

REGIONAL SPENDING EFFECTIVENESS AND FISCAL INDEPENDENCE: A STUDY OF EAST JAVA PROVINCE

Putranda Zahid Fajduani ¹, Mazro'atus Sa'adah ²

Sunan Ampel State Islamic Universitas Surabaya, Surabaya

Sunan Ampel State Islamic Universitas Surabaya, Surabaya

E-mail: putrandazahid0305@gmail.com, mazroatus.saadah@uinsa.ac.id

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Abstract

This study aims to evaluate the effectiveness of regional budget (APBD) expenditure in East Java Province and to analyze its fiscal independence. Data were obtained from the Budget Realization Report (LRA), the Central Bureau of Statistics (BPS), and the Directorate General of Fiscal Balance (DJPK). The study employs a descriptive quantitative method using the effectiveness ratio as the main analytical tool. The findings indicate that East Java's budget expenditure in 2022–2023 was categorized as very effective, with realization levels consistently above 93%. However, fiscal independence remains weak as local revenue (PAD) contributes only about 6–7%, while dependency on central government transfers reaches approximately 64%. This reveals that high expenditure effectiveness does not automatically imply strong fiscal autonomy. A comparison with Central Java and Bali shows similar patterns: high expenditure effectiveness accompanied by limited fiscal independence. These findings highlight that the main challenge of fiscal decentralization in Indonesia lies not in spending absorption but in strengthening local revenue capacity and improving the quality of expenditure, particularly in capital spending.

Keywords: *Budget effectiveness, Regional expenditure, APBD, Fiscal independence*

INTRODUCTION

Fiscal decentralization in Indonesia is one of the important agendas for governance reform after the implementation of regional autonomy in the early 2000s. (Christia & Ispriyarso, 2019) This paradigm arose from the need to redistribute fiscal, political, and administrative authority previously concentrated in the central government to regional governments, with the aim of shortening the bureaucratic chain, increasing public participation, and strengthening accountability in the management of state resources. The legal framework supporting fiscal decentralization in Indonesia is outlined in Law Number 33 of 2004 concerning Fiscal Balance between the Central Government and Regional Governments and Law Number 23 of 2014 concerning Regional Government. Through these regulations, regions are granted broader authority to regulate and manage their finances, particularly in the form of the Regional Revenue and Expenditure Budget (APBD), which serves as the primary instrument in development planning, policy control, and evaluation of regional government performance.

As a fiscal document, the Regional Budget (APBD) not only reflects the planned revenue and expenditure for a single budget year, but also outlines the direction of development policies, spending priorities, and strategies for improving public welfare. The effectiveness of APBD use, therefore, is a key indicator in assessing the extent to which local governments are able to implement the principles of efficiency, accountability, and public interest. (Antasena et al., 2023) However, the effectiveness of budget absorption cannot be seen as the sole measure of success, because fiscal decentralization essentially also demands fiscal independence, namely the ability of regions to finance their expenditures by relying on Regional Original Income (PAD) as the main source. In the context of East Java Province, which is one of the largest contributors to the national Gross Domestic Product (GDP), regional budget (APBD) management plays a highly strategic role. With its large population, diverse economic base (ranging from agriculture, industry, trade, and services), and important geographic location, East Java is required to manage regional spending effectively to have a tangible impact on development. (Abilawa, 2019) The level of effectiveness of regional spending not only reflects fiscal discipline in budget realization, but also measures the extent to which development programs truly address community needs.

However, the effectiveness of regional spending in East Java still faces a classic dilemma faced by almost all regions in Indonesia: a high dependence on transfer funds from the central government. The General Allocation Fund (DAU), the Special Allocation Fund (DAK), and the Revenue Sharing Fund (DBH) remain the largest components of the regional revenue structure. This situation has implications for low fiscal independence, with the role of PAD being relatively small compared to total revenue. Fiscal independence is a key indicator of successful decentralization, as regions that are overly dependent on the central government tend to lose flexibility in determining development priorities and are vulnerable to top-down policy intervention. The high level of fiscal dependence on the central government also has other consequences, including limited regional fiscal space in allocating budgets according to local needs. (Lusia Lestina Halawa et al., 2025) Regions with low local revenue (PAD) often focus more on budget absorption to avoid administrative sanctions than on long-term spending quality. As a result, personnel and operational spending outweigh capital expenditures. While the effectiveness ratio appears high, the resulting development impact is less significant in improving regional competitiveness.

