



# Economic Bureaucratic Reform and Its Role in Optimizing Development Budget Governance in Indonesia

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## Abstract

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Economic bureaucratic reform is considered a strategic measure to address inefficiency, ineffectiveness, and low accountability in the management of Indonesia's development budget. This study is driven by the urgency to transform the bureaucratic system in order to establish more transparent, efficient, and results-oriented budget governance. The primary aim of this research is to examine the influence of economic bureaucratic reform on budget effectiveness, focusing on efficiency, accountability, acceleration of economic activity, and its contribution to national productivity. A descriptive qualitative method was employed, utilizing collected through literature studies from scientific journals. The findings are demonstrate that bureaucratic reform positively impacts administrative efficiency, licensing speed, and investor trust through improved governance practices. Nevertheless, issues such as fragmented authority, limited capacity of public officials, and resistance to change remain significant obstacles. Therefore, integrated, adaptive, and performance-based reform is crucial to optimizing the development budget, promoting public welfare, and sustaining long-term economic growth.

## 1. Introduction

Bureaucracy has a highly strategic role in the governance of national development, especially in the planning and execution of budgets. Within the framework of economic bureaucracy, this responsibility becomes increasingly complex as it involves allocating state resources to support sustainable and equitable development. As the main instrument in setting the direction of development, the bureaucracy functions to design fiscal policies, synchronize inter-sectoral programs, and ensure that development targets are achieved effectively (Delphine et al., 2019). Consequently, the quality of economic bureaucracy is a crucial determinant of the efficiency and effectiveness of budget management in development programs. Despite this importance, Indonesia's bureaucracy over the last few decades has often been characterized as sluggish, inefficient, and less responsive to rapid change. Persistent problems, such as overlapping regulations, excessive procedures, and weak accountability, continue to challenge the realization of an effective development budget (Bullock, 2019). To address this situation, the government has initiated transformative reforms in the bureaucratic system.

These reforms not only focus on administrative adjustments but also cover institutional restructuring, digitalization of governance, strengthening human resource capacity, and simplifying planning and budgeting procedures (Meuleman, 2021). Concrete evidence of this transformation is reflected in the introduction of e-budgeting, e-planning, and digital-based monitoring mechanisms designed to increase transparency and accelerate decision-making. At the same time, the state emphasizes the importance of merit-based recruitment and competence in

bureaucratic appointments to guarantee professional and measurable execution of development programs. Simplification of regulations, along with cross-sectoral integration, are further initiatives aimed at shaping a bureaucracy that is more responsive to public needs and the dynamics of development (Warman, 2022). Nevertheless, the effectiveness of budget planning and execution in Indonesia continues to face a series of obstacles. Many instances reveal that the allocation of funds is not aligned with actual needs in the field, causing several programs to miss their intended targets or fail entirely.

The low absorption rate of budgets, particularly in regional governments, illustrates that implementation is still far from optimal. This problem is compounded by weak institutional coordination, limited availability of accurate and integrated data, and entrenched bureaucratic procedures that undermine efficiency (Syed et al., 2018). The broader transformation of bureaucracy is also hindered by structural challenges. Internal resistance within the bureaucracy remains a major barrier, as many civil servants are reluctant or unprepared to adapt to new work cultures or technological innovations. In addition, disparities in digital infrastructure across regions have resulted in uneven adoption of technology-based budget management. Human resource capacity, which remains highly unequal between regions, also contributes to differences in the success of bureaucratic reforms (Tinta, 2022). Consequently, the transformation process that was expected to enhance the effectiveness of budget governance has not yet produced significant or comprehensive results. These challenges hold great relevance in the context of both national and regional governance. Since budget effectiveness is a critical indicator of

development performance, reform of the economic bureaucracy must be directed at solving concrete obstacles in the field. A bureaucracy that is adaptive, accountable, and performance-driven is expected to make budget planning and execution more efficient, responsive, and oriented toward tangible results.

In this regard, the demand for transformation is not limited to administrative efficiency but also becomes a fundamental requirement for achieving sustainable and inclusive development outcomes. Building on this context, the present study aims to examine the forms of bureaucratic transformation already implemented in development budget management and to evaluate their impact on the effectiveness of planning and execution at both national and regional levels. This research also identifies the structural and technical constraints that impede reform, while exploring opportunities to strengthen a bureaucracy that is more adaptive, transparent, and responsive to development demands. The expected contribution of this study is to provide strategic insights for designing future policies in development budget governance, guided by the principles of sustainable economic bureaucratic transformation.

## **2. Methods**

This research employs a descriptive qualitative approach to explore in depth the relationship between economic bureaucratic reform and the effectiveness of development budget management. This method was selected to provide a contextual understanding of the phenomenon, describe causal linkages conceptually, and analyze the dynamics that emerge in the interaction between bureaucratic

transformation and budget governance. The data used consist of gathered through an extensive literature review of credible and relevant references. These include, peer-reviewed journals, research papers, governmental and non-governmental reports, and various digital publications addressing issues of bureaucratic reform, fiscal policy, and development budget effectiveness. Sources were selected purposively, emphasizing relevance, recency, and reliability in relation to the research focus. The analysis of economic bureaucratic reform in this study covers several dimensions, including simplification of bureaucratic procedures, adoption of digital budgeting and monitoring systems, improvement of human resource competencies, and integration of cross-sectoral planning processes.

