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REIMAGINING DECENTRALIZATION: EMPOWERING NEIGHBORHOOD UNITS (RT) THROUGH DIRECT FISCAL ALLOCATION FOR LOCAL RESILIENCE IN KUTAI KARTANEGARA

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Abstract

This study examines the implementation of micro-fiscal decentralization through the "RT-Ku Terbaik" Program in Kutai Kartanegara Regency as an alternative to the failure of top-down governance. This policy delegates fiscal autonomy directly to the Neighborhood Association (RT) unit to encourage local independence and reduce socio-economic disparities. Using a descriptive case study approach with quantitative support, this study analyzes institutional mechanisms and empirical results of budget absorption patterns. The results show that fiscal injections at the micro-level have successfully stimulated the local economy and absorbed unskilled labor, evidenced by a drastic decline in unemployment among those with primary education by 87% (2021-2024) and an increase in the Human Development Index (HDI). However, these findings also reveal an "inequality paradox": amidst the decline in absolute poverty, income inequality (Gini Ratio) actually increased from 0.269 (2022) to 0.307 (2024), accompanied by a surge in educated unemployment. This study concludes that micro-fiscal decentralization is highly effective as a social safety net instrument, but is inadequate to address structural inequalities without complementary policies targeting the formal sector.

Keywords: Micro Fiscal Decentralization, Local Resilience, Inequality Paradox, Unemployment, RT-Ku Terbaik Program

INTRODUCTION

Following the end of the New Order era in 1999, Indonesia initiated a paradigm shift from a highly centralized administrative structure to a decentralized governance model. This framework was further consolidated by the enactment of Law No. 6 of 2014 concerning Villages, which granted villages the autonomy to manage financial resources independently, thereby enhancing their capacity for localized development and community empowerment. While early conceptions of decentralization primarily emphasized the mere delegation of administrative authority, contemporary understandings have evolved to better address the multifaceted complexities of grassroots development. Prior to this systemic transition, the Indonesian state relied heavily on a top-down bureaucratic approach designed to consolidate central decision-making autonomy. Consequently, formulated policies frequently failed to align with localized socio-economic realities. The fundamental absence of direct civic participation within that centralized paradigm produced rigid policy frameworks, generating substantial institutional obstacles for lower administrative tiers tasked with executing centrally mandated programs.

Theoretically, decentralized governance models are designed to foster bottom-up administration, thereby facilitating more cost-effective and efficient public service delivery. Despite the promise of these normative benefits—such as highly targeted policy outcomes—the practical execution of decentralization frequently reveals substantial vulnerabilities across both developing and developed nations. In El Salvador, for instance, localized decentralization has adversely affected regional municipal finances and broader economic development, largely due to the susceptibility of local institutions to interference from non-state actors and criminal syndicates (Eaton et al., 2024). Similarly, in the United States, citizen participation in municipal policymaking (conceptually analogous to the district level in Indonesia) often functions primarily to generate political legitimacy and public trust, lacking empirical evidence of producing tangible fiscal improvements (Liao et al., 2026). Furthermore, even at the hyper-local or neighborhood tier, the devolution of authority can catalyze "participatory clientelism." This phenomenon is evident in Buenos Aires, where localized administrative programs have been co-opted to consolidate partisan loyalty rather than genuinely empowering the citizenry (Halvorsen & Mauro, 2025).

Although micro-level community engagement has become a global trend, its effectiveness in generating local resilience and well-being remains highly variable, creating a crucial research gap. A literature review has confirmed that there are currently very few rigorous empirical studies evaluating the relationship between micro-level participatory budgeting and increased community socio-economic resilience (Touchton et al., 2023). Practices at the district level abroad are often hampered by the institutional context. In Vienna, Austria, participatory budgeting initiatives at the neighborhood level often fail to reach their full potential due to rigid bureaucratic structures and a lack of locally adaptive instruments (Ahn et al., 2023). Meanwhile, experiments in rural Russia have shown that delegating authority without rigorous technical guidance and oversight at the lowest level often leads to complete failure (Beuermann & Amelina, 2018). These international failures underscore the urgency of evaluating more comprehensive alternative models.

Responding to these dynamics, Kutai Kartanegara Regency in Indonesia offers a unique system that seeks to address the challenges of conventional decentralization through innovative micro-fiscal decentralization. Contrary to the common pattern where development often stalls at the village or sub-district level, Kutai Kartanegara boldly revitalizes its smallest administrative unit, the Neighborhood Units (RT). While previously RTs were reduced to administrative devolution for passive data collection, the local government transformed them into key development agents. Through the ‘RT-Ku Terbaik’ program, the government distributes Regional Special Financial Assistance (BKKD) worth IDR 50 million per RT per year. This program is highly unique and differs from foreign participatory budgeting practices because it integrates full fiscal autonomy with structured operational guidelines and technical assistance. In fact, this scheme is able to accommodate dual governance and differences in BKKD absorption patterns between RTs in village areas (through the Village Budget) and sub-district areas (through the District Budget), demonstrating its flexibility to local demographic conditions.

The transition of Neighborhood Units (Rukun Tetangga, or RT) from mere administrative extensions to active developmental entities necessitates a profound institutional transformation. This shift demands the cultivation of micro-level organizations capable of comprehensive planning, fiscal budgeting, program execution, and rigorous public accountability. Genuine decentralization at this tier extends beyond statutory rhetoric; it establishes a framework for localized autonomy that actively harnesses civic rationality and agency. Viewed through a bottom-up paradigm, localized communities demonstrate well-defined preferences and the capacity to articulate intrinsic priorities, transcending the passive selection from pre-determined programmatic menus. For instance, through deliberative participatory forums at the RT level, communities in central terrestrial zones frequently prioritize collaborative civic initiatives and localized physical infrastructure. In stark contrast, coastal communities dictate budgetary allocations that are strategically adapted to offset uniquely high logistical and maritime transportation costs.

