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VOLUME 4 ISSUE 1, JANUARY-June 2026

ISSN (Print): xxxx-xxxx ISSN (Online): xxxx-xxxx

History of Article

Submitted: Februari 2026

Revised: Maret 2026

Accepted: April 2026

Budget Efficiency and Its Impact on Good Governance Practices in Local Government in the Era of Bureaucratic Reform

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ABSTRACT

The budget efficiency policy implemented by the central government raises issues regarding the ability of local governments to administer autonomous governance based on good governance principles, as regional fiscal capacity has narrowed while obligations for public service delivery and governance remain fully in force under statutory regulations. This study aims to analyze the normative relationship between national fiscal efficiency policies and the capacity of local governments to implement transparency, participation, accountability, effectiveness, and responsiveness in local governance. The research employs a normative legal method with a statutory approach through analysis of primary legal materials, namely the State Finance Law, the Regional Government Law, the Government Administration Law, and Government Regulations on Regional Financial Management, supported by secondary materials in the form of administrative law and governance literature. Legal materials were collected through library research and norm inventory and analyzed qualitatively to assess the implications of efficiency policies on regional governance capacity. The results indicate that the

narrowing of regional fiscal space creates an imbalance between governmental obligations and financing capacity, so that the implementation of good governance values tends to be administratively minimal, public participation space narrows, program effectiveness declines, and service responsiveness is limited. These findings affirm that national fiscal efficiency policies have structural implications for the quality of local governance within the framework of a rule-of-law state and regional autonomy; therefore, strengthening alignment between central fiscal policies and regional authorities is necessary so that the implementation of good governance at the regional level can proceed optimally.

Keywords: *Budget Efficiency, Good Governance, Local Government*

INTRODUCTION

Regional budget management within Indonesia's legal system operates in a normative framework that places efficiency as a primary principle of public financial administration. Article 3 paragraph (1) of Law Number 17 of 2003 on State Finance stipulates that state finances must be managed efficiently, economically, effectively, transparently, and accountably. Article 283 paragraph (2) of Law Number 23 of 2014 on Regional Government likewise provides that regional financial management shall be conducted in an orderly and efficient manner in accordance with statutory regulations. These provisions indicate that budget efficiency constitutes a legal obligation for all levels of government. The budget efficiency policies implemented by the central government in recent years have narrowed the fiscal space of local governments through expenditure restrictions and tighter allocations of intergovernmental transfers.¹ This condition creates an administrative dilemma, as local governments remain burdened with broad public service obligations while their budgetary capacity becomes increasingly constrained.

National budget efficiency policies fundamentally stem from the need to maintain fiscal stability and the effectiveness of state expenditure. The implementation of these policies has a direct impact on the structure of regional budgets (APBD), as most regional revenue depends on central government transfers. Article 40 of Law Number 23 of 2014 affirms that the financing of

¹ Tri Wahyudi, Muhammad Nawawi, dan Erlina Sari Pohan. 2023. "Desentralisasi Fiskal dan Efisiensi Anggaran: Tinjauan Sistematis". *Jurnal Dinamika Ekonomi Rakyat*. Vol. 2, No. 2, November 2023. Salatiga: Universitas Kristen Satya Wacana.

regional governmental affairs derives from regional revenue and transfers from the central government. When efficiency policies reduce or restrain the growth of transfers, the capacity of regions to finance public service programs becomes limited. Local governments nevertheless remain obligated to fulfill basic services as stipulated in Article 11 paragraph (3) and Article 12 of Law Number 23 of 2014, yet the narrowing fiscal space renders the fulfillment of these obligations suboptimal. The tension between service obligations and budgetary constraints creates administrative law issues in the administration of local governance.²

Budget constraints resulting from central efficiency policies affect the capacity of local governments to apply the principle of efficiency as intended in statutory regulations. In public financial law, efficiency does not merely signify expenditure savings, but the use of budgets in a manner that produces maximum public benefit. Budget tightening often compels local governments to reduce development programs, postpone service activities, or prioritize routine expenditures.³ Such administrative choices have the potential to reduce the quality of public services and the effectiveness of regional programs. This situation indicates that macro-level fiscal efficiency does not always align with public service efficiency at the local level. From an administrative law perspective, this condition is viewed as a structural constraint that affects the capacity of regions to meet the financial management standards prescribed by statute.