Meanwhile, the effectiveness of development budget management is assessed through indicators such as accuracy in planning, budget absorption levels, timeliness of implementation, and measurable contributions to development outcomes. To process the data, this study applies qualitative thematic analysis, which identifies recurring patterns, central themes, and conceptual relationships found in the reviewed literature. This analytical technique allows for a comprehensive interpretation of findings and supports the construction of scientific arguments based on theoretical frameworks, previous empirical research, and current field realities. The findings are presented in a narrative form, emphasizing the interconnection between bureaucratic reform initiatives and their influence on development budget management effectiveness. This approach highlights how reforms in procedures, technology, and human resource capacity can collectively

contribute to improving governance quality and enhancing the impact of budget utilization on sustainable development.

### **3. Results**

#### **3.1. Economic Bureaucratic Reform and Its Contribution to Development Budget Effectiveness**

Economic bureaucratic reform is essentially an effort to renew the bureaucratic system, particularly in the management of economic policies and the allocation of state budgets. This reform, which involves simplifying regulations, improving administrative efficiency, and minimizing corrupt practices, has a major influence on the effectiveness of development budget management. Its central goal is to create governance that is transparent, accountable, and responsive, thereby enabling the optimal utilization of state resources to promote sustainable economic growth and broader social welfare (Krisnajaya et al., 2019). The reform process is not limited to technical changes but also focuses on transforming the mindset and work culture of bureaucrats, particularly in relation to budget management. By reducing inefficiencies, economic bureaucratic reform contributes to a system that is more results-oriented.

According to Ebinger et al. (2019), one of the most significant aspects of bureaucratic reform is the shift in paradigm from bureaucrats as rulers to bureaucrats as public servants. This transition is crucial to addressing irregularities that often occur in budget management, such as illegal levies, inflated budget allocations, or misuse of public funds. By adopting this paradigm, bureaucrats are encouraged to

prioritize service to the community, ensuring that development budgets are directed toward essential public priorities such as infrastructure development, improvements in education, and the provision of healthcare services. Such efficiency can also be seen in reduced administrative costs and simpler procedures, which often delay or obstruct budget absorption. For example, by streamlining procurement processes, time and financial resources can be saved, allowing development funds to be redirected to more productive initiatives (Alkaraan, 2018). Gedeona and Trilestari (2021) argue that the bureaucracy should emphasize achieving measurable outputs rather than merely fulfilling rigid procedural requirements. In terms of development budget management, this orientation ensures that every rupiah allocated produces maximum benefits and avoids unnecessary waste.

For instance, in infrastructure projects such as road construction or public facility development, reforms within the economic bureaucracy can reduce unnecessary overhead expenses and guarantee that projects are delivered on time and meet quality standards. This approach also promotes the application of technology in governance processes, such as e-procurement systems, which strengthen transparency and efficiency in managing development budgets. Furthermore, economic bureaucratic reform is also essential in accelerating economic activities, which in turn enhances budget effectiveness. Maulana et al. (2022) emphasize that significant reforms, including organizational restructuring and the simplification of licensing systems, have a direct impact on improving government performance. In an economic context, a bureaucracy that operates efficiently can expedite licensing procedures, facilitate investments, and accelerate

trade processes, all of which stimulate regional and national economic growth. The findings of Jauhari et al. (2020) show that reforms within Indonesian local governments have produced substantial positive impacts on economic advancement. This is evident in the growth of regional revenues from taxes and investments, which provide additional financial resources for development projects, thereby making development budgets more impactful.

Bullock (2019) also highlights that economic bureaucratic reform, by strengthening the principles of good governance, can significantly increase investor trust. A more transparent and simplified bureaucracy encourages private investors to participate in funding strategic development projects, such as industrial estates and major transportation infrastructure. This not only strengthens the effectiveness of the development budget but also creates opportunities for collaboration through public-private partnership schemes. For instance, projects such as port or airport construction can be expedited with the support of private sector investment, reducing the financial burden on the state while simultaneously amplifying the economic multiplier effect of these projects. The reform of the economic bureaucracy is not simply about administrative improvement but also about creating an ecosystem that ensures efficiency, transparency, and accountability in budget utilization (Klochan et al., 2021). By shifting paradigms, enhancing professionalism, simplifying procedures, and strengthening cooperation with the private sector, economic bureaucratic reform becomes a strategic instrument to maximize the role of development budgets in achieving inclusive and sustainable economic progress.