This study aims to examine how the RT-Ku Terbaik Program functions as a public policy innovation and analyzes how direct fiscal authority injections at the RT level can foster local independence. Furthermore, this study explores how this transfer of development funds can reduce socioeconomic inequality in the community through a cross-sectional study of neighborhood associations (RTs) in Kutai Kartanegara Regency. Based on the research gap and the uniqueness of the phenomenon, this study formulates two main research questions: (1) How does the RT-Ku Terbaik Program in Kutai Kartanegara provide direct fiscal authority to encourage local independence, compared to the failure of top-down governance?; and (2) Is this fund transfer (micro fiscal decentralization) significantly able to reduce socio-economic inequality at the Neighborhood Association level?

By answering these questions, this study hopes to demonstrate that direct fiscal authority injection at the Neighborhood Unit level can promote local independence and efficiency. Its significance lies in its position as a pioneer in the global literature on micro-fiscal decentralization. The model implemented in Kutai Kartanegara offers empirical novelty, demonstrating that sub-village units can bypass long bureaucratic chains and become agents of responsive governance. This model has great potential to become a benchmark for both developing and developed countries in designing public policies that distribute spatial equity and build local resilience, overcoming the obstacles often encountered in decentralization schemes in other countries. Internationally, the model implemented in Kutai Kartanegara serves as a crucial precedent and valuable learning opportunity, offering an alternative to the conventional decentralization paradigm, proving that sustainable local resilience can be built directly from the community at the neighborhood level.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

The Dynamics of Fiscal Decentralization: From Macroscale to Local Resilience

Theoretically, fiscal decentralization is believed to be an essential instrument for promoting the efficiency of public services and stimulating economic development. Cross-country comparative studies have consistently demonstrated that the delegation of expenditure and revenue authority has a significant positive impact on economic growth in both developing and developed countries (Iimi, 2005; Sima et al., 2023). Autonomy in managing fiscal instruments enables local governments to respond more precisely to local needs, thereby creating a more secure and sustainable socio-economic climate (Krysovatyy et al., 2022). Furthermore, fiscal decentralization has also been empirically proven to improve local environmental performance and reduce governance inefficiencies, even when operating under complex administrative structures (Yang et al., 2025).

Furthermore, along with the modernization of the governance ecosystem, the independence of fiscal decentralization is also significantly influenced by the optimization of local financial capacity. Recent research in China confirms that expanding financial inclusion and innovation in administrative systems significantly impact the optimization of local government expenditure structures, which in turn strengthens fiscal autonomy and resilience at the local level (Chen et al., 2024). This macro literature overall confirms that the delegation of fiscal authority to lower levels is an absolute prerequisite for building comprehensive regional resilience.

The Paradox of Top-Down Approaches and the Urgency of Bottom-Up Dynamics

While fiscal decentralization offers numerous advantages, its implementation often becomes bogged down in structural formalities when driven exclusively from the top (top-down). Macro-scale institutional pressures can indeed compel a country to decentralize power for the sake of administrative policy efficiency (Chacha, 2020). However, this top-down approach is vulnerable to limiting real empowerment at the grassroots level. Based on a case study in Mozambique, the formation of local councils initiated from the top actually created a paradox that limited bottom-up dynamics, resulting in suboptimal citizen participation and a failure to represent local needs (Maschietto, 2016).

This failure of public engagement also occurs in modern governance schemes. The implementation of participatory budgeting in Rome demonstrated that facilitating digital tools can indeed increase the efficient dissemination of information. However, the initiative failed to transform citizens into co-creators of public value due to the absence of a truly interactive, bottom-up deliberation space (Santolamazza et al., 2025). Beyond these administrative barriers, decentralization can also be entirely undermined by external disruptions or superficial political motives. In El Salvador, local devolution negatively impacted municipal finances and economic development because local institutions became vulnerable to interference by non-state actors and criminal groups (Eaton et al., 2024).

Similarly, evidence from the United States indicates that citizen involvement at the municipal level often serves merely to construct political legitimacy and trust, rather than substantively improving actual fiscal conditions (Liao et al., 2026). Even when authority is specifically devolved to the neighborhood level, initiatives can fall prey to "participatory clientelism," where programs are manipulated to secure partisan support rather than genuinely empowering citizens, as observed in Buenos Aires (Halvorsen & Mauro, 2025).

Furthermore, neighborhood-level participatory budgeting in Vienna demonstrated that such initiatives frequently fail to realize their emancipatory potential due to rigid institutional structures and a lack of spatially adaptive instruments (Ahn et al., 2023). This confirms that legal instruments or frameworks alone are insufficient; direct fiscal delegation to the smallest societal units with proper structural design is needed to ensure bottom-up dynamics beyond mere superficial participation.

Neighborhood Units (RT) as the Basis for Micro Fiscal Decentralization

The research gap identified in the preceding section acquires greater urgency when mapped against the theoretical development of micro-level fiscal delegation. Existing scholarship has largely focused on the participatory dimension of budgeting — how communities are consulted — rather than on the fiscal autonomy dimension — whether communities actually control and allocate resources independently. This distinction is critical because participatory consultation without genuine fiscal authority tends to reproduce the same top-down dynamics it ostensibly seeks to replace (Santolamazza et al., 2025). To address top-down bias, Kutai Kartanegara Regency initiated a micro-fiscal decentralization paradigm through the RT-Ku Terbaik Program. This program revitalizes Neighborhood Units (RT) previously passive administrative units into development agents through Regional Special Financial Assistance (BKKD) worth between Rp 50 million and Rp 150 million per year.