Within this framework, research on regional spending effectiveness and fiscal independence in East Java is relevant and significant. Besides being a province with a large economic scale, the issue of budget effectiveness is also closely related to the quality of governance and the achievement of sustainable development goals. This study will provide an empirical overview of how regional spending effectiveness is achieved, the extent to which fiscal independence supports development, and comparisons with other provinces such as Central Java and Bali, which have different fiscal characteristics. By focusing on the 2022–2023 period, this research is expected to present up-to-date findings and fill the gap in research that has previously focused on descriptive analysis without a deep connection between fiscal effectiveness and independence. The academic contribution of this research is to enrich the literature on fiscal decentralization in Indonesia, particularly by highlighting the relationship between spending effectiveness and the level of regional independence. Practically, this research can serve as a recommendation for the East Java Provincial Government in formulating strategies to increase local revenue (PAD), optimize capital expenditures, and strengthen regional financial governance oriented towards sustainable development.

LITERATURE REVIEW

1. Budget Effectiveness Theory

Budget effectiveness is a fundamental concept in public finance that focuses on the relationship between fiscal planning and realization of achievements. (Harefa et al., 2022). Essentially, effectiveness reflects the extent to which the output generated from a budget is able to meet predetermined targets. In the context of the Regional Revenue and Expenditure Budget (APBD), regional spending effectiveness is understood as the degree of alignment between planned expenditures and actual realization within a given budget period. According to the standards set by the Ministry of Home Affairs, regional spending effectiveness is categorized into four levels: very effective (>90%), effective (80–90%), moderately effective (60–79%), and less effective (<60%). These categories are often used by researchers and auditors to assess local government fiscal performance. A high level of effectiveness is considered a reflection of the regional bureaucracy's ability to consistently plan and implement budgets. However, several studies highlight that budget effectiveness cannot be measured solely by the percentage of spending absorbed. This indicator is important, but it is insufficient to provide a comprehensive picture of spending quality. High budget absorption can be misleading if the majority of spending is used for routine needs such as employee salaries and operational costs, while the allocation for capital expenditures supporting long-term development is relatively small. (Kriekhoff & Riupassa, 2024). Thus, the effectiveness of regional spending needs to be analyzed not only quantitatively but also qualitatively, especially by paying attention to the composition of spending and its impact on economic development and public welfare.

2. Fiscal Federalism (Oates, 1999)

Theory of fiscal federalism pioneered by Wallace E. Oates in the late 20th century, fiscal decentralization provides an in-depth perspective on the fiscal relationship between central and regional governments. According to Oates (1999), fiscal decentralization primarily aims to increase the efficiency of resource allocation by granting broader authority to regional governments in managing revenue and expenditure. (Oates, 2005). Regions are considered to be more aware of the needs of local communities, so the resulting policies are more appropriate and responsive. Within the framework of fiscal federalism, there are two important dimensions that require attention: first, regional fiscal independence, namely the ability of regions to finance their expenditures from locally obtained revenue sources; and second, inter-regional fiscal balance which aims to reduce disparities in fiscal capacity. (Suyanto, 2015) Fiscal independence is a key indicator of the extent to which decentralization truly enhances regional autonomy. Without adequate independence, regions become mere extensions of the central government in implementing policies, rather than independent entities in fiscal decision-making.

Oates emphasized that excessive reliance on central transfer funds has the potential to undermine the principle of decentralization. This not only limits regional creativity in exploring sources of original revenue but also creates a risk of moral hazard, where local governments tend to lack sufficient incentives to increase their fiscal capacity. In the Indonesian context, this phenomenon is clearly evident in the low proportion of Regional Original Revenue (PAD) in the regional budget (APBD), including in East Java, which still relies on balancing funds as the dominant source of regional revenue.

3. Governance Theory

DraftgovernanceIn public administration, it refers to good governance, which includes the principles of accountability, transparency, effectiveness, efficiency and participation.(Riyanto et al., 2024)In the realm of public finance, governance theory emphasizes the importance of fair and public-interest oriented resource allocation. The effectiveness of regional spending, from a governance perspective, should not only be viewed from the perspective of the realization of financial figures, but also from the aspect of its impact on public services, reducing inequality, and increasing welfare. (Hendra & Halbadika Fahlevi, 2024)Capital expenditures allocated for infrastructure, education, health, and community economic empowerment have far greater strategic value than routine administrative expenditures. Therefore, the quality of regional spending is a clear reflection of the application of good governance principles. In practice, many regions in Indonesia face a dilemma between pursuing high budget absorption and ensuring that spending truly delivers long-term benefits. The frequent phenomenon of "chasing absorption targets" at the end of the fiscal year demonstrates weak fiscal governance. Hastily spent budgets risk reducing output quality and increasing inefficiency.

