

Fiscal Decentralization and Sharia-Based Financial Governance in Local Governments: Evidence from Padang Lawas

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Abstract—Fiscal decentralization is a key policy in the reform of local government governance aimed at improving efficiency, accountability, and the quality of public financial management. However, the success of fiscal decentralization is highly dependent on the financial governance system implemented by local governments. This study aims to systematically examine the development of the literature on fiscal decentralization and sharia-based financial governance in local governments. The research employs a structured literature review approach using the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework. The screening process resulted in 35 reputable articles published between 2020 and 2025. Bibliometric analysis was conducted using VOSviewer software to map research clusters, inter-topic relationships, and emerging research trends. The findings indicate that the literature on fiscal decentralization is still predominantly dominated by conventional public finance approaches that emphasize efficiency and local fiscal performance. Nevertheless, increasing attention has been paid to issues of governance, accountability, and transparency. Sharia-based financial governance emerges as a relatively limited cluster; however, it demonstrates a strong association with ethical values and public legitimacy. This study highlights the need to integrate sharia principles into local public financial governance to support accountable, equitable, and sustainable public financial management.

Keywords: Fiscal Decentralization; Public Financial Governance; Sharia-Based Finance; Local Government Accountability; Systematic Literature Review

1. INTRODUCTION

Fiscal decentralization is a public policy instrument designed to enhance the efficiency of resource allocation, the quality of public service delivery, and the accountability of local governments. Through the delegation of fiscal authority from the central government to subnational governments, local authorities are expected to respond to community needs in a more accurate and context-specific manner. Classical public finance literature positions fiscal decentralization as a mechanism to reduce information asymmetry between governments and citizens while simultaneously promoting improvements in public sector performance (Oates, 1999; Martinez-Vazquez & McNab, 2003).

Nevertheless, numerous reputable studies indicate that fiscal decentralization does not automatically lead to better financial governance. In the absence of strong institutional frameworks and effective oversight mechanisms, decentralization may instead increase the risks of inefficiency, policy fragmentation, and the misuse of public funds (Rodden, 2006; Weingast, 2014). This condition underscores that the success of fiscal decentralization is highly contingent upon the quality of financial governance and accountability systems implemented at the local government level.

In this context, the discourse on public financial governance has evolved beyond purely administrative and legalistic approaches toward normative perspectives that emphasize values, ethics, and integrity in financial management. Value-based governance perspectives position accountability, transparency, and justice as fundamental pillars of public financial management (Bovens, 2007; Hood, 1995). This approach has become increasingly relevant in countries with strong religious, social, and cultural foundations.

Sharia based financial governance has emerged as a normative approach that emphasizes the principles of *amanah* (trustworthiness), justice, transparency, and public welfare (*maslahah*). Within the Islamic economics literature, sharia principles are understood not merely as religious norms, but as ethical frameworks capable of strengthening the integrity and legitimacy of public financial management (Chapra, 2008; Askari et al., 2015). Accordingly, sharia-based financial governance holds significant potential to complement the limitations of conventional financial governance within the context of fiscal decentralization.

Several reputable studies demonstrate that the integration of ethical values into public financial governance contributes positively to enhanced accountability and public trust in government institutions (Bovens, 2007; Faguet, 2014). At the local government level, a sharia-based approach may broaden the concept of accountability by integrating both administrative accountability to the state and moral accountability to society and religious values.

In Indonesia, empirical studies on financial governance and accountability have expanded considerably, particularly through the contributions of Sri Rahayu and colleagues. These studies indicate that transparency, financial reporting accountability, human resource quality, and internal control systems significantly influence the performance

and legitimacy of financial management, both in the public sector and in value-based financial entities (Rahayu & Kurnianingsih, 2020; Hasanuddin et al., 2023; Rahayu et al., 2023). These findings reinforce the argument that financial governance cannot be separated from institutional capacity and the quality of the human resources responsible for its implementation.

Furthermore, studies by Sri Rahayu et al. highlight that weak accountability and financial governance may erode public trust and increase the risk of mismanagement, including in the administration of sharia-based funds such as zakat and Islamic social finance. This suggests that the application of sharia principles in public financial management must be supported by robust governance systems to ensure that such principles are not merely normative ideals, but are substantively implemented in practice (Rahayu, 2021; Rahayu et al., 2022).

Despite the rapid development of the literature on fiscal decentralization and public financial governance, studies that explicitly integrate fiscal decentralization with sharia-based financial governance at the local government level remain relatively limited. Most existing research addresses these issues separately, either within the framework of conventional public economics or within normative Islamic finance discourse. This gap indicates the need for studies that systematically and conceptually bridge these two perspectives.

