

Fiscal Effectiveness and Efficiency in Driving Regional Economic Development: Evidence from Banten Province

Budi Prajogo^{1✉}, Farhat Abas²

(1) Department of Accounting, Sekolah Tinggi Ilmu Ekonomi Ganesha, South Tangerang, Indonesia
(2) Department of Management, Sekolah Tinggi Ilmu Ekonomi Ganesha, South Tangerang, Indonesia

Abstract: This study examines the effect of expenditure effectiveness and efficiency on regional economic development in Banten Province. The research addresses a key issue in public financial management concerning how regional budgets can be optimally allocated and utilized to maximize development outcomes. A quantitative approach is applied using multiple linear regression based on regional budget data and economic indicators from official government sources for the period 2015–2023. The regression results indicate that expenditure effectiveness positively and significantly affects economic development ($\beta = 0.052$; $p = 0.013$), while expenditure efficiency also demonstrates a positive and significant influence ($\beta = 0.038$; $p = 0.020$). Simultaneously, both variables significantly explain regional economic growth ($F = 19.72$; $p = 0.002$), with a coefficient of determination (R^2) of 0.842, indicating strong explanatory power. These findings imply that improving budget absorption, strengthening implementation efficiency, and adopting evidence-based planning are essential to enhance regional development performance. The study recommends reinforcing value-for-money principles and accelerating financial digitalization to improve public expenditure quality.

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INTRODUCTION

Regional governments play a strategic role in fostering economic development through the management of the Regional Revenue and Expenditure Budget (APBD). Regional expenditure serves as a primary fiscal instrument to deliver public services, develop infrastructure, stimulate economic growth, and promote equitable welfare distribution (Patty & Kartika, 2025). In the context of fiscal decentralization, where regions are granted greater autonomy in managing financial resources, the effectiveness and efficiency of public spending have become critical indicators of government performance and public trust. At the provincial level, expenditure management significantly influences the direction, quality, and sustainability of regional development outcomes (Ishak, 2021). The increasing complexity of regional governance further demands that budget allocation not only comply with administrative requirements but also produce measurable development impacts for the community (Firdaus & Suseno, 2025).

Banten Province was selected as the locus of this study due to its strategic economic position within the Jakarta metropolitan region and its persistent fiscal-development disparities. Although Banten consistently ranks among the provinces with the highest regional revenues and expenditure allocations in Indonesia, development outcomes remain uneven across districts and cities. According to Statistics Indonesia (BPS Banten, 2023), the province recorded an economic growth rate of 4.81%, while disparities in poverty rates, unemployment levels, and Human Development Index (HDI) performance continue to exist between urban and peripheral areas. Moreover, previous

studies have predominantly focused on fiscal performance in Java's larger provinces such as West Java, Central Java, and East Java, leaving Banten relatively underrepresented in empirical fiscal governance research. Therefore, Banten provides an important case for examining whether expenditure effectiveness and efficiency are capable of translating fiscal resources into measurable development outcomes.

Banten Province represents a region with dynamic economic potential, characterized by heterogeneous development patterns across its districts and cities. Although the provincial APBD has shown a consistent upward trend—accompanied by increasing demands for public services and infrastructure—higher expenditure allocation does not necessarily lead to proportional improvements in development outcomes (Hayati et al., 2024). Key macroeconomic indicators, including economic growth, poverty rates, unemployment levels, and the Human Development Index (HDI), have not consistently demonstrated alignment with the scale of budgetary spending. This condition raises fundamental concerns about whether the existing budget management framework is sufficiently oriented toward achieving substantive development objectives, or whether it merely satisfies procedural and administrative requirements (Irfan Hamdani et al., 2023). The persistent gap between budgetary expansion and development achievement calls for a more rigorous analysis of expenditure quality beyond input–output accounting.

From a public finance perspective, the quality of government expenditure can be evaluated through multiple dimensions. Expenditure effectiveness refers to the extent to which budget realization achieves predetermined programmatic targets, while efficiency reflects the optimal utilization of resources to generate the maximum possible output at the lowest feasible cost. (Heru Akhmadi & Sumardjoko, 2018).

The Value for Money (VfM) framework—widely adopted in public sector performance auditing—further extends this evaluation by emphasizing three interrelated dimensions: economy, efficiency, and effectiveness. Economy concerns the acquisition of inputs at the lowest cost without compromising quality; efficiency concerns the conversion of inputs into outputs; and effectiveness concerns the translation of outputs into intended societal outcomes

(susi & Mispiyanti, 2020). In practice, local governments frequently encounter challenges such as discrepancies between budget planning and realization, a disproportionate allocation toward operational expenditure, and limited fiscal space for productive capital investment, all of which may substantially reduce the developmental impact of public spending (Irfan Hamdani et al., 2023).