### **3.2. Accountability and the Role of Economic Bureaucratic Reform in Strengthening Development Budget Effectiveness**

Accountability constitutes a fundamental aspect in ensuring that development budgets are managed effectively, with economic bureaucratic reform serving as a decisive driver in this process. Syed et al. (2018) underline the importance of reconfiguring bureaucratic work mechanisms to align with strategic transformations. One notable application is the establishment of performance reporting tools, such as the Government Agency Performance Accountability Report (*Laporan Akuntabilitas Kinerja Instansi Pemerintah*/LAKIP). This instrument facilitates transparent evaluations of budget performance and utilization. Williams (2021) explains that such mechanisms help guarantee that development funds are applied according to planned objectives, while simultaneously enabling tighter internal and external oversight to prevent misuse. In line with this, Krisnajaya et al. (2019) highlight that performance-based supervision is a central element of bureaucratic reform.

Unlike conventional oversight that often emphasizes formal procedures, this approach shifts the focus toward concrete outcomes. Within the framework of development projects, the effectiveness of funds allocated to infrastructure, healthcare, or education can be evaluated through tangible impacts such as the number of new classrooms built or improvements in healthcare access. By strengthening oversight mechanisms, risks of corruption, including collusion during project tenders, can be significantly reduced, ensuring development resources are directed precisely toward priority needs. Nevertheless, the execution of economic

bureaucratic reform does not occur without obstacles. Asaju and Ayeni (2021) observe that an imbalance in the division of responsibilities between central and regional governments frequently undermines efficiency in budget implementation. Ambiguities in authority can delay project execution or lead to overlapping budget allocations. For instance, inadequate coordination in infrastructure initiatives has often resulted in financial inefficiencies or project delays. Moreover, Sipayung et al. (2022) identify the limited capacity of human resources and resistance to institutional change as critical barriers. A significant number of bureaucrats still lack adequate skills to manage digital-based systems or adapt to newly introduced procedures, thereby impeding reform success. Adding to this concern, Williams (2021) points out that weak leadership commitment further hampers reform execution, reducing the effectiveness of development budgets. Insufficient monitoring of development programs, for example, frequently leads to projects running behind schedule or failing to meet intended quality benchmarks.

In addition to enhancing transparency and accountability, economic bureaucratic reform also strengthens the effectiveness of development budgets by improving overall national productivity. One of the key indicators is the Incremental Capital Output Ratio (ICOR), which reflects the level of efficiency in transforming investment into economic output. According to Shinta and Sholikin (2022), Indonesia's ICOR, standing at 6.5, illustrates inefficiency in utilizing capital. However, through reforms such as regulatory streamlining and the expansion of digital-based public services, the ICOR can be lowered, ultimately raising the productivity of state budget expenditures. Turner et al. (2022) further argue that

reforms encouraging flexibility and innovation in governance allow for more precise allocation of budgets to sectors with the highest developmental impact. In this respect, directing funds to areas such as renewable energy development or digital infrastructure creates strong multiplier effects for the economy.

Complementing these efforts, digital tools such as e-budgeting systems ensure more accurate planning, monitoring, and execution of fiscal policies. This minimizes the potential for fund leakages while simultaneously maximizing the overall developmental impact of the budget. Through this combination of enhanced accountability, improved coordination, capacity building, and the adoption of digital governance innovations, economic bureaucratic reform demonstrates its potential as a transformative instrument. Not only does it reinforce the credibility of development budget management, but it also positions the state to achieve more efficient, transparent, and impactful economic outcomes in the long term.

#### **4. Conclusion**

Economic bureaucratic reform exerts a profound impact on the effectiveness of development budgets by improving administrative efficiency, strengthening accountability, and fostering faster economic activity. This transformation shifts the bureaucratic role from a position of authority toward a service-oriented function, ensuring that budget allocations become more precise and productive. Key strategies include streamlining procedures, adopting digital tools such as e-procurement, and emphasizing measurable outcomes over rigid compliance. These measures enhance the quality of budget execution, reduce inefficiencies, and ensure that public

spending generates tangible benefits. In addition, reforms accelerate economic dynamics by simplifying licensing mechanisms and enhancing investor trust. Practices of good governance, transparency, and regulatory simplification encourage private sector participation, while public-private partnerships expand fiscal capacity and amplify the development budget's contribution to long-term economic growth.

Despite these advantages, several obstacles hinder reform implementation. Misaligned authority between central and regional governments often leads to inefficiencies, while limited bureaucratic skills, resistance to organizational change, and weak leadership commitment further slow progress. These issues may delay project implementation and reduce the overall impact of reform initiatives. Nevertheless, economic bureaucratic reform plays a vital role in enhancing national productivity. One clear indicator is the potential decline in the Incremental Capital Output Ratio (ICOR), which reflects improved efficiency in capital utilization. By promoting expenditure effectiveness and adopting digitalized governance systems, reform ensures that budget resources are allocated strategically with greater developmental impact. Ultimately, a well-designed, coordinated, and outcome-oriented reform framework is essential to guarantee that development budgets are fully optimized to advance public welfare and sustainable economic growth.

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