Crucially, experimental evidence from rural Russia shows that delegating participatory budgetary authority to the lowest level only succeeds when coupled with rigorous on-the-ground technical assistance and guidance (Beuermann & Amelina, 2018). The Kutai Kartanegara model intrinsically integrates this prerequisite by providing structured operational guidelines alongside full fiscal autonomy. This policy demonstrates that micro-units are capable of independently managing their fiscal priorities in accordance with the sociological characteristics of their region. This is reflected in the highly rational differences in absorption patterns; where RTs in rural areas tend to optimize their fiscal space for administrator incentives (36.4%), while RTs in urban villages massively absorb the budget for communal physical activities such as mutual cooperation (30.5%) and facility repairs (18.6%). This flexibility in determining priorities strengthens RTs' position as the spearhead of local resilience, aligning with the theoretical logic of fiscal decentralization (Krysovatyy et al., 2022).

Value for Money and the Principles of Prudent Local Financial Governance

Beyond the structural mechanics of delegation, the long-term legitimacy of micro-fiscal decentralization fundamentally depends on the quality of financial governance at the point of implementation. In this regard, the concept of Value for Money (VfM) provides the indispensable evaluative framework. VfM is fundamentally an evaluative question about the merit, worth, and significance of resource use in public programs and policy (Peterson & Skolits, 2020). As a framework, VfM assesses public expenditure across four interrelated dimensions: economy (the cost of program inputs, emphasizing the minimization of wasteful expenditure), efficiency (the level of output or outcome achieved relative to the level of inputs deployed), effectiveness (the degree to which programs achieve positive developmental outcomes), and equity (ensuring that program resources and outcomes are distributed fairly across recipient populations) (Peterson & Skolits, 2020). Critically, VfM's emphasis on effectiveness — rather than mere output delivery — demands that each unit of currency disbursed at the RT level generate not merely tangible physical outputs such as meters of paved lane or drainage units repaired, but measurable improvements in community welfare that justify the fiscal injection. This output-to-outcome distinction is particularly consequential in micro-fiscal decentralization contexts, where high budget absorption rates can coexist with low developmental impact if spending is systematically misdirected toward non-priority activities (Peterson & Skolits, 2020).

The principle of prudence adds another dimension to this governance picture. In public sector accounting, prudence is not an abstract reporting virtue — it is a constraint on financial judgment under uncertainty: assets and income cannot be overstated, and potential losses must be recognized before they become unavoidable (Adam et al., 2022). For RT-level budget management, this has a concrete operational implication. Neighborhood administrators must approach fund execution with a structural bias toward caution, building in mechanisms to catch irregularities — misallocated expenditures, unrealized activities, non-compliant procurement — before they harden into accountability gaps. This is not a hypothetical concern in the Kutai Kartanegara case. As the planned BKKD escalation from IDR 50 million to IDR 150 million per RT takes effect, every gap in prudent oversight scales up proportionally with the funding itself (Departemen Ekonomika dan Bisnis UGM & BAPPEDA Kutai Kartanegara, 2025).

The governance architecture of the RT-Ku Terbaik Program also operationalizes two complementary fiscal planning principles: Money Follow Program and Money Follow Function. The Money Follow Program principle stipulates that budget allocations must follow and serve strategic priority programs — rather than being distributed mechanically across functional lines regardless of developmental impact. Conversely, the Money Follow Function principle ensures that each institutional actor in the governance chain receives funding commensurate with the functions and responsibilities they are formally mandated to execute (Departemen Ekonomika dan Bisnis UGM & BAPPEDA Kutai Kartanegara, 2025). The simultaneous application of both principles in the RT-Ku Terbaik Program is architecturally significant: it ensures that RT-level spending is both mission-driven and institutionally grounded, preventing the common failure mode of decentralized programs wherein fiscal resources are decoupled from either programmatic intent or institutional capacity. Together, VfM, prudence, and the dual money-follow principles form the normative backbone that distinguishes accountable micro-fiscal decentralization from mere administrative fund transfer.

RESEARCH METHODS

Research Design

This study employs a mixed-methods single case study design to comprehensively evaluate the Program RT-Ku Terbaik in Kutai Kartanegara Regency. A case study approach is highly appropriate for investigating complex public policy innovations within their real-life context. To ensure a holistic analysis, this research combines qualitative methods to explore the mechanisms of direct fiscal authority (answering RQ1) with quantitative descriptive statistics to measure the programmatic impact on socio-economic inequality (answering RQ2). This combined strategy aligns with recent methodological advancements in public policy evaluation. Prior studies have demonstrated that an in-depth case study is essential to understand how participatory budgeting reshapes local management, governance, and citizen capacity at the micro-level (Buele et al., 2020). Furthermore, to evaluate broader socioeconomic impacts, this qualitative foundation is conditionally supported by a longitudinal study design, an approach proven robust in analyzing the relationship between fiscal decentralization, institutional quality, and inequality reduction in developing countries (Digdowiseiso et al., 2023).

Population and Subject of Study

The research is conducted in Kutai Kartanegara Regency, focusing specifically on Neighborhood Associations (Rukun Tetangga/RT) that are actively implementing the Program RT-Ku Terbaik. The population includes the beneficiaries of the program as well as the multi-level government apparatus responsible for its design, distribution, and oversight.

Data Types and Sources

To ensure data triangulation and validity, this study utilizes three primary data collection methods:

- Focus Group Discussions (FGDs): To understand the transition from top-down governance to local independence, multi-level FGDs will be conducted with key stakeholders. By separating or strategically mixing these groups, the study will capture both systemic intentions and grassroots realities. Participants will include:
    1. Regency Level (Pemerintah Kabupaten): Policymakers and budget planners overseeing the program's strategic vision.
    2. Sub-district & Village Levels (Kecamatan & Kelurahan/Desa): Officials responsible for monitoring, administrative support, and mid-level implementation.
    3. Neighborhood Level (Pengurus RT & Community Figures): RT heads and local community leaders who directly manage the micro-fiscal funds and execute local development.
- Direct Observation: Non-participant observation will be conducted at selected RTs to witness the tangible outcomes of the neighborhood-level fund transfers. This includes observing community-led infrastructure projects, local economic empowerment activities, and community participation in decision-making processes.
- Secondary Data Collection (Quantitative): To measure socio-economic inequality, the study will collect regional and RT-level demographic and economic data. This includes budget realization reports, local poverty metrics, employment data, and community welfare indicators provided by the local statistical agency (BPS) and village databases.

