

ABSTRACT

This research examines the impact of fiscal decentralization on the quality of road infrastructure in Indonesia. This research exploits the change in the property tax (PBB) policy in Indonesia, that is PBB's collection is shifted from the central to district government since 2009. The study measures fiscal decentralization by the duration that a regencies/cities starts to collect its own tax. The study measures road infrastructure using the percentage of villages in a district with asphalt roads. Using cross-section data covering 505 regencies/cities in Indonesia in 2014 and the OLS method, this research finds that fiscal decentralization has no effect on improving road infrastructure (asphalt roads). The estimation results also indicate that human development and corruption might crucially explain how decentralization might improve welfare.

Keywords: Fiscal Decentralization, Road Infrastructure, Property Tax (PBB)

JEL: H41, H54, H71