Efficiency policies also affect regional planning and budgeting processes as regulated by Article 263 of Law Number 23 of 2014. Regional development planning should serve as the basis for preparing adequate budgets to achieve development objectives. Fiscal tightening causes many regional priority programs to be unfunded in full, leading to activity rationalization. Repeated rationalization can disrupt the consistency of development plans and the sustainability of service programs. This condition reflects the presence of central fiscal policy pressure on regional planning autonomy. From an administrative law perspective, this situation is regarded as a factual limitation on regional budgeting discretion, even though formal authority remains granted by statute.

Performance-based budgeting mandated by Article 54 of Government Regulation Number 12 of 2019 requires a linkage between budget allocations and public service outcomes. Budget constraints resulting from efficiency policies

² Bukhari Yasin, dan Irma Mangar. 2025. "Evaluasi Penegakan Hukum Terhadap Penyalahgunaan Keuangan Daerah". *Jurnal Hukum Sasana*. Vol. 11, No. 2, Desember 2025. Jakarta Selatan: Universitas Bhayangkara Jakarta Raya.

³ Zainuddin, Evi Oktarina, dan Soni Irawan. 2024. "Optimalisasi Peran Pengawasan DPRD Terhadap Pelaksanaan Anggaran Pendapatan dan Belanja Daerah (APBD) Dalam Bidang Kesehatan". *Nova Juris: Jurnal Hukum*. Vol. 2, No. 2, Desember 2024. Palembang: Universitas IBA.

make it difficult for regions to maintain planned performance indicators. Reductions in activity allocations affect the outputs and outcomes of regional programs. Local governments are placed in a position where they must continue to meet service performance targets with diminished resources. The imbalance between performance targets and budget capacity creates administrative pressure that can potentially reduce the quality of local governance. The implementation of the efficiency principle prescribed by regulation becomes difficult to achieve when regional fiscal capacity is inadequate.

Thinning budget conditions also affect the capacity of local governments to fulfill public service obligations as stipulated in Article 280 of Law Number 23 of 2014. Basic services such as health, education, and infrastructure are highly dependent on the adequacy of regional budgets. Central fiscal efficiency policies compel regions to undertake strict prioritization, which often results in reductions in the quality or coverage of services.⁴ Budget constraints in the context of public service obligations create administrative law issues because local governments remain responsible for fulfilling the rights of the community. Fiscal limitations do not eliminate the legal obligation to provide services; thus, regions face a dilemma between fiscal compliance and public service compliance.

The principles of good governance in Indonesian law are reflected in Articles 3 and 4 of Law Number 17 of 2003, Article 283 paragraph (2) of Law Number 23 of 2014, and the general principles of good governance in Article 10 of Law Number 30 of 2014. Indicators of transparency, accountability, effectiveness, efficiency, participation, and legal certainty require the availability of adequate resources to carry out governance optimally. Budget constraints resulting from central efficiency policies affect the capacity of regions to meet these indicators, particularly service effectiveness and development participation. Participatory activities such as development planning forums (*musrenbang*), community empowerment, and social programs often become targets of budget rationalization. This condition shows that fiscal constraints can affect the quality of the implementation of good governance principles at the regional level.