Moreover, the empirical context of Indonesian local governments, particularly regions with strong religious and socio-cultural characteristics such as Padang Lawas, has received limited attention in reputable academic literature. Local context plays a critical role in shaping how fiscal decentralization and sharia-based financial governance principles are translated into public policy and administrative practices. Contextual understanding is therefore essential to ensure that policy recommendations are not generic, but grounded in local realities.

Based on the foregoing discussion, this study aims to systematically examine the relationship between fiscal decentralization and sharia-based financial governance in local governments through a structured literature review approach. The main contribution of this study lies in the integration of public economics and sharia governance perspectives, as well as in the development of a conceptual framework that may serve as a foundation for more accountable, equitable, and value-oriented local public financial management policies.

2. RESEARCH METHODS

This study employs a structured literature review approach to systematically examine the relationship between fiscal decentralization and sharia-based financial governance in local governments. This approach is selected because it enables the structured, transparent, and replicable synthesis of empirical and conceptual findings, making it particularly suitable for mapping the development of literature in multidisciplinary research fields (Tranfield et al., 2003; Snyder, 2019). The literature search was conducted using reputable scientific databases, namely Scopus, Web of Science, and Google Scholar, covering publications from 2020 to 2025. The keywords used included *fiscal decentralization*, *local government finance*, *public financial governance*, *Islamic public finance*, and *sharia-based governance*, applied both individually and in various combinations.

The article selection process followed the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) guidelines to ensure methodological transparency and consistency (Page et al., 2021). The PRISMA stages comprised initial article identification, duplicate removal, title and abstract screening, and full-text eligibility assessment based on predefined inclusion and exclusion criteria. The inclusion criteria encompassed reputable journal articles that explicitly addressed fiscal decentralization, public financial governance, or sharia-based finance within the public sector, while non-academic publications, non-indexed proceedings, and irrelevant studies were excluded. Through this process, 35 articles were identified as the most relevant and high-quality sources for further analysis.

Data analysis was conducted using a combination of qualitative and bibliometric approaches. Qualitative analysis was employed to identify key themes, conceptual frameworks, and principal findings within the literature on fiscal decentralization and sharia-based financial governance. Subsequently, bibliometric analysis was performed using VOSviewer software to map keyword relationships, research clusters, and topic development trends during the 2020–2025 period (van Eck & Waltman, 2014). This combined approach enables a comprehensive understanding of the intellectual structure of the literature while simultaneously identifying existing research gaps.

3. RESULTS AND DISCUSSION

3.1 Result

This study analyzes 35 selected articles that passed the screening process based on the Preferred Reporting Items for Systematic Reviews and Meta-Analyses (PRISMA) framework, covering publications from 2020 to 2025. The initial identification process yielded several hundred documents from various reputable databases, which were then systematically filtered through duplicate removal, title and abstract screening, and full-text eligibility assessment. The final set of 35 articles was deemed to meet the inclusion criteria in terms of topical relevance, methodological quality, and journal reputation, making them suitable for further bibliometric and thematic analysis.

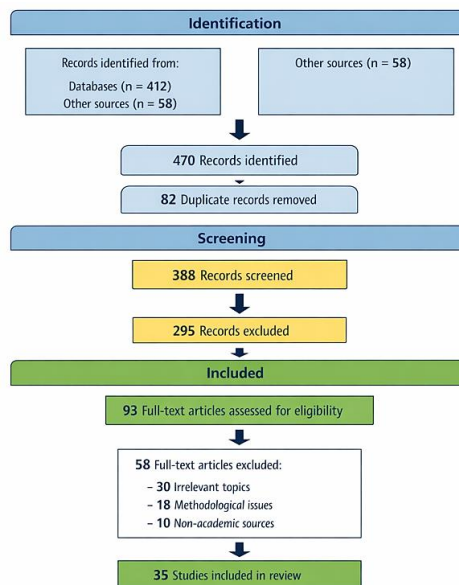


Figure 1. PRISMA Flow Diagram

Bibliometric analysis was conducted using VOSviewer software to map the intellectual structure and patterns of inter-topic relationships within the analyzed literature. The results of the network visualization indicate the formation of several interconnected main clusters. The largest cluster is dominated by the keywords *fiscal decentralization*, *local government finance*, and *public financial management*, confirming that the core discourse of the literature remains rooted in conventional public finance approaches. The strong inter-node linkages within this cluster suggest that fiscal decentralization is consistently conceptualized as a structural mechanism influencing local government financial performance through public financial management systems.