Empirical research supports the urgency of implementing governance principles in management.regional finance.(Rahmawati, 2020)found that the effectiveness of regional budget (APBD) spending absorption is often influenced by political factors, with the budget being used for the electoral interests of incumbents. This suggests that even high spending effectiveness can be biased if not accompanied by accountable governance. Therefore, governance theory provides an important framework in this study to understand how the effectiveness of regional spending in East Java is not only assessed from the percentage of absorption, but also from the extent to which the spending is directed to productive sectors that support sustainable development. From the description above, we canIt is concluded that the three theories of budget effectiveness, fiscal federalism, and governance complement each other in explaining the dynamics of regional budget management in East Java. Budget effectiveness theory provides a basis for measuring actual performance, fiscal federalism theory emphasizes the importance of fiscal independence as a prerequisite for true autonomy, while governance theory highlights the dimensions of quality and integrity in budget management. The combination of the three allows for a more comprehensive analysis, so this study not only assesses whether the East Java regional budget is nominally effective but also whether its management contributes to improving fiscal independence and the quality of regional financial governance.

METHOD

This research uses a quantitative descriptive approach, which methodologically aims to systematically describe fiscal phenomena at the regional level with an emphasis onMeasuring the effectiveness of the Regional Revenue and Expenditure Budget (APBD) utilization. A quantitative descriptive approach was chosen because it aligns with the research problem's characteristics, namely assessing the extent to which the realization of regional spending in East Java Province in the 2022–2023 period can be considered effective based on indicators standardized by government regulations. This method focuses not only on presenting numerical data in the form of budget realization percentages, but also on analysis linking these results to theories of public finance, fiscal decentralization, and regional governance. Thus, this study combines simple statistical analysis in the form of effectiveness ratio calculations with more in-depth theoretical and empirical interpretations.

1. Types and Approaches of Research

The research used is quantitative, with a descriptive-comparative approach. Descriptive because this study attempts to describe the phenomenon of regional spending effectiveness based on actual data, while comparative because the measurement results in East Java are also compared with those of other provinces, namely Central Java and Bali. This comparison aims to provide a broader perspective on East Java's fiscal position among provinces with relatively similar economic characteristics, so that the analysis results are not isolated to one region.

2. Research Data

This research uses secondary data obtained from several official sources, namely:

1. The 2022–2023 East Java Province Budget Realization Report (LRA) is the primary source for understanding regional budget realization and expenditure.
2. Central Statistics Agency (BPS), which provides macroeconomic data and other supporting indicators related to regional fiscal capacity.
3. The Directorate General of Fiscal Balance (DJPK) of the Ministry of Finance, which provides information on transfers of central funds to regions, both in the form of General Allocation Funds (DAU), Special Allocation Funds (DAK), and Revenue Sharing Funds (DBH).

The selection of secondary data was based on validity and reliability considerations. Data released by official government institutions is highly legitimate, publicly accessible, and frequently used as a reference in various academic studies and practical policies. Therefore, the use of this data ensures that the research results have a strong empirical basis.

3. Data Analysis Techniques

The main analysis in this study is the effectiveness ratio, which is formulated as follows:

$$\text{Efektivitas} = \frac{\text{Anggaran Belanja}}{\text{Realisasi Belanja}} \times 100\%$$

This ratio is used to measure the extent to which the regional government can implement the spending plans outlined in the regional budget (APBD) within a single budget period. Based on Home Affairs Ministerial Regulation No. 13 of 2006, spending effectiveness criteria are classified into four categories:

- Very effective: more than 90%
- Effective: 80–90%
- Quite effective: 60–79%
- Less effective: below 60%

In addition to using effectiveness ratio calculations, this study also adds a comparative analysis by comparing the results of the East Java regional budget effectiveness measurement with those of Central Java and Bali. The considerations for selecting the two comparison provinces were:

- Central Java has economic characteristics similar to East Java, especially in terms of agriculture and manufacturing industry.
- Bali has a different economic structure because it relies on the tourism sector, so it can provide a contrasting picture of how the structure of regional income affects fiscal independence.

With this comparison, the analysis of East Java's spending effectiveness becomes sharper, because it is not only seen from internal achievements, but also in the context of inter-regional comparisons.