Data Analysis Strategy

Data analysis will be conducted in two parallel streams before being synthesized to draw final conclusions:

- Qualitative Analysis: Data derived from the FGDs and observational notes will be analyzed using thematic analysis. The data will be transcribed, coded, and categorized to identify recurring themes related to "local independence," "capacity building," and "governance shifts." This will directly answer how the transfer of fiscal authority is overcoming the limitations of previous top-down approaches.
- Quantitative Analysis (Descriptive Statistics): Secondary socio-economic data will be analyzed using descriptive statistics. By calculating metrics such as measures of central tendency (mean, median), frequency distributions, and percentage changes in local welfare indicators before and after the program's implementation, the study will illustrate the program's capacity to reduce socio-economic inequality at the micro-level.

Longitudinal Quantitative Analysis (Secondary Analysis)

To empirically examine the second research question — regarding the program's capacity to reduce socio-economic inequality — this study employs a longitudinal quantitative analysis as a conditional complement to the primary case study approach. The secondary data utilized in this phase are drawn from two principal macro-level sources: (1) the Central Bureau of Statistics (Badan Pusat Statistik/BPS) of Kutai Kartanegara Regency, providing annual time-series data on unemployment by educational attainment (2021–2024), the Gini Ratio, the Human Development Index (HDI), and real adjusted per capita expenditure; and (2) the Final Report of the BAPPEDA Kutai Kartanegara 2025 Regional Medium-Term Development Plan, providing program realization and budget absorption data. Analysis is conducted through descriptive trend observation across a four-year period (2021–2024), encompassing both the pre-program baseline and the active program execution phase commencing in 2023. This approach follows the methodological precedent established by Digdowiseiso et al. (2023) for evaluating the longitudinal relationship between fiscal decentralization and inequality outcomes in developing country contexts. Indicators are read comparatively across time rather than through inferential statistical modeling, given the descriptive nature of this study and the data constraints inherent to a single-regency case study design.

RESULTS AND DISCUSSION

The "RT-Ku Terbaik" initiative, instituted by the Kutai Kartanegara regional government, is strategically designed to fortify grassroots, community-based development through the institutional framework of the Neighborhood Association (Rukun Tetangga, or RT). Its primary objective is to elevate the RT's capacity to cultivate social cohesion, public safety, and civic well-being. Specifically, the program targets the enhancement of communal relations, local security, environmental sanitation, and hyper-local infrastructure, while concurrently facilitating the aggregation of highly accurate demographic and socio-economic micro-data.

Furthermore, this decentralized framework enables the regional government to more effectively monitor and guarantee the realization of fundamental civic rights—such as adequate habitation, social integration, and equitable welfare—by utilizing the RT as a vital bureaucratic extension. By officially recognizing RTs as active stakeholders in regional development, the program fosters a paradigm of institutional trust and spatial autonomy. Consequently, the functional mandate of the RT expands beyond mere administrative compliance, transforming these units into critical intermediaries that bridge grassroots civic interests with overarching municipal public service systems.

To ameliorate structural poverty and address the inherent fiscal constraints of these micro-level developmental units, the program implements targeted interventions such as youth vocational training, the digitalization of Micro, Small, and Medium Enterprises (MSMEs), and the provisioning of productive capital. These initiatives endow RTs with the direct fiscal capacity required to actively intervene in localized poverty enclaves. Ultimately, this approach catalyzes a critical paradigm shift from passive social assistance to active, productive empowerment. By devolving budgetary management directly to the RT level, the regional government effectively dismantles systemic barriers to economic access, ensuring that welfare generation is no longer reliant on inefficient trickle-down mechanisms, but rather cultivates organically from the foundational base of the societal structure.

A distinctive structural feature of the RT-Ku Terbaik Program that sets it apart from conventional grant schemes is its deliberate hybridization of top-down regulatory control with genuine bottom-up discretionary authority. Rather than imposing a uniform activity menu, the program establishes a two-tier activity architecture: Mandatory Activities, which represent a minimum compliance floor defined by the regional government, and Thematic Optional Activities, which are selected autonomously by each RT based on the specific socio-economic characteristics and priority needs of their community (Departemen Ekonomika dan Bisnis UGM & BAPPEDA Kutai Kartanegara, 2025). This architecture is institutionally significant because it resolves the classic tension in participatory governance between programmatic coherence (required by higher government tiers) and local responsiveness (demanded by the community). The table below presents the full menu of activities available under the program.

Table 1. Program Activity Type and Examples

Activity Category	**Activity Type**	**Program Examples**
Social & Community	Mandatory	Community proposal forums (*Musyawarah Pengusulan Kegiatan*), routine RT meetings, honoraria for RT administrators and working committee (*Pokja*), operational support for neighborhood security officers (*Babinsa & Bhabinkamtibmas*)
	Mandatory	Honoraria for religious site managers, incentives for Quran teachers (guru mengaji), support for Islamic study groups (majelis taklim), sholawatan, and death mutual aid (rukun kematian)
	Mandatory	Health transportation operational cost for underserved residents; free nutritious meals (Makan Bergizi Gratis) for elderly
Data Collection & Mentoring	Mandatory	Household-level socioeconomic and infrastructure enumeration; compilation and reporting of enumeration results; administrative mentoring by Pendekar Idaman; capacity building for village staff and Puskesos
Decent Housing Facilities	Optional/Thematic	Internet equipment procurement and monthly service fees; minor home renovation (bedah rumah ringan) without structural alteration
Literacy & Education Access	Optional/Thematic	Digital, political, and financial literacy training; prevention of online gambling and illegal lending; computer, English, and graphic design skills classes; community reading room (TBM) and Quran learning center (TPQ) support
	Optional/Thematic	School supply assistance and