Figure 2. Network Visualization Hasil VOSviewer

In addition to the main cluster, the mapping results also identify more specific clusters, namely *sharia governance* and *Islamic public finance*. These clusters exhibit lower linkage intensity compared to the conventional clusters; however, they remain directly connected to the themes of fiscal decentralization and public financial governance. This finding indicates that sharia-based perspectives in local government financial management are still emerging and have not yet become part of the mainstream discourse in either international or national literature. Nevertheless, the presence of these clusters highlights the potential for conceptual integration between sharia values and decentralized public finance frameworks.



Figure 3. Overlay Visualization (Perkembangan Tema 2020-2025)

The overlay visualization results reveal a shift in research focus during the 2022–2025 period. In this timeframe, keywords such as *governance*, *accountability*, and *transparency* appear more prominently than in earlier periods, which tended to emphasize technical fiscal aspects. This shift reflects growing academic attention to the dimensions of

legitimacy, ethics, and public trust in local public financial management. These findings are consistent with global trends that position governance and accountability as key determinants of successful fiscal decentralization.

The density visualization analysis reinforces these findings by demonstrating that the topics of *Islamic public finance* and *sharia governance* exhibit relatively lower research density compared to conventional topics. This indicates that sharia-based public finance studies remain limited and are predominantly focused on social finance sectors such as zakat and waqf, while their application within local government financial systems has received comparatively little scholarly attention. Accordingly, the low density of these clusters can be interpreted as a significant research gap, particularly in the context of integrating sharia values into fiscal decentralization frameworks.

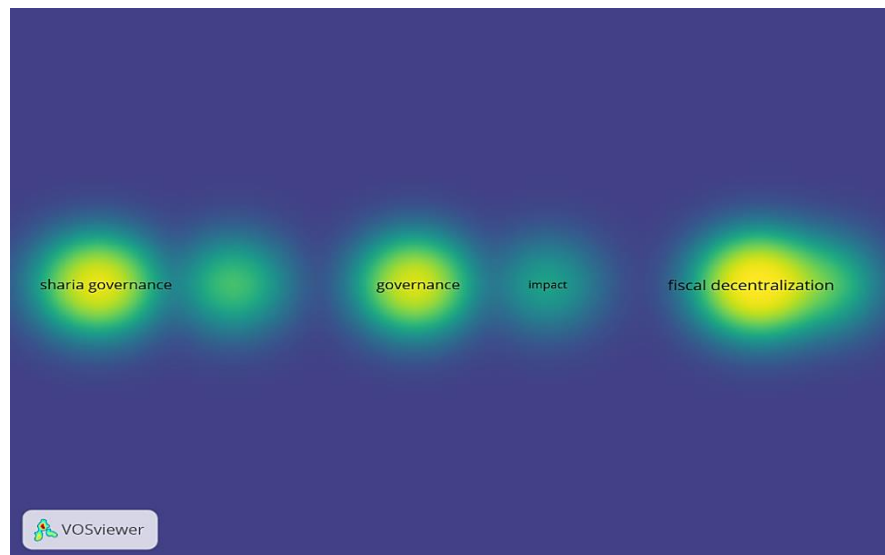


Figure 4. Density Visualization Topik Penelitian

Overall, the VOSviewer analysis indicates that the literature on fiscal decentralization and local government finance remains predominantly dominated by conventional public economics approaches, with a primary focus on fiscal efficiency and budgetary performance. Nevertheless, the emergence of governance- and sharia-based public finance clusters, although still limited in scope, signals a new direction in the development of the literature. These findings underscore the relevance of this study in addressing existing research gaps by integrating fiscal decentralization and sharia-based financial governance, particularly within the context of local governments such as Padang Lawas Regency..

3.2 Discussion

The literature review findings indicate that fiscal decentralization remains a relevant policy instrument for strengthening local government capacity; however, its effectiveness is highly contingent upon the quality of accompanying financial governance. Recent literature emphasizes that the delegation of fiscal authority without strong accountability mechanisms may result in policy fragmentation and inefficiencies in public budget management, particularly in developing countries (Faguet, 2020; Smoke, 2020). These findings reinforce the argument that fiscal decentralization is not an end in itself, but rather a means that must be supported by adequate institutional governance.