National budget efficiency policies create administrative consequences for local governments because the obligation to apply good governance principles remains fully in force under statutory regulations. Standards of efficiency, effectiveness, transparency, and accountability stipulated in Law Number 17 of 2003, Law Number 23 of 2014, and Law Number 30 of 2014 do not undergo

⁴ Srisaparmi, Aldri Frinaldi, Asnil, dan Nora Eka Putri. 2025. "Evaluasi Pelaksanaan Anggaran dan Pendapatan Belanja Daerah Kabupaten Lima Puluh Kota". *Jurnal Pendidikan Tambusai*. Vol. 9, No. 2, Agustus 2025. Kampar: Universitas Pahlawan Tuanku Tambusai.

adjustment even as regional fiscal capacity narrows. Local governments must continue to deliver public services, regional development, and community participation under constrained budget conditions. This situation places local governments in a position where they must implement good governance principles with increasingly limited resources. The relationship between central fiscal efficiency policies and the capacity of regions to implement sound governance thus becomes an important administrative law issue to be analyzed in the context of local government administration.

METHOD

This study employs a normative legal research type with a statutory approach. Normative legal research is chosen because the focus of the study lies on the legal norms governing government budget efficiency policies and the obligation to administer local governance based on good governance principles.⁵ The research problem concerns the relationship between national fiscal policies and the legal obligations of local governments in financial management and public service delivery as regulated by statutory provisions. The statutory approach is used to examine the conformity, interrelation, and hierarchical position of norms in Law Number 17 of 2003 on State Finance, Law Number 23 of 2014 on Regional Government, Law Number 30 of 2014 on Government Administration, and Government Regulation Number 12 of 2019 on Regional Financial Management. The use of this approach enables analysis focused on the normative obligations of local governments to implement efficiency and good governance principles amid national budget efficiency policies.

The sources of legal materials in this study consist of primary, secondary, and tertiary legal materials. Primary legal materials include statutory regulations related to state finance, regional government, government administration, and good governance. Secondary legal materials comprise administrative law textbooks, scientific journals, academic articles, and scholarly works discussing regional financial management, fiscal policy, and good governance. Tertiary legal materials include legal dictionaries, encyclopedias, and other supporting references that aid in understanding legal terms and concepts. The process of collecting legal materials is conducted through library research with systematic tracing of regulations and literature relevant to the research theme. This activity

⁵ Jovita Agustien Saija, dan Jawade Hafidz. 2025. "Legal Analysis of Criminal Guide lines for Reform Based on Law of The Republic of Indonesia Number 1 of 2023 Concerning the Criminal Code)". *Jurnal Hukum*. Vol. 20, No. 2, Juni 2025. Semarang: Universitas Islam Sultan Agung.

includes the identification, classification, and documentation of legal materials so that they are organized in accordance with the needs of normative analysis.

The development of the research instrument is carried out by formulating a normative analytical framework that contains the focus of study, categories of regulations, and indicators of good governance principles relevant to the research. The main instrument consists of an inventory of statutory regulations that classifies provisions on budget efficiency, public service obligations, and the general principles of good governance. This instrument assists the researcher in tracing the normative linkages between central government budget efficiency policies and the legal obligations of local governments. The preparation of this instrument aims to maintain analytical coherence and ensure that all relevant provisions are systematically identified so that the discussion remains within the framework of administrative law.

The method of legal material analysis is conducted qualitatively by describing and comparing statutory provisions related to budget efficiency and good governance in the administration of local government.⁶ Qualitative analysis is employed to explain the normative relationship between central government budget efficiency policies and the capacity of local governments to carry out their legal obligations in public service delivery and financial management. The stages of analysis include the classification of legal provisions, explanation of normative content, and the drawing of conclusions regarding the legal implications of budget efficiency policies for the implementation of good governance principles at the regional level. The results of the analysis are presented descriptively and argumentatively to demonstrate the administrative law construction concerning the position of budget efficiency policies within the system of local government administration.