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		education cost support for low-income families; scholarships for senior high school and university students
Economic Empowerment	Optional/Thematic	Community-based MSME and home product development training; vocational training and work certification for youth; labor-intensive business facilitation; product processing training for women
Social & Community	Optional/Thematic	Religious pilgrimage (Umroh Marbot) facilitation; neighborhood watch (siskamling); local cultural arts support; national and religious day celebrations; capacity building training for RT administrators and Pokja
Environment, Security & Health	Optional/Thematic	Community sanitation facilities; waste management unit (*TPS 3R*); fire extinguishers and firefighting training; CCTV and street lighting; road hardening; minor rehabilitation of *musholla*, community hall, and security post
	Optional/Thematic	Community oxygen tanks; fogging equipment; people's garden/farming; neighborhood environmental revitalization; locally-initiated programs based on area characteristics
Administrative Support	Optional/Thematic	Purchase of operational equipment for Pokja administration: laptop, printer, and fuel costs for administrative activities

Source: Departemen Ekonomika dan Bisnis UGM & BAPPEDA Kutai Kartanegara, 2025 (adapted)

The activity architecture presented above operationalizes a deliberate hybridization of top-down regulatory control and genuine bottom-up discretionary authority — a design feature that fundamentally distinguishes the RT-Ku Terbaik Program from conventional grant schemes. Mandatory activities (Kegiatan Utama) constitute a compliance floor defined by the regional government to ensure that every RT fulfills minimum standards across social cohesion, administrative capacity, and basic residential quality. These activities are non-negotiable precisely because they address universal developmental prerequisites regardless of local variation. Optional thematic activities (Kegiatan Khusus), by contrast, are selected autonomously by each RT through a participatory deliberation process (Musyawarah RT), enabling the community to prioritize interventions that are genuinely responsive to local socio-economic conditions and geographic characteristics (Departemen Ekonomika dan Bisnis UGM & BAPPEDA Kutai Kartanegara, 2025).

This dual-tier governance structure directly resolves the classic tension in participatory policy design between programmatic coherence — required by higher government tiers for accountability — and local responsiveness — demanded by communities for relevance. In its implementation, the program actively mobilizes all levels of governance as complementary stakeholders rather than hierarchical principals. At the regency level (Pemerintah Kabupaten), the local government functions as policy architect and primary funder, establishing the technical guidelines (Juknis) and disbursing Regional Special Financial Assistance (BKKD). At the sub-district and village levels (Kecamatan and Kelurahan/Desa), government actors serve monitoring, administrative coordination, and mid-level verification roles. At the neighborhood level, RT administrators and Pokja working committees function as the direct program executors, supported by field mentors (Pendekar Idaman) who provide technical and administrative guidance throughout implementation. This multi-stakeholder architecture ensures that the program is simultaneously anchored in local knowledge and subject to institutional accountability across all governance tiers.

The Kutai Kartanegara Regency Government presents the RT-Ku Terbaik Program as an innovation in community-based development governance. This program is designed to address the trilemma of settlement development: how to provide decent settlements, strengthen social cohesion, and simultaneously improve community welfare. The principle of building from the bottom up can be realized because in its implementation, the community is the main actor in development. In addition, the authority of RTs to choose their own development programs strengthens the role of RTs in developing their areas. Therefore, the implementation of the development trilemma is strengthened because the authority to select the development program menu rests with RTs. This is also in accordance with the RT program which is based on the principle of utilitarianism where every public policy must provide the greatest benefit to as many people as possible.

The RT-Ku Terbaik program is implemented through a participatory self-management mechanism. The goal is for activities carried out through this program to no longer be determined top-down, but rather bottom-up by residents as planners and implementers of activities through RT meetings according to the needs and characteristics of the area. In this case, the government acts as a regulator and provider of arenas, while the community is the main actor in development. This program is expected to strengthen governance that is more adaptive, efficient, and oriented towards the real needs of the community.

Institutional Transformation and Labor Market Absorption: Evidence from Demographic Shift in Unemployment

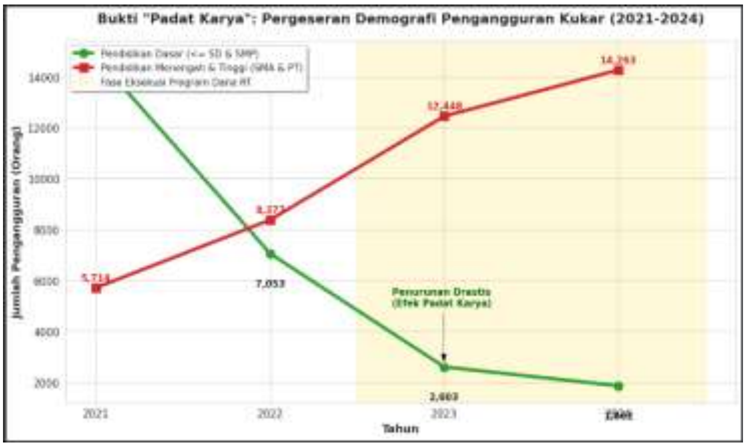

Figure 1. Demographic shift of unemployment in Kutai Kartanegara

Between 2021 and 2024, Kukar District experienced a remarkable but contradictory transformation in its labor market structure. Basic education unemployment—comprising individuals with elementary and junior high school education—declined dramatically from 14,783 individuals in 2021 to only 1,862 by 2024, representing an 87% reduction in joblessness among this population segment. This substantial improvement suggests successful labor market absorption of workers with lower educational attainment through local economic opportunities.