Bibliometric analysis using VOSviewer demonstrates that accountability and transparency in public financial management constitute dominant clusters in the literature during the 2020–2025 period. Reputable studies emphasize that increased local fiscal autonomy must be balanced with transparent and auditable financial reporting systems to ensure that the benefits of decentralization are fully realized (de Almeida, 2025; Busuic & Lodge, 2022). In this context, accountability is understood not merely as an administrative obligation, but also as a mechanism of public legitimacy in the use of local public resources.

Furthermore, several strands of the literature indicate a paradigm shift in public financial governance from procedural approaches toward value-based governance. This approach positions integrity, ethics, and social responsibility as key elements in local financial management (Criado, 2025; Bovens, 2021). This paradigm shift is consistent with the findings of this study, which suggest that value-oriented financial governance can enhance public trust and reduce the risk of fiscal misconduct at the local level.

Within this framework, sharia-based financial governance emerges as a normative approach aligned with the principles of value-based governance. Contemporary Islamic economics literature emphasizes that principles such as *amanah* (trustworthiness), justice, and transparency inherent in sharia governance have the potential to strengthen public financial management systems, particularly in regions with strong religious and socio-cultural characteristics (Askari et al., 2020; Hasan, 2021). These findings suggest that sharia-based governance is not only normatively relevant but also carries practical implications within the context of fiscal decentralization.

These findings are consistent with the empirical contributions of Sri Rahayu and colleagues, who demonstrate that accountability and transparency in financial reporting significantly influence public trust and acceptance of value-based fund management, including zakat and Islamic social finance (Rahayu & Kurnianingsih, 2020; Rahayu, 2021). The integration of sharia principles into local public financial governance, when supported by robust internal control systems, has the potential to enhance the legitimacy of public financial management at the local level.

In addition, the reviewed literature highlights that human resource quality and institutional capacity are critical determinants of the successful implementation of financial governance, both conventional and sharia-based. Empirical studies conducted between 2020 and 2024 indicate that deficiencies in local government personnel competencies often constitute a major barrier to the effectiveness of fiscal decentralization (Hasanuddin et al., 2023; Andrews, 2021). These findings reinforce the conclusions of Sri Rahayu et al., who emphasize the importance of human capital and organizational systems in improving financial performance and accountability.

The discussion also reveals that local context plays a crucial role in determining the success of sharia-based financial governance within local governments. Recent literature highlights that the adoption of value-based governance frameworks must consider social, cultural, and institutional conditions to avoid remaining merely symbolic (Faguet & Pöschl, 2021; Rahayu et al., 2023). Accordingly, the implementation of sharia principles in local public financial governance requires a contextual and adaptive approach.

Beyond normative and institutional aspects, the evolution of modern public governance is also influenced by the adoption of digital technologies and financial information systems. Reputable studies indicate that digitalization and the use of information systems can strengthen transparency and financial oversight at the local level, while simultaneously introducing new challenges related to accountability and control (de Almeida, 2025; Wirtz et al., 2021). Therefore, integrating sharia-based governance within a digital governance environment requires carefully designed institutional arrangements.

Overall, the discussion demonstrates that fiscal decentralization, public financial governance, and sharia principles are interrelated and cannot be treated in isolation. Contemporary literature emphasizes that the success of fiscal decentralization is highly dependent on local governments' ability to integrate modern accountability mechanisms with ethical and normative values internalized within financial governance systems (Criado, 2025; Rahayu et al., 2023). Such integration represents a key pathway toward achieving sustainable and equitable local public financial management.

4. CONCLUSION

This study presents a structured literature review on fiscal decentralization and sharia-based financial governance in local governments by employing the PRISMA framework and bibliometric analysis using VOSviewer on 35 reputable articles published between 2020 and 2025. The findings indicate that the literature on fiscal decentralization remains predominantly dominated by conventional public finance approaches focusing on budget efficiency and local fiscal performance. However, there is an increasingly strong shift in scholarly attention toward issues of governance, accountability, and transparency as key prerequisites for the successful implementation of fiscal decentralization. The VOSviewer analysis identifies that sharia-based financial governance perspectives remain within clusters of relatively low research intensity, despite their clear conceptual linkages to accountability and ethical values in public financial management. This finding highlights a significant research gap, particularly in terms of integrating sharia principles into fiscal decentralization frameworks at the local government level. Overall, this study emphasizes that the success of fiscal decentralization is determined not only by the delegation of fiscal authority, but also by the capacity of local governments to establish financial governance systems that are accountable, transparent, and value-oriented. This study recommends the development of public policies and future research that integrate conventional public finance approaches with sharia-based governance principles to support sustainable and equitable local public financial management.

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