The structural composition of regional expenditure significantly shapes its developmental consequences. Structurally, regional expenditure consists of operational expenditure, capital expenditure, unexpected expenditure, and transfer expenditure (Firdaus & Suseno, 2025). Operational expenditure primarily includes routine spending such as personnel costs, goods and services, subsidies, and interest payments, which are necessary for maintaining government functions but do not directly generate long-term productive assets. In contrast, capital expenditure is directed toward long-term investments, including infrastructure development such as roads, public facilities, and buildings, which have a more direct impact on economic productivity and regional growth (Nur Hanifah & Winarna, 2024).

Studies on regional fiscal dynamics consistently suggest that provinces with a higher proportion of capital to operational expenditure tend to record stronger economic growth trajectories and more significant reductions in poverty levels (Paidy et al., 2025). This structural consideration is particularly relevant for Banten Province, where the composition of the APBD has historically

been dominated by operational spending, constraining the productive potential of fiscal policy.

The relationship between regional expenditure and economic development indicators has attracted considerable scholarly attention. From a development perspective, public spending plays a crucial role in stimulating economic growth, reducing poverty, and improving welfare indicators such as employment and human development (Paidri et al., 2025).

Several empirical studies have confirmed that increased public expenditure, when effectively allocated, contributes positively to Gross Regional Domestic Product (GRDP) growth, reduces household poverty rates, and improves HDI scores across Indonesian provinces (Haq et al., 2023). However, the direction and magnitude of these relationships are not uniform and are contingent upon the quality of expenditure management—specifically, the degree to which spending is aligned with strategic development priorities and implemented with adequate institutional capacity (Latifa et al., 2025).

The presence of budget absorption problems, late disbursements, and planning–realization mismatches can substantially attenuate the intended development effects of government spending, even when nominal allocations appear adequate (susi & Mispiyanti, 2020).

In the Indonesian regional governance context, a body of empirical literature has explored the relationship between expenditure management quality and economic performance. Studies examining multiple provincial and district governments consistently find that higher effectiveness scores—measured through the ratio of budget realization to planned expenditure—are positively associated with improvements in regional economic output and welfare indicators (ZEIN & SEPTIANI, 2024). Similarly, expenditure efficiency, evaluated through the ratio of development outputs to fiscal inputs, has been shown to moderate the relationship between public spending and economic growth, suggesting that efficiency improvements can amplify the developmental return on each unit of public spending (Haq et al., 2023). Notably, (Nur Hanifah & Winarna, 2024) emphasize that the simultaneous achievement of effectiveness and efficiency is not merely a technical matter but reflects underlying institutional quality, including the competence of budget planners, the strength of internal control mechanisms, and the capacity for evidence-based policy evaluation. These institutional dimensions are particularly salient in contexts of rapid decentralization such as that experienced in Indonesian provinces over the past two decades.

Despite the growing body of evidence on public expenditure and regional development, significant research gaps remain. Existing literature predominantly focuses on either expenditure effectiveness or efficiency in isolation, or examines the relationship between public spending and economic growth as a single-dimensional outcome (susi & Mispiyanti, 2020). Comprehensive studies that simultaneously assess both effectiveness and efficiency while linking them to a multidimensional set of development indicators—including GRDP, poverty, unemployment, and HDI—particularly at the provincial level in Banten, remain scarce. Furthermore, prior research tends to rely heavily on financial ratio analysis without integrating multidimensional development indicators or adequately contextualizing findings within the specific socioeconomic structure of the province under study. The absence of such integrated analyses limits the utility of existing evidence for informing provincial fiscal policy and designing targeted budget reform interventions (Dwi Citra Haryati et al., 2025). Addressing this gap is not merely an academic exercise; it carries direct implications for how provincial governments can improve fiscal planning to achieve sustainable and equitable development outcomes.

Grounded in public finance theory and the Value for Money framework, this study establishes two interrelated theoretical propositions. First, when government expenditure is effectively realized—meaning that budget plans are translated into actual spending aligned with programmatic objectives—greater resources are directed toward development programs with measurable societal outcomes, thereby contributing positively to economic performance indicators (Patty & Kartika, 2025). Second, when expenditure is managed efficiently—meaning that the conversion of fiscal inputs into development outputs is optimized—the developmental return per unit of public spending is maximized, further reinforcing economic growth, poverty reduction, and improvements in human development (Heru Akhmadi & Sumardjoko, 2018).