RESULT & DISCUSSION

The budget efficiency policies implemented by the central government have direct consequences for the fiscal capacity of local governments in carrying out governmental affairs. Restrictions on regional expenditure, activity rationalization, and the control of transfer allocations cause regional financial space to become

⁶ Muhammad hendri yanova, Parman Komarudin, dan Hendra Hadi. 2023. "Metode Penelitian Hukum: Analisis Problematika Hukum Dengan Metode Penelitian Normatif dan Empiris" *Badamai Law Journal*. Vol. 8, No. 2, September 2023. Banjarmasin: Universitas Lambung Mangkurat.

increasingly constrained. A regional financial structure that still depends on intergovernmental fiscal transfers makes every national fiscal policy significantly affect the capacity of regions to finance governmental functions.⁷ The provision of public services, the strengthening of administrative institutions, and the development of governance systems require adequate budgetary support. The narrowing of fiscal capacity resulting from national efficiency policies places local governments in a difficult position in exercising autonomous authority effectively.

The position of local governments within the unitary state system places them as state organs directly responsible for fulfilling public services within their respective territories.⁸ These obligations derive from the attribution of governmental authority granted by the Constitution and statutory law to regions through the principle of autonomy. The burden of public service authority does not diminish even as regional fiscal capacity is tightened due to national budget efficiency policies. The imbalance between governmental obligations and financing capacity reveals structural pressure on the administration of local governance. This condition has implications for the ability of regions to maintain the quality of governance in accordance with the rule-of-law principle, which requires government to operate properly and responsibly.

The implementation of good governance principles in local government administration requires adequate financial resource support. Values of transparency, participation, accountability, effectiveness, and responsiveness demand the availability of clear public service systems, functioning oversight mechanisms, and administrative capacity capable of responding to community needs.⁹ Budget constraints cause local governments to prioritize routine expenditures and the basic operational needs of government. Fiscal space for strengthening governance quality, internal oversight, public participation, and service quality improvement becomes increasingly limited. This condition indicates that national fiscal efficiency policies affect the capacity of regions to realize good governance principles in a substantive manner.

⁷ Ratri Niki Fadhilla, Dwi Noor Fadhilatun Nissa, dan Marisa Adilah Putri. 2025. “Menakar Kemandirian Keuangan Daerah: Studi Kasus Ketergantungan Fiskal Kabupaten Magelang 2020–2024”. *Jurnal Kajian Ekonomi dan Keuangan Daerah*. Vol. 10, No. 2, April 2025. Jayapura: Universitas Cenderawasih.

⁸ Andika Dwi Yuliardi, dan Maharani Nurdin. 2023. “Kewenangan Pemerintah Kabupaten/Kota Dalam Menyelenggarakan Pelayanan Publik Guna Meningkatkan Pemenuhan Kebutuhan Layanan Masyarakat”. *Jurnal Hukum Sasana*. Vol. 9, No. 1, Juni 2023. Jakarta Selatan: Universitas Bhayangkara Jakarta Raya.

⁹ Ramadan. 2025. “Penerapan Prinsip Good Governance Dalam Meningkatkan Kualitas Pelayanan Publik”. *Jurnal Kolaboratif Sains*. Vol. 8, No. 12, Desember 2025. Palu: Universitas Muhammadiyah Palu.

Fiscal pressure on local governments affects not only financial aspects but also the overall quality of governance administration. Budget limitations have the potential to reduce the quality of public services, weaken accountability mechanisms, and restrict the space for community participation in governmental processes.¹⁰ Good governance principles, which should serve as the standard for local governance administration, face implementation constraints due to limited resources. This situation demonstrates the relationship between central government budget efficiency policies and the capacity of local governments to carry out sound governance. The issue places national fiscal efficiency as a factor influencing the quality of local government administration from a constitutional law perspective.

1. Good governance

The concept of good governance in the administration of local government constitutes a normative standard requiring that governmental authority be exercised in a transparent, accountable, participatory, effective, and responsive manner toward community needs. This principle has developed within the framework of the modern rule-of-law state, which positions government as a servant of the public interest as well as a manager of state resources that must be held accountable. The administration of local government is measured not only by compliance with regulations but also by the quality of governance capable of ensuring fair and open public services. In the context of local governance, good governance reflects a balanced relationship among governmental authority, citizens' rights, and state responsibility within the framework of regional autonomy.¹¹