In stark contrast, unemployment among middle and higher education graduates exhibited an alarming upward trajectory during the same period. Senior high school and university graduates experiencing joblessness increased from 5,714 individuals in 2021 to 14,263 by 2024—a 150% surge. This inverse relationship reveals a critical structural mismatch in Kukar's labor market, where the economy demonstrates capacity to absorb unskilled workers while simultaneously struggling to provide opportunities for educated jobseekers. Research on unemployment by education level confirms that level of education and specialization significantly affect employment outcomes and duration (Shamemo & Zewde, 2022), particularly in developing country contexts where labor market demands may not align with educational supply.

The Rural Fund (Dana RT) program, executed at scale beginning in 2023, provides compelling evidence of targeted public works effectiveness for specific labor market segments. When program implementation reached full operation in 2023, unemployment among basic education graduates collapsed from approximately 7,000 individuals (2022) to just 2,603 individuals within a single year. This rapid absorption demonstrates the program's remarkable effectiveness in addressing unskilled unemployment through small-scale, community-level infrastructure projects such as drainage repairs, lane paving, and health post maintenance.

This success reflects a broader empirical pattern documented in labor market research. Labor-intensive public works programs have proven particularly effective at reducing unemployment among low-skilled workers (Digdowiseiso et al., 2023), generating employment through infrastructure development and providing immediate economic security to vulnerable populations. The evidence from Indonesia specifically confirms that such programs successfully create new jobs, especially in labor-intensive sectors and for marginalized groups, while contributing to reducing social inequality and increasing social inclusion.

However, the program's effectiveness paradoxically masked an emerging crisis: as basic education unemployment collapsed during 2023-2024, middle and higher education unemployment continued its sharp ascent, reaching approximately 14,000 individuals. This divergence exposes a fundamental limitation of labor-intensive infrastructure programs. While highly effective for absorbing unskilled labor through blue-collar employment, these programs cannot effectively engage educated jobseekers who typically seek positions in formal sectors—corporate employment, industrial operations (mining, oil & gas), administrative roles, and professional services (Moto et al., 2025). Without complementary policies targeting formal sector job creation, the success in absorbing basic-educated workers simultaneously revealed the inadequacy of existing employment creation mechanisms for educated populations.

The transformation visible in Kukar's unemployment data demands a fundamental recalibration of employment policy strategy. While the Rural Fund program has proven to be an exceptionally powerful instrument for poverty alleviation and unemployment reduction among basic-educated populations through labor-intensive development (Chinnadurai & Sakthivel, 2025), it cannot serve as a comprehensive employment solution. The local government now faces a qualitatively different unemployment challenge: the rising tide of educated unemployment.

Future interventions must move beyond infrastructure-focused public works to explicitly target formal sector employment creation and economic diversification. This requires policy mechanisms that address the skills-employment mismatch among educated workers. Research on active labor market programs demonstrates that comprehensive employment initiatives—combining job placement assistance, skills alignment with industry needs, and direct formal sector employment linkages—generate substantially better outcomes for educated jobseekers than labor-intensive public works alone (Hoy & Naidoo, 2019). Additionally, evidence from comparative policy analysis indicates that job search assistance programs produce more consistent positive effects on employment outcomes compared to traditional training or public works approaches (Caliendo & Schmidl, 2016).

The path forward requires integrated policy design that sustains successful mechanisms for basic education employment while simultaneously developing new instruments for educated worker absorption. Strategic priorities should include: (1) fostering formal sector expansion through targeted incentives and investment promotion; (2) supporting creative industries and knowledge-intensive sectors aligned with educational supply; (3) implementing job matching services connecting educated workers with appropriate employment; and (4) pursuing broader economic diversification strategies that generate sustainable, quality employment across educational levels. Without such strategic pivoting, Kukar risks perpetuating a system where basic-educated populations gain employment security while educated youth face persistent joblessness—an outcome that threatens both social cohesion and human capital utilization.

Economic Multiplier Effects: Purchasing Power and Human Development Index Trajectory

Figure 2. Trend of Purchasing Power and HDI 2021-2024

The blue line presents the indicator of Real Adjusted Per Capita Expenditure in Kutai Kartanegara, demonstrating a remarkably stable upward trend from IDR 11,048,000 (2021) to IDR 12,957,000 (2024). Notably, during the yellow-shaded period—when the Community-Level Fund (Dana RT) Program was estimated to have begun aggressive implementation—household consumption did not decelerate; instead, it experienced solid growth of approximately 5%–5.6% in the range of IDR 12,323,000 to approaching IDR 13,000,000 annually.

Purchasing power (decent standard of living) constitutes one of three dimensions forming the Human Development Index (HDI) (Made et al., 2023). Consistent with improvements in real expenditure, the red line graph demonstrates that Kutai Kartanegara's HDI has risen with precision, advancing from 74.69 (2021) to 76.57 (2024). The dashed line in the graph (Year Program Commenced) signifies the momentum of direct fiscal injection at the grassroots level.

The Economic Multiplier Mechanism of Community-Level Funds: The Dana RT Program generates a multiplier effect (economic multiplier) within the smallest local environment (Norhalidah, 2026). Infrastructure projects such as road cementation, health post equipment procurement, or drainage improvements financed through the Dana RT budget are typically spent at local building supply stores, implemented by tradespeople within the RT, and daily necessities are purchased from neighborhood shops and micro, small, and medium enterprises (MSMEs).

This cash circulation, which was previously concentrated in large district-level projects, is now directly distributed to household-level budgets throughout the RT (Hanapi et al., 2025). At the

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aggregate level—combining thousands of individual RTs—this mechanism successfully supports purchasing power and household consumption capacity in Kutai Kartanegara amid post-pandemic economic challenges, enabling the HDI and overall community welfare to move forward consistently and positively (Eldine, 2026).