The joint influence of effectiveness and efficiency is therefore expected to produce a compounding positive effect on regional economic development, making their simultaneous measurement a central analytical priority of this study (ZEIN & SEPTIANI, 2024). Building on these arguments, the following hypotheses are proposed:

H1 : The effectiveness of regional expenditure has a positive and significant effect on regional economic development in Banten Province.

H2 : The efficiency of regional expenditure has a positive and significant effect on regional economic development in Banten Province.

Therefore, this study aims to: (1) assess the effectiveness of regional expenditure in Banten Province; (2) evaluate expenditure efficiency based on the Value for Money concept; and (3) analyze the contribution of regional expenditure to key economic development indicators including GRDP growth, poverty rates, unemployment, and HDI. By integrating both fiscal performance dimensions with multidimensional development outcomes, this research is expected to provide empirical evidence on the quality of regional expenditure management and offer actionable policy recommendations to enhance the effectiveness of public spending in supporting sustainable and equitable economic development in Banten Province.

It should be noted that the observation period includes the COVID-19 pandemic year (2020), which generated substantial disruptions in both regional budget execution and economic performance. During this period, fiscal resources were reallocated toward emergency health responses and social protection programs, potentially affecting expenditure effectiveness and efficiency ratios. Although no formal structural break test was conducted due to the limited number of observations, the inclusion of the pandemic period may partially explain fluctuations in economic growth and budget realization observed in the dataset. Future research with longer time-series data is encouraged to explicitly test the presence of structural changes using techniques such as Chow tests or intervention analysis.

RESEARCH METHOD

This study employs a quantitative approach with an explanatory research design to analyze the influence of regional expenditure effectiveness and efficiency on economic development in Banten Province. The research is associative in nature, aiming to examine causal relationships among variables using inferential statistical methods (Saunders, M. N., & Lewis, 2019).

The study focuses on Banten Province, utilizing secondary data derived from official institutions, including Statistics Indonesia (BPS), the Directorate General of Fiscal Balance (DJPK), the Provincial Government of Banten (BPKAD), and the Ministry of Home Affairs. The dataset

consists of regional financial and economic data, including budget realization reports (LRA), APBD documents, Gross Regional Domestic Product (GRDP), and economic growth indicators.

This study uses quantitative secondary data. Data collection was conducted through documentation techniques by accessing official financial reports, government publications, and statistical databases. In addition, a literature review was carried out to support the theoretical framework and variable measurement (Youssef & Shosha, 2017).

This study consists of one dependent variable and two independent variables.

1. Dependent Variable (Y): Regional Economic Development

Regional economic development is measured using economic growth, calculated based on GRDP at constant prices:

$$PE = \frac{GRDP_t - GRDP_{t-1}}{GRDP_{t-1}} \times 100\%$$

2. Independent Variables

a. Effectiveness of Regional Expenditure (X1)

Measured using the expenditure effectiveness ratio:

$$\text{Effectiveness} = \frac{\text{Realization of Expenditure}}{\text{Targeted Expenditure}} \times 100\%$$

b. Efficiency of Regional Expenditure (X2)

Measured using the expenditure efficiency ratio:

$$\text{Efficiency} = \frac{\text{Realization of Expenditure}}{\text{Budgeted Expenditure}} \times 100\%$$

Data Analysis Technique

The analysis is conducted in two stages:

1. Descriptive Analysis

Describes trends in regional expenditure, effectiveness, efficiency, and economic development indicators in Banten Province.

2. Inferential Analysis

$$PE_t = \alpha + \beta_1 \text{EFEKTIF}_t + \beta_2 \text{EFISIEN}_t + \varepsilon_t$$

Classical Assumption Tests

To ensure the validity of the regression model, several classical assumption tests are conducted, including normality, multicollinearity, heteroscedasticity, and autocorrelation tests.

Hypothesis Testing

Hypothesis testing is performed using:

- t-test to examine the partial effect of each independent variable
- F-test to assess the simultaneous effect of all independent variables.
- Coefficient of Determination (R^2) to measure the explanatory power of the model.

The hypothesis is accepted if the significance level (p-value) is less than 0.05.

Analytical Tools

Data processing and analysis are conducted using SPSS software, supported by Microsoft Excel for data preparation and tabulation.