The implementation of good governance principles in local government is closely related to institutional capacity and regional financing capability. The value of transparency requires the availability of public information systems accessible to the community; participation requires mechanisms for public involvement in policy processes; accountability requires functioning oversight and reporting systems; effectiveness requires well-targeted services; and responsiveness requires the government's ability to respond quickly to community needs. All of these values require financial resource support for the provision of

¹⁰ Dela Kurnia, dan Rahmadani Yusran. 2025. "Ketimpangan Peran Daerah Dalam Implementasi Kebijakan DTKS: Pengalaman Kabupaten Lima Puluh Kota". *Jurnal Dinamika Pemerintahan*. Vol. 8, No. 2, Agustus 2025. Pekanbaru: Universitas Abdurrab.

¹¹ Anny Riwayati, *Otonomi Daerah dan Good Governance*, Cv. Mitra Mandiri Persada, Surabaya, 2024, hlm. 3.

administrative facilities, capacity building of public officials, and the strengthening of governance mechanisms. Regional fiscal constraints resulting from national budget efficiency policies have the potential to hinder the fulfillment of these prerequisites.

The relationship between budget efficiency and good governance in local government is not straightforward, because national fiscal efficiency is often understood as expenditure reduction without considering regional governance needs. Local governments are still required to apply good governance principles even as fiscal space becomes increasingly limited. This condition creates tension between national macro-fiscal policies and the governance standards that local governments must meet. Good governance, which normatively demands quality in government administration, faces implementation limitations when regional financing capacity is inadequate. This linkage shows that the capacity of regions to realize sound governance is strongly influenced by national fiscal policies that determine their financial capacity.

The values of good governance in local government essentially constitute a manifestation of the rule-of-law principle, which requires that power be exercised responsibly and oriented toward the public interest.¹² Transparency ensures openness of governmental information, participation ensures community involvement, accountability ensures responsibility in the exercise of power, effectiveness ensures policy results, and responsiveness ensures governmental sensitivity to citizens' needs. The implementation of these values requires a balance among authority, institutional capacity, and resource support. Budget efficiency policies that narrow regional fiscal capacity have the potential to affect this balance, so that the implementation of good governance principles at the local level encounters structural constraints in the practice of governance administration.

2. Transparency (Openness)

Local governments have essentially sought to fulfill the value of transparency by providing public information related to policies, budgets, and services to the community.¹³ The publication of planning documents, performance reports, and information on governmental activities demonstrates a formal commitment to transparency in the administration of local government. Openness is also reflected in the obligation to convey budgetary information and development programs to

¹² *Ibid.*

¹³ Badiul Hadi, *Buku Saku Transparansi dan Akuntabilitas Realisasi APB Desa*, Kompak, Jakarta, 2022, hlm. 1.

the public as a form of governmental accountability. The fulfillment of transparency is a consequence of the rule-of-law principle, which requires that the exercise of power be conducted openly and subject to public oversight. These efforts indicate that, normatively, local governments continue to strive to carry out their obligations of openness despite operating under fiscal constraints.

Budget efficiency policies that narrow regional financial capacity have implications for the quality of governmental openness that can be realized in practice. Transparency is not limited to the formal provision of information but also requires administrative systems capable of presenting information clearly, comprehensively, and in ways accessible to the public. Budget limitations often result in suboptimal public information management, discontinuous data updating, and ineffective mechanisms for disseminating information to the community. Transparency achieved under constrained fiscal conditions tends to be administratively formal and does not fully reflect substantive openness. This condition shows that national fiscal efficiency policies indirectly affect the capacity of local governments to realize high-quality governmental transparency.

3. Participation

Local governments have, in principle, provided space for community participation in the governance process through development planning deliberation forums, public policy consultations, and mechanisms for public aspirations.¹⁴ Community involvement in regional policy planning and evaluation reflects efforts to fulfill the principle of participation in governance. Public participation is an essential element in a democratic rule-of-law state because regional policies must reflect the needs and interests of the communities they serve. These participatory mechanisms indicate that, normatively, local governments seek to carry out their constitutional obligation to involve the public in regional governance processes as part of democratic autonomy.