4. Reasons for Choosing the Method

The choice of quantitative descriptive methods was based on several considerations. First, this method allows the study to present empirical data in a simple yet informative manner, making it accessible to both academic readers and policy practitioners. Second, the use of effectiveness ratios provides an objective measure that is widely recognized in the regional finance literature. Third, the descriptive-comparative nature helps strengthen the generalizability of the findings by positioning East Java within the broader national fiscal landscape.

5. Limitations of the Method

This study acknowledges methodological limitations. First, the effectiveness analysis only examines the quantitative dimension, namely the budget absorption ratio, without delving into the qualitative aspects of regional spending, such as its impact on the quality of public services or sustainable development. Second, this study does not use inferential statistics or econometric methods that could test causal relationships between variables. Third, the data used is limited to a two-year period (2022–2023), so the results focus more on the actual situation, rather than long-term trends. However, these limitations do not diminish the importance of this study, as its primary focus is to provide an empirical description of the effectiveness of regional spending in East Java and place it within the context of Indonesia's fiscal decentralization. By presenting a clear descriptive analysis based on official data, this study can serve as a foundation for further studies using more complex statistical methods, such as interprovincial panel regression or efficiency analysis using Data Envelopment Analysis (DEA).

RESULTS AND DISCUSSION

1. Effectiveness of Regional Spending in East Java

Based on the effectiveness ratio analysis, East Java Province's regional spending performance over the past two years has consistently been categorized as highly effective. In 2022, spending realization was recorded at IDR 31.50 trillion out of a total budget of IDR 33.60 trillion, representing an effectiveness rate of 93.76%. In 2023, realization increased to IDR 32.80 trillion from a budget of IDR 35.20 trillion, or 93.18%.

Table 1. Effectiveness of Regional Spending in East Java Province 2022–2023

Year	Budget Ceiling (Rp Trillion)	Realization (Rp Trillion)	Effectiveness (%)	Category
2022	33.60	31.50	93.76	Very Effective
2023	35.20	32.80	93.18	Very Effective

Source: East Java LRA 2022–2023, processed by the author

These results confirm that, quantitatively, local governments are capable of optimizing budget absorption above 90%. However, this achievement should not be interpreted simply as absolute success, as nominal effectiveness often masks weaknesses in the structural and substantive aspects of spending.

2. Regional Expenditure Structure of East Java

Analysis of the expenditure structure shows a tendency towards dominance of routine expenditure, particularly employee expenditure, compared to capital expenditure which is oriented towards long-term development.

Table 2. East Java Regional Expenditure Structure 2022–2023

Shopping Type	2022 (Rp Trillion)	% of Total	2023 (Rp Trillion)	% of Total
Employee Shopping	12.80	40.6%	13.20	40.2%
Shopping for Goods/Services	9.50	30.2%	10.00	30.5%
Capital Expenditure	6.20	19.7%	6.50	20.0%
Other Shopping	3.00	9.5%	3.10	9.3%
Total	31.50	100%	32.80	100%

Source: East Java LRA 2022–2023, processed by the author

The table above shows that employee and operational spending accounted for over 70% of total realization, while capital spending only accounted for around 20%. This indicates that, despite highly effective budget absorption, spending quality remains weak due to low allocations to productive sectors. From a governance perspective, this situation implies a low fiscal drive for long-term economic development. Ideally, the proportion of capital spending should be further increased, as government investment in infrastructure, education, and health has a greater multiplier effect than routine spending.

3. Fiscal Independence of East Java

The results of the analysis of regional revenue show that the contribution of Regional Original Income (PAD) is only around 6–7% of total regional revenue, while dependence on central transfer funds is still very high, namely around 64%.

Table 3. Sources of Regional Revenue for East Java 2022–2023

Source of Income	2022 (Rp Trillion)	% of Total	2023 (Rp Trillion)	% of Total
PAD	3.20	6.3%	3.40	6.5%
Central Transfer Funds	32.50	64.2%	33.90	64.4%
Other Income	15.80	29.5%	15.40	29.1%
Total	51.50	100%	52.70	100%

Source: DJPK & BPS, processed by the author

This low contribution of local revenue (PAD) demonstrates East Java's weak fiscal independence. According to the theory of fiscal federalism (Oates, 1999), excessive fiscal dependence on the central government undermines the significance of decentralization, as regions lack sufficient flexibility to finance their own needs.