The Paradox of Inequality and the Limits of the Social Safety Net

Figure 3. Decline in Grassroots Unemployment and Increase in Inequality (Gini ratio)

The bar chart clearly documents the marked "success" of the labor-intensive employment program implemented through the Dana RT (Community Social Fund). Specifically, unemployment among members of vulnerable populations with educational attainment at or below primary school level has been dramatically reduced, declining from 4,656 individuals in 2022 to just 443 in 2023, before rising again to 840 individuals in 2024. This substantial contraction in joblessness demonstrates that the Dana RT program has effectively provided critical economic relief and direct income-generating opportunities for the most economically disadvantaged segments of society (Moto et al., 2025). Research on comparable public employment programs demonstrates that such labor-intensive initiatives serve an essential protective function, contributing to temporary employment relief and the improvement of participants' immediate living standards (Sharma, 2024). The program's capacity to absorb hundreds of thousands of vulnerable workers into productive activities underscores its efficacy as an anti-poverty intervention and a direct mechanism for income provision to the lowest socioeconomic strata.

However, conventional economic logic would suggest that if unemployment among the poorest populations declines while their purchasing power simultaneously increases, overall economic inequality should contract. Yet the data reveal a markedly different reality: the orange line of the Gini ratio tells a contrasting story. Rather than diminishing, income inequality has increased substantially. The Gini coefficient—the standard metric for measuring income inequality—rose from 0.269 in 2022 to 0.284 in 2023, and reached 0.307 by 2024. This counterintuitive pattern reflects what scholars term the "inequality paradox": the phenomenon wherein targeted interventions successfully reduce absolute poverty without proportionally reducing relative inequality (Zhanbozova et al., 2026). The findings underscore a critical distinction between poverty reduction and inequality reduction—two policy objectives that are not necessarily aligned (Pacheco-Jaramillo & Malliaros, 2026). This divergence illustrates a fundamental limitation of labor-intensive employment programs when considered in isolation from broader fiscal redistribution mechanisms.

The dynamics underlying this paradoxical outcome merit careful examination. The Dana RT program has indeed successfully rescued lower-income households from the brink of extreme poverty by providing wage employment for unskilled labor. Yet simultaneously, the rate at which upper-middle-class populations—encompassing capital owners, large-scale contractors, mining sector workers, and formal sector employees—accumulate wealth substantially outpaces the rate of income growth among program participants engaged in manual labor at the community level. This asymmetry reflects a fundamental structural characteristic of labor markets in developing economies: returns to capital and skilled labor grow exponentially faster than returns to unskilled manual labor (Enaberue et al., 2024). Employment in sectors characterized by capital intensity, technological sophistication, and formal institutional protections generates income growth trajectories that diverge dramatically from those available through casual wage labor in public works schemes (Sakketa & Braun, 2019).

Research on income distribution dynamics reveals that labor income—particularly from informal and unskilled employment—contributes disproportionately to inequality because it exhibits far greater dispersion than other income sources and is often concentrated among lower-income groups (Vezentan & Neagu, 2023). Meanwhile, capital accumulation and entrepreneurial income, concentrated among the upper-middle and affluent classes, exhibit exponential growth patterns that systematically widen the income distribution. This structural feature explains why, even as the Dana RT program alleviates the worst hardships of absolute poverty, it simultaneously fails to prevent the widening of the wealth gap that defines the Gini coefficient.

The Dana RT program merits recognition as an exemplary instrument for both social protection and the alleviation of absolute poverty (Msuha & Kissoly, 2024). Social safety nets that combine cash transfers with public works opportunities have demonstrated robust effectiveness in reducing households' vulnerability to poverty and food insecurity in similar contexts (Msuha & Kissoly, 2024). The program's success in lifting hundreds of thousands of vulnerable individuals away from the edge of destitution represents a significant policy achievement that cannot be dismissed. Evidence from comparable social safety net programs in sub-Saharan Africa and South Asia demonstrates that such interventions provide meaningful immediate relief and contribute to household consumption stabilization (Magesa & Alfred, 2025).

Nevertheless, the program's limitations as an instrument for addressing class-based inequality must be explicitly acknowledged (Rustamova et al., 2025). Public works employment, while valuable for poverty reduction, remains insufficient to narrow persistent wealth gaps and cannot, by design, address the underlying structural determinants of inequality related to asset ownership, educational access, and labor market segmentation (Abbasi et al., 2024). The findings demonstrate that well-designed social safety nets, while improving immediate household welfare, operate primarily through income supplementation rather than through fundamental redistribution or structural economic transformation (Andile, 2024).

To meaningfully address the widening inequality documented in the data, the Kukar District government must develop and implement a coordinated set of second-layer policies that complement the Dana RT program. These should encompass two principal strategic directions. First, economic empowerment initiatives targeting the middle class must be prioritized, including expanded vocational training, microfinance access, and support for small and medium enterprise development (Muhanguzi, 2024). Research demonstrates that middle-class economic empowerment serves as a critical mechanism for broadening the distribution of income and preventing the concentration of wealth at the apex of the income distribution (Dönmez & Dereli, 2025).

Second, and equally critical, targeted policies must stimulate the creation of employment opportunities in capital and technology-intensive sectors capable of generating higher returns to labor than traditional manual labor (Jiang & Yin, 2025). The evidence strongly suggests that sectoral diversification toward manufacturing, digital services, and technology-enabled activities generates employment with superior income-generating capacity and greater prospects for sustainable wealth accumulation (Ramadhan et al., 2025). These interventions must be complemented by investments in education and skills development, which constitute fundamental determinants of access to higher-income employment categories (Morar & Awawda, 2024).

The findings of this analysis carry important implications for development policy. While labor-intensive public works programs and social safety nets constitute essential components of anti-poverty strategies, they are insufficient as standalone mechanisms for addressing structural inequality (Terry, 2025). Comprehensive inequality reduction requires policy frameworks that simultaneously: (1) maintain robust social protection for vulnerable populations; (2) expand economic opportunities within the middle-income range through targeted empowerment and support; and (3) facilitate broad-based access to higher-productivity employment through education, skills development, and sectoral economic growth (Castillo et al., 2025). Only through such multifaceted, coordinated policy approaches can governments effectively address both the immediate needs of the poorest populations and the longer-term challenge of reducing systematic inequality.