National budget efficiency policies affect the quality of participation that local governments can facilitate in the practice of governance. Substantive participation requires financial support for organizing public forums, policy outreach, broad

¹⁴ Septane Paradila Karunia Dewi. 2024. "Partisipasi Masyarakat Dalam Musyawarah Perencanaan Pembangunan di Desa Cikembar Kecamatan Cikembar Kabupaten Sukabumi". *Jurnal Praxis Idealis*. Vol. 1, No. 1, Oktober 2024. Cimahi: Universitas Jenderal Achmad Yani.

community engagement, and systematic management of public input. Budget constraints often cause participation to become procedurally formal and limited to certain groups, thus failing to reflect broad-based community involvement. This condition shows that the space for public participation in local governance is also affected by the narrowing of regional fiscal capacity. National fiscal efficiency policies indirectly reduce the quality of participatory governance at the local level from a good governance perspective.

4. Accountability

Local governments have a constitutional and administrative obligation to be accountable for every use of authority and public resources to the community. Accountability is realized through the preparation of regional financial reports, government agency performance reports, and internal and external oversight mechanisms of governance administration. This accountability system demonstrates efforts by local governments to fulfill the principle of accountability as part of good governance. Reporting and oversight obligations reflect that local government power is not absolute but must be legally and administratively accountable to the public as the holder of sovereignty.

Regional fiscal constraints resulting from national budget efficiency policies affect the quality of accountability systems that local governments can implement. Substantive accountability requires resource support for strengthening oversight systems, enhancing the capacity of financial management officials, and conducting continuous evaluation of government programs. Budget tightening causes internal oversight and performance evaluation to operate suboptimally, so accountability tends to focus merely on fulfilling administrative reporting obligations. This condition indicates that the quality of local government accountability is influenced by available fiscal capacity. National fiscal efficiency policies indirectly limit the ability of local governments to realize high-quality governmental accountability within the framework of good governance.

5. Effectiveness

Local governments have an obligation to ensure that every government policy and program is capable of achieving public service objectives and community welfare in a targeted and effective manner.¹⁵ The effectiveness of governance is

¹⁵ Natasya Saragih. 2025. "Tantangan dan Peluang Otonomi Daerah dalam Peningkatan Kesejahteraan Masyarakat". *Jurnal Fokus Administrasi Publik*. Vol. 1, No. 2, Februari 2025. Medan: Universitas HKBP Nommensen.

reflected in a region's ability to plan, implement, and evaluate programs in accordance with community needs and regional development priorities. The preparation of regional development plans, the establishment of priority programs, and the implementation of public service activities demonstrate efforts by local governments to carry out governmental functions effectively. Fulfilling the value of effectiveness serves as an indicator that the exercise of regional autonomy is producing tangible benefits for the community in line with the rule-of-law principle and public welfare.

National budget efficiency policies that narrow regional fiscal space have direct implications for the effectiveness of local government administration. The effectiveness of government programs requires adequate financial support to ensure activities are carried out as planned and reach the wider community. Budget constraints result in many regional programs being scaled down, target groups limited, or implementation delayed, so that outcomes are not optimal. This condition indicates that the ability of local governments to achieve public policy objectives is strongly influenced by available fiscal capacity. National fiscal efficiency policies indirectly reduce the effectiveness of local government administration in delivering optimal public services.

6. Responsiveness

Local governments have an obligation to be responsive to the needs, aspirations, and problems of the community as a consequence of their public service functions within the regional autonomy system.¹⁶ Responsiveness is reflected in the ability of local governments to follow up on community complaints, adjust policies to local needs, and provide services promptly and accurately. Mechanisms for public complaints, adaptation of regional programs to local conditions, and handling of public service issues demonstrate efforts by local governments to uphold the value of responsiveness in governance. The capacity to respond to community needs serves as an important indicator that local governments exercise their authority in a manner oriented toward the public interest.