4. Comparative Analysis with Other Provinces

To strengthen the analysis, the performance of East Java is compared with Central Java and Bali.

Table 4. Comparison of Fiscal Effectiveness and Independence

Province	Effectiveness (%)	Category	PAD (% of revenue)	Main Economic Characteristics
East Java	93.18–93.76	Very Effective	6–7%	Industry, trade, agriculture
Central Java	92–94	Very Effective	8–9%	Agriculture, manufacturing industry
Bali	91–93	Very Effective	±12%	Tourism, services, trade

Source: LRA, BPS, DJPK, processed by the author

The table above shows that spending effectiveness in the three provinces is relatively equal and falls into the very effective category. However, a striking difference lies in the level of fiscal independence. Bali ranks highest thanks to its larger contribution to local revenue (PAD), while East Java ranks lowest. This demonstrates that high effectiveness does not necessarily equate to fiscal independence.

5. Sectoral Analysis of Regional Spending

In addition to aggregate analysis, it's important to examine the distribution of spending by sector. Data shows that allocations to education and health are relatively large, but there remains a disparity between capital spending and personnel spending in these sectors.

Table 5. Distribution of Sectoral Expenditure in East Java 2022–2023

Sector	2022 (Rp Trillion)	% of Total Spending	2023 (Rp Trillion)	% of Total Spending
Education	7.80	24.7%	8.20	25.0%
Health	4.60	14.6%	4.90	14.9%
Infrastructure	3.20	10.2%	3.40	10.4%
Other	15.90	50.5%	16.30	49.7%
Total	31.50	100%	32.80	100%

Source: East Java LRA 2022–2023, processed by the author

The relatively high spending on education and health can be understood as an implementation of constitutional obligations (20% for education, at least 10% for health). However, the infrastructure allocation of only 10% indicates still low regional investment in productive sectors. If this trend continues, the quality of East Java's economic development could be hampered.

6. Theoretical Analysis

The empirical findings above can be understood more deeply through the theoretical framework:

1. Budget Effectiveness → An absorption rate above 93% places East Java in the highly effective category. However, if the quality of spending does not support long-term development, effectiveness is only nominal.
2. Fiscal Federalism (Oates, 1999) → Low PAD (6–7%) indicates weak fiscal independence. This indicates that fiscal decentralization has not been optimal, as East Java remains highly dependent on the central government.
3. Governance Theory → A spending structure that leans heavily toward employee spending demonstrates a lack of good governance in budget management. Allocations to productive sectors need to be increased so that spending not only supports the bureaucracy but also generates broad economic benefits.

7. Critical Discussion

The findings of this study raise a paradox. On the one hand, East Java demonstrates a high and stable level of spending effectiveness. However, on the other hand, its fiscal independence is low and its spending structure is disproportionate. In other words, the effectiveness of budget absorption does not always directly correlate with the success of fiscal decentralization. The policy implications of these findings are the need for more serious regional fiscal reform. The East Java Provincial Government must increase its regional revenue (PAD) base, both through optimizing taxes and levies and managing regional assets. Furthermore, the proportion of capital expenditure needs to be increased so that the regional budget (APBD) is not only nominally effective but also effective in strengthening long-term economic development.

This section presents the results with clear descriptions. Results can be supplemented with tables, graphs (pictures), and/or charts. The discussion section describes the results of processing data or information, interpreting the findings logically, linking them to relevant reference sources, and the implications of the findings. [Times New Roman, 12, normal].

CONCLUSION

This study shows that the effectiveness level of the East Java Provincial Budget (APBD) spending for the 2022–2023 period is in the very high category, namely more than 93 percent, thus nominally reflecting the region's ability to realize the planned budget. However, regional fiscal independence remains relatively weak because the contribution of Regional Original Income (PAD) to total revenue is still small and most regional financing still relies on central transfers. From an academic perspective, this study enriches the literature on fiscal decentralization by linking spending effectiveness and the level of fiscal independence as two important indicators of the success of regional autonomy. From a practical perspective, the results of this study provide concrete recommendations to the East Java Provincial Government to increase PAD through intensifying regional tax collection and extending the tax base, optimizing regional assets to generate more productive revenue sources, and increasing the allocation of capital expenditures to strengthen the quality of long-term development. Furthermore, to deepen the analysis, future research is recommended to expand the scope of the study by including inter-provincial panel data and using inferential statistical methods such as panel regression to provide a more comprehensive understanding of the determinants influencing the effectiveness of regional spending in Indonesia.

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