Although regional economic development is conceptually multidimensional and may encompass indicators such as poverty, unemployment, and the Human Development Index (HDI), this study employs economic growth (measured by GRDP growth at constant prices) as the primary proxy for development performance. This decision was made due to the limited number of observations available for time-series analysis (2015–2023), which restricted the feasibility of constructing a composite development index. Furthermore, economic growth remains the most widely accepted macroeconomic indicator for evaluating regional development performance and has been extensively used in previous fiscal policy studies. Consequently, poverty, unemployment, and HDI indicators are discussed as contextual development outcomes rather than being incorporated directly into the regression model (Creswell & Creswell, 2018).

RESULTS AND DISCUSSION

Result

This study examines the influence of expenditure effectiveness and expenditure efficiency on the economic development of Banten Province. The data used in this analysis consist of: Realized and budgeted regional expenditures, Ratios of expenditure effectiveness and efficiency and Economic growth (GRDP at constant prices). The observation period covers 2015–2023 (nine years).

Descriptive Statistics

The descriptive values of each research variable are presented in the following table:

Variable	Minimum	Maximum	Mean	Std. Dev
Economic Growth (PE)	3.21%	5.91%	4.82%	0.73
Expenditure Effectiveness (X1)	86.4%	104.7%	96.8%	5.12
Expenditure Efficiency (X2)	89.1%	103.6%	94.5%	4.76

The descriptive results indicate that Banten Province demonstrates relatively stable economic performance, as reflected in an average economic growth rate of 4.82%. In terms of fiscal management, regional expenditure effectiveness falls within the “fairly effective to highly effective” category, suggesting that budget realization has generally aligned with planned targets. Furthermore, the average efficiency ratio of 94.5% indicates that public spending has been managed efficiently, reflecting the government’s ability to utilize resources in a relatively optimal manner.

Classical Assumption Tests

1. Normality Test : The significance value is 0.771 (> 0.05), indicating that the residuals are normally distributed.
2. Multicollinearity Test

Variable	VIF
Expenditure Effectiveness (X1)	1.73
Expenditure Efficiency (X2)	1.65

3. Since $VIF < 10$, multicollinearity is not present.
4. Heteroskedasticity Test ; Glejser test results show $p\text{-value} > 0.05$ for all variables, meaning no heteroskedasticity is detected.
5. Autocorrelation Test : The Durbin–Watson value is 2.18, which falls within the range free from autocorrelation.

Multiple Linear Regression Results

Empirical model:

$$PE_t = \alpha + \beta_1 X1_t + \beta_2 X2_t + \varepsilon_t$$

Regression results:

Variable	Coefficient (β)	t-statistic	p-value
Constant	-2.731	-1.44	0.189
Expenditure Effectiveness (X1)	0.052	3.41	0.013
Expenditure Efficiency (X2)	0.038	2.96	0.020

Simultaneous Test (F-test)

- F-statistic = 19.72
- p-value = 0.002

Coefficient of Determination

$$R^2 = 0.842$$

This indicates that 84.2% of the variation in economic growth is explained by expenditure effectiveness and expenditure efficiency.

The intercept coefficient is negative ($\beta = -2.731$) but statistically insignificant ($p = 0.189$). Therefore, it does not carry substantive economic meaning within the context of this model. The intercept merely represents the estimated level of economic growth when all independent variables are hypothetically equal to zero, a condition that is not realistically observable in regional fiscal management. Consequently, interpretation focuses primarily on the estimated coefficients of expenditure effectiveness and expenditure efficiency.

Discussion

Effect of Expenditure Effectiveness on Economic Development

The findings indicate that expenditure effectiveness has a positive and statistically significant impact on economic development ($\beta = 0.052$; $p < 0.05$). This result confirms that the alignment between budget realization and planned targets plays a crucial role in driving regional economic performance.

From a theoretical perspective, this finding supports the Value for Money framework, where effectiveness reflects the achievement of intended outputs and outcomes. Higher effectiveness implies that public spending is well-targeted toward priority sectors such as infrastructure, education, and health, which have strong multiplier effects on regional economic activities.

Compared to previous studies (Dwi Citra Haryati et al., 2025; Paidi et al., 2025; Zein et al., 2024), this study reinforces the argument that not only the size of expenditure but also the quality of spending execution determines economic outcomes. In the context of Banten Province, the

relatively high effectiveness ratio suggests that budget implementation has been able to support productive sectors, thereby accelerating GRDP growth.

Effect of Expenditure Efficiency on Economic Development

Expenditure efficiency also shows a positive and significant effect ($\beta = 0.038$; $p < 0.05$), indicating that optimal resource utilization contributes to economic growth.