¹⁶ Agustinus Wamo, Dedeh Maryani, dan Andi Azikin. 2025. "Partisipasi Masyarakat Dalam Penyusunan Rencana Kerja Pemerintah Daerah Tahun 2025 di Kabupaten Jayawijaya Provinsi Papua Pegunungan". *Jurnal Kajian Pemerintah*. Vol. 11, No. 2, Oktober 2025. Pekanbaru: Universitas Islam Riau.

Regional fiscal constraints resulting from national budget efficiency policies affect the capacity of local governments to respond optimally to community needs. Government responsiveness requires budgetary support for addressing public issues, program adjustments, and adaptive service delivery. The narrowing of financial space leads local governments to maintain existing programs and limit new policy innovations, thereby restricting their ability to respond to community needs. This condition shows that the quality of local government responsiveness is determined not only by institutional commitment but also by available fiscal capacity. National fiscal efficiency policies indirectly influence the ability of local governments to perform their responsive functions in governance.

The budget efficiency policies imposed by the central government carry structural implications for local government administration within the framework of autonomy. The narrowing of regional fiscal capacity is not accompanied by a reduction in the constitutional obligations of local governments regarding public service and governance. The imbalance between obligations and financing capacity affects the quality of good governance implementation at the regional level. Transparency, participation, accountability, effectiveness, and responsiveness remain normative obligations in local governance, but their implementation faces limitations due to fiscal pressure. This condition demonstrates that national fiscal efficiency policies have consequences for the quality of local governance from a constitutional law perspective.

The relationship between national fiscal policies and the quality of local governance shows that the ability of regions to realize good governance is strongly influenced by available financial capacity. Local governments are still required to uphold good governance principles, but the space to implement these values becomes constrained when fiscal resources are limited. These limitations impact the quality of transparency, the breadth of participation, the strength of accountability, the effectiveness of policies, and the responsiveness of public services in the regions. This condition confirms that budget efficiency policies affect not only financial aspects but also the overall quality of local government administration. The implementation of good governance at the regional level within the context of national fiscal efficiency faces structural challenges that influence the quality of state administration in the regions.

CONCLUSION

The budget efficiency policies implemented by the central government limit the fiscal capacity of local governments in exercising autonomous authority, while the obligations to administer governance based on good governance principles remain normatively embedded within the constitutional system. The narrowing of regional financial capacity due to expenditure control and restrictions on central transfers creates an imbalance between public service responsibilities and the financing ability of the regions. This imbalance places local governments in a difficult position, as service and governance obligations must still be fulfilled despite increasingly constrained fiscal space.

Regional budget limitations directly affect the capacity of local governments to realize transparency, participation, and accountability in governance. Program reductions, activity rationalization, and tightened funding for public administration reduce the space for information openness and community involvement in governance processes. The implementation of accountability mechanisms also tends to be minimally administrative, as budget focus is directed toward meeting the basic obligations of local government. This condition indicates that the quality of local governance is strongly influenced by the adequacy of fiscal support.

The effectiveness and responsiveness of local governance are also affected by limited financial capacity resulting from national fiscal efficiency policies. Local governments tend to maintain existing programs and delay new policy innovations due to budget constraints, thereby limiting their ability to respond quickly and adaptively to community needs. Prioritization of routine expenditures and minimum obligations further narrows the scope for policies that are responsive to dynamic local needs. This situation shows that fiscal capacity is a critical factor in determining the quality of effectiveness and responsiveness in local government administration.

The fiscal tightening of regions within the framework of national budget efficiency policies reveals a structural relationship between central fiscal policy and the quality of local governance. The ability of local governments to implement good governance principles is highly dependent on the financial space available within the central regional fiscal relationship. Fiscal restrictions that are disproportionate to regional authority burdens affect the overall quality of local governance within the framework of a rule-of-law state and regional autonomy. The implementation of good governance at the regional level faces structural

challenges because it relies on fiscal capacity, which is controlled through central government budget policies.

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