)	Death (2)	Incidence (3)	Death (4)	Incidence (5)	Death (6)	Incidence (7)	Death (8)
Fiscal Decentralization Indicators								
Fiscal Dependency	0.007 (0.013)	-0.03 (0.04)	-0.04*** (0.01)	- 0.04*** (0.02)				
Fiscal Discretion					0.009 (0.014)	-0.02 (0.04)	-0.04*** (0.01)	-0.04** (0.02)
Institutional Quality Indicator								
Crime Rates	0.20*** (0.075)	0.06 (0.20)			0.17** (0.08)	0.03 (0.2)		
The Interactive Terms								
Fiscal Dep x Crime	-0.003*** (0.001)	-0.001 (0.003)						
Fiscal Dis x Crime					-0.002** (0.001)	-0.0004 (0.003)		
Horizontal Inequality and Poverty Measurement								
Group Gini	-7.13*** (2.39)	1.94 (5.74)	-1.1 (2.02)	5.14 (3.76)	-6.1** (2.96)	2.89 (5.81)	-1.75 (2.04)	5.01 (3.76)
Headcount Poverty	-0.09* (0.05)	0.11 (0.09)	-0.08*** (0.03)	-0.02 (0.05)	-0.07 (0.06)	0.13 (0.09)	-0.1*** (0.03)	-0.03 (0.05)
Province Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Fixed Effect	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observation	60	60	80	80	60	60	80	80
Groups	10	10	10	10	10	10	10	10

Notes: Number of parentheses are robust standard error where *** = significant at 1% level, ** = significant at 5% level, and * = significant at 10% level. Other control variables constitute natural logarithm of GRDP per capita, population, and distance, as well as average years of schooling, and ethnic fractionalization. Full results are available upon request.

The fieldwork results in West Java, Bekasi, and Depok indicate weak planning in fiscal decentralization. The majority of respondents said that the central government is not transparent in the allocation process. Therefore, some local governments try to influence the central government to gain or even increase allocations in their regions. In addition to the "direct intervention" of the Mayor and Bupati, heads of local government units (SKPD), DPRD and DPR members, or even private companies that regularly win "open tenders" in their regions can also influence allocations.

This condition is exacerbated by the weak role of the provincial government in addressing the lack of transparency and elite capture issues at the districts/cities level. According to Law no. 23/2014 on Local Government, the provincial government should bridge the aspirations of the district/city governments and the central government's expectation of fiscal decentralization, particularly with regard to intergovernmental transfers.

In fact, respondents at the district/city level consider that the provincial government has worsened the elite capture phenomenon in the process of determining the location and size of the allocation of the intergovernmental fiscal transfers.

At the implementation level, the majority of respondents stated that the current fiscal decentralization policy provides "fear factor" for local governments to spend their budgets. This is based on the fact that central government is often too late to issue regulations. In addition, such regulations are very rigid to be implemented by local governments. Under these conditions, SKPD officials are afraid of making mistakes and breaking the rules that they can personally account for. Thus, they prefer not to do anything when in doubt (e.g. to limit spending).

Finally, majority of respondents stated that some local governments, regardless of their local fiscal capacity, feel that the amount of intergovernmental fiscal transfers they receive is insufficient to carry out their affairs. Others think that they often received an allocation that exceeds their capacity to carry out the affairs. In this situation, despite the lack of capacity, we suspect there are two motives behind this paradox. One of them refers to the political-economic motives in which some parties can make a profit, in order to maintain or even increase their strength and influence from elite capture behavior (e.g. accept a "certain percentage" of the amount of intergovernmental fiscal transfers received by the region, the incumbent Mayor and Regent was re-elected in the next period, SKPD officials got promotion, and etc.). Another motive relates to the fairness that truly reflects the need for intergovernmental fiscal transfers in the region. Therefore, two opposing arguments essentially derived from the planning aspect of fiscal decentralization in which there are various "interventions" from multiple parties to alter the location and the allocation of intergovernmental fiscal transfers.

Conclusion

In this study, we provide a novelty in the relationship between fiscal decentralization and routine conflict in Indonesia. These relationships can be explained through their interaction with indicator of institutional quality. We use two (2) different but interrelated dependent variables of routine conflict, namely: the incidence of routine conflict and the magnitude of death resulted from routine conflict.

The main result of the empirical examination is that the relationship between fiscal decentralization and routine conflict can be well described through institutional quality. In this context, fiscal dependence and fiscal discretion are negatively and significantly correlated with the incidence of routine conflict and deaths from routine conflicts. However, fieldwork results in West Java, Bekasi, and Depok provinces show poor quality of apparatus in planning fiscal decentralization policy. The elite capture phenomenon in the process of determining the location and size of the allocation does not only take place at the district/city level, but also at the provincial and central levels.

Our findings are consistent with empirical results from Tadjoeeddin and Murshed (2007) as well as Murshed and Tadjoeeddin (2008). In principle, there are two phenomena to explain violent internal conflict: greed and grievance (Murshed and Tadjoeeddin, 2009). Accordingly, greed is simply about economic opportunity faced by rebel group to fight (loot-seeking motive). The source of rebel finance mostly centers around expropriation of natural resources. Meanwhile, grievance is sometimes described as justice-seeking motivation in the literature of civil war or rebellion. It is related to relative deprivation, that is the discrepancy between aspirations and achievements. This might motivate routine conflict in Indonesia.

In this study, some unexpected results were found in which horizontal inequality and poverty showed the opposite sign. Therefore, the need to solve irregular, rare and low-quality data is very important. Although such findings provide an interesting examination and discussion, it is beyond the scope of the study and leaves further investigation. Research limitations also require future research to explore different types of decentralization with different types of conflict.

To sum up, the findings that fiscal decentralization can reduce routine conflict in Indonesia cannot be interpreted solely as giving more intergovernmental fiscal transfers to the sub-national government in Indonesia. Instead, the central government of Indonesia should concern on improving managerial and administrative capacity of bureaucrats in every level of governments to design and implement fiscal decentralization policy. Besides bureaucratic quality, strong law and order in fiscal decentralization policy is needed to limit rent-seeking and elite capture.

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