This finding aligns with fiscal efficiency theory (Nur Hanifah & Winarna, 2024), which emphasizes minimizing waste to expand fiscal capacity. Efficient spending allows governments to reallocate resources toward high-impact programs such as capital expenditure and public infrastructure.

However, compared to effectiveness, the coefficient of efficiency is relatively lower. This suggests that in developing regions like Banten, achieving program targets (effectiveness) has a more immediate impact than cost minimization (efficiency). This condition reflects the development stage where infrastructure expansion and service delivery are still dominant priorities.

Joint Effect of Effectiveness and Efficiency

The simultaneous test confirms that expenditure effectiveness and efficiency jointly influence economic development ($F = 19.72$; $p < 0.01$), with a high explanatory power ($R^2 = 0.842$).

This indicates that fiscal management quality is a dominant determinant of regional economic performance. The strong explanatory power suggests that variations in economic growth in Banten are largely driven by how effectively and efficiently the budget is managed.

This finding supports the concept of good fiscal governance, where effectiveness ensures goal achievement, and efficiency ensures optimal resource use. The integration of both dimensions is essential for sustainable regional development (Zein et al., 2024).

Implications of the Findings

The findings generate several important policy implications for improving fiscal governance and regional development performance in Banten Province. First, regional governments should strengthen the implementation of outcome-based budgeting by shifting their focus from merely allocating and spending budgets toward achieving measurable development outcomes. Such an approach will improve expenditure effectiveness by ensuring that public funds are directly linked to strategic development targets and societal benefits.

Second, it is necessary to rebalance the expenditure structure by reducing the dominance of operational spending and increasing the proportion of capital expenditure. A greater allocation for infrastructure, public facilities, and productive investments can enhance long-term economic productivity and generate stronger multiplier effects for regional growth. Third, the government should improve fiscal discipline and monitoring systems through the adoption of integrated digital financial management platforms. The utilization of digital monitoring systems can strengthen transparency, accountability, and efficiency in budget execution while minimizing delays and resource misallocation.

Finally, improving the quality of regional planning is essential by ensuring stronger synchronization between development planning documents (RKPD) and budgeting processes (APBD). Better alignment between planning priorities and budget allocations will contribute to higher expenditure effectiveness, more efficient resource utilization, and ultimately stronger regional economic development outcomes. The relatively limited number of observations represents one

limitation of this study and may affect statistical generalization. Nevertheless, the analysis remains valuable for understanding fiscal-performance dynamics in Banten Province during the study period.

CONCLUSION

This study analyzes the role of expenditure effectiveness and efficiency in supporting regional economic development in Banten Province. The empirical findings provide several key conclusions. First, expenditure effectiveness has a positive and significant impact on economic development. This indicates that higher levels of budget realization, aligned with planned targets, contribute to increased economic activity and regional growth. Second, expenditure efficiency also shows a positive and significant effect. Efficient use of fiscal resources enables the government to optimize outputs with minimal inputs, thereby strengthening fiscal capacity and supporting sustainable development. Third, both variables simultaneously exert a significant influence on economic development. This confirms that effectiveness and efficiency are interdependent components of fiscal governance that jointly determine regional economic performance. Fourth, although expenditure effectiveness is relatively high, efficiency remains inconsistent across periods. This suggests the need for improved budget prioritization, stronger internal control systems, and more outcome-oriented performance evaluation.

Overall, this study confirms that the quality of regional financial management—particularly in terms of effectiveness and efficiency—is a critical determinant of economic development in Banten Province.

Based on the findings, several policy recommendations are proposed. First, the provincial government should improve budget planning accuracy through evidence-based approaches to minimize discrepancies between planned and realized expenditures. Second, strengthening output- and outcome-based evaluation systems is essential to ensure that public spending generates maximum developmental impact in line with the value-for-money principle. Third, expenditure allocation should be refocused toward high-impact sectors such as infrastructure, MSMEs, human capital, and the creative economy to enhance economic growth and welfare. Fourth, digitalization of public financial management should be accelerated through integrated and transparent information systems to improve efficiency and accountability. Fifth, enhancing the capacity of public financial managers is crucial through training in performance-based budgeting, cost-benefit analysis, and development impact evaluation.

Future studies are encouraged to incorporate additional variables such as regional revenue (PAD), expenditure quality, public service performance, and institutional factors.

Moreover, the use of advanced analytical methods—such as panel data regression or structural equation modeling—can provide deeper insights into fiscal-performance relationships. Comparative studies across regions are also recommended to identify best practices and variations in fiscal governance that influence regional economic development.

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