Structural Limitations and Governance Risks: Toward a Value-for-Money Accountability Framework

While the empirical evidence affirms that the RT-Ku Terbaik Program represents a meaningful advance in micro-fiscal governance, its implementation is not without structural vulnerabilities. A candid appraisal of these weaknesses is not merely academically warranted — it is institutionally necessary if the program is to evolve from a promising innovation into a durable governance architecture.

Capacity Gaps Among RT Administrators. The most pervasive limitation identified across implementation data concerns the administrative and financial management capacity of RT-level actors. Entrusting neighborhood units with direct management of public funds presupposes a degree of fiscal literacy and procedural competence that many RT administrators do not yet possess. Field evidence from the Laporan Akhir (Departemen Ekonomika dan Bisnis UGM & BAPPEDA Kutai Kartanegara, 2025) reveals that a significant number of RT administrators remain unfamiliar with standard accountability procedures — including the preparation of financial accountability letters (SPJ), systematic expenditure documentation, and activity reporting that meets public sector standards. The resulting quality variation in accountability reports across RTs creates substantial barriers to meaningful program evaluation, undermining the transparency dimension that is foundational to any credible public expenditure framework. This capacity gap is further compounded by the limited reach of technical guidance dissemination (sosialisasi) from the regency level down to the RT tier, leaving many local administrators to navigate complex financial procedures without adequate institutional support.

Divergent Budget Absorption Behavior Between Kelurahan and Desa Contexts. A second structural limitation stems from the dual administrative channel through which the program operates. RTs situated within urban kelurahan jurisdictions access BKKD funding through the district (APBD Kabupaten) budget channel, whereas RTs located within rural desa settings access equivalent funds through the Village Budget (APBDes). This administrative bifurcation produces not merely procedural differences but substantively divergent patterns of budget absorption. Budget realization data from 2023 and 2024 demonstrate that RTs in kelurahan areas systematically allocate higher proportions of their budgets to physical goods — most notably the procurement of electronic equipment well in excess of technical guideline limits — while RTs in rural desa areas exhibit a different form of deviation, concentrating disproportionate shares of funds on administrator incentives rather than on community development activities. These behavioral asymmetries are not simply technical violations; they reflect deeper institutional differences between kelurahan and desa governance ecosystems, including variation in administrative oversight capacity, local elite dynamics, and the degree to which community deliberation (musyawarah) authentically drives spending decisions. Without a governance response calibrated to these distinct institutional environments, the program risks producing systematically inequitable developmental outcomes across its own beneficiary population.

Moral Hazard and the Risk of Fund Misuse. A third and arguably more consequential vulnerability is the heightened moral hazard risk inherent in a scheme that places cash directly under the control of community actors without robust real-time monitoring mechanisms. The combination of limited administrative capacity, variable oversight intensity, and the relatively large sums involved — particularly as BKKD amounts escalate toward IDR 150 million per RT — creates conditions conducive to fund diversion, inflated expenditure claims, and misalignment between reported and actual activities. Empirical data already indicate early manifestations of this risk: multiple instances of expenditure on non-priority items, procurement values far exceeding technical guideline ceilings, and activity reporting that diverges from genuine programmatic intent. Left unaddressed, these patterns could erode public trust in the program, reduce its developmental impact, and ultimately delegitimize the broader micro-fiscal decentralization model that the RT-Ku Terbaik Program aspires to demonstrate.

The Imperative of a Good Governance Framework with Value-for-Money Monitoring. Taken together, these structural vulnerabilities converge on a single institutional conclusion: the long-term viability of the RT-Ku Terbaik Program depends critically on the construction of a governance architecture that satisfies the foundational principles of good governance — transparency, accountability, and fairness — while simultaneously enabling systematic monitoring of value for money at the point of fiscal implementation. Transparency requires that all RT-level expenditure decisions, from budget planning through final accountability reporting, are accessible and comprehensible to community members and oversight bodies alike, supported by standardized reporting templates and digital reporting platforms. Accountability requires that fiduciary obligations at the RT level are enforced through a vertically integrated verification chain spanning from the Pokja working committee through Pendekar Idaman mentors, sub-district administrators, and ultimately the regency oversight apparatus. Fairness requires that the benefits of fiscal injection are equitably distributed across household welfare lines within each RT, rather than captured by administrative elites or directed toward goods that serve narrow interests. Above all, the program requires an institutionalized value-for-money monitoring system — one capable of distinguishing between fiscal absorption (a necessary but insufficient condition) and genuine developmental impact (the ultimate programmatic standard). Only by embedding these accountability mechanisms into the program's operational DNA can the RT-Ku Terbaik Program transition from a bold fiscal experiment into a replicable model of accountable, impact-oriented micro-fiscal governance.

CONCLUSION

Based on the results and discussion, this study concludes that the RT-Ku Terbaik Program has proven to be an effective bottom-up governance innovation in promoting local self-reliance. By combining full fiscal autonomy and structured operational guidelines, micro units (RTs) are able to translate citizen rationality into targeted, labor-intensive programs. Empirically, this has succeeded in drastically reducing the unemployment rate among those with primary education by 87% and triggering an economic multiplier effect that increases purchasing power and the local Human Development Index (HDI). However, this study also identifies fundamental limitations in addressing the structural inequalities that give rise to the "paradox of inequality."

This micro-fiscal decentralization has proven highly successful as a social safety net to alleviate absolute poverty, but it has not been able to reduce socioeconomic inequality. The rate of wealth accumulation among the upper-middle class in the formal sector has grown much faster than the income growth of communal manual laborers, resulting in a wider Gini ratio, which is also accompanied by the program's inability to absorb the high rate of educated unemployment. Therefore, to achieve local resilience and equitable welfare holistically, micro-fiscal decentralization cannot stand alone; local governments are required to formulate second-tier policies focused on economic diversification, job creation in the formal sector, and middle-class empowerment.

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