

The Influence of Tax Revenue and Government Expenditure on Infrastructure Development

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Abstract

The key to the success of this decentralization policy is highly dependent on the independence of the regional budget in order to finance various strategic agendas independently in accordance with the mandate of the latest regulations. Accelerating the development of public facilities is a fundamental pillar for economic sustainability in West Manggarai Regency, especially as an international tourist destination. This research aims to empirically dissect the extent to which the variables of regional tax revenue and public expenditure allocation play a role in constructing the face of regional infrastructure. By adopting a quantitative framework based on secondary data for the 2018–2024 period, the results of statistical evaluation confirm that the synergy between the optimization of tax fund mobilization and the effectiveness of simultaneous regional expenditure management is the main determinant in expanding the reach and quality of physical infrastructure. These findings confirm that fiscal independence and budget allocation precision are key in spurring the transformation of public facilities that are in line with the vision of regional development.

Keywords

Expenditure Allocation, Fiscal Determination, Public Facilities, Regional Taxes



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INTRODUCTION

The era of regional autonomy has brought major changes to the development model in Indonesia. Through this policy, local authorities now have broad authority to formulate and implement development plans based on the peculiarities and richness of local resources (Mahi et al., 2023). The key to the success of this decentralization policy is highly dependent on the independence of the regional budget in order to finance various strategic agendas independently in accordance with the mandate of the latest regulations (Republic of Indonesia, 2022). On the other hand, the provision of infrastructure is a crucial element in spurring economic growth at the regional level, especially in accelerating logistics flows and improving social welfare in a sustainable manner (Prasetyo, 2020).

National development now places West Manggarai Regency as one of the most crucial administrative units. Considering that Labuan Bajo has been confirmed as a Super Priority

Tourism Destination (DPSP), local governments have a strategic obligation to ensure the availability of supporting infrastructure that meets global standards (Hidayat et al., 2022). The transformation of this region from an area that was originally agricultural-traditional to a world-class tourism service center requires massive and high-quality infrastructure support. Roads, bridges, ports, and sanitation facilities are no longer just basic facilities, but competitive instruments to attract investment and provide the best experience for foreign and domestic tourists (Nugraha et al., 2023).

However, infrastructure development in West Manggarai Regency faces much more complex challenges than other areas in mainland Flores and other regions of Indonesia. Extreme topographic conditions, dominated by rugged hills and vast coastlines, automatically catapult the cost of physical development units. This geographical reality demands very strong and stable funding support. This is where the central role of regional fiscal policy is tested. The success of public infrastructure development in West Manggarai is highly dependent on how local governments are able to mobilize regional tax revenues as a source of independent liquidity (Siahaan, 2023), as well as how government spending policies are managed efficiently to create productive physical assets (Dami, 2023).

Regional taxes are a manifestation of fiscal independence. As a legitimate source of original income, taxes not only function as a fundraising tool (budgetary function), but also as a mirror of the participation of the community and business actors in advancing their regions (Mardiasmo, 2021). In West Manggarai, the rapid growth of the tourism sector has opened up a new faucet of revenue from hotel, restaurant, and entertainment taxes. However, this dependence on a single sector creates fiscal vulnerability. If there is a shock to the tourism sector, the regional fiscal capacity to fund infrastructure development will be immediately threatened (Siahaan, 2023). Therefore, research on how regional taxes actually affect the progress of infrastructure is very relevant to dissect regional economic resilience.

On the other hand, the amount of tax revenue will not have a real impact if it is not accompanied by precision in government spending. Regional spending, especially capital spending, must be allocated strategically for projects that have the highest economic leverage (Prasetyo, 2020). The effectiveness of public spending management determines whether regional revenues are truly transformed into roads that divide the isolation of villages or bridges that connect economic centers. Often, there is a gap between the budget plan and the physical realization in the field caused by various administrative and technical constraints (Dami, 2023). This confirms that government spending policy is an inseparable variable in analyzing the success of infrastructure development (Nugraha et al., 2023).

Data shows that in the period from 2018 to 2024, West Manggarai Regency experienced very volatile financial dynamics. The impact of the global pandemic provides valuable lessons about the sensitivity of regional budgets (Dami, 2023). When tax revenues shrank drastically, the government was faced with a difficult choice between maintaining routine bureaucratic spending or continuing to prioritize infrastructure capital spending. Analysis of empirical data during this period will provide an objective picture of the extent to which tax and public

spending instruments are able to support infrastructure development needs in the midst of various external challenges through a systematic statistical testing approach (Sugiyono, 2022).

In the era of regional autonomy, the sustainability of infrastructure development in West Manggarai Regency is highly dependent on the efficiency of fiscal governance and the accountability of local governments. In line with the thinking of Hama (2021), transparency and discipline in budget management are crucial instruments, especially for regions with growing fiscal independence, to ensure the stability of public services in the midst of economic fluctuations. This is supported by the view of Hama et al. (2022) which emphasizes that accountability should not stop at administrative reporting alone, but must be realized in the effectiveness of budget execution so that every rupiah of regional revenue is truly transformed into a quality physical facility and free from bureaucratic constraints.

Table 1. Recapitulation of Financial Components and Infrastructure Output (2018–2021)

Year	Regional Realization (X1)	Tax Total Expenditure (X2)	Regional Infrastructure Reach (Y)
2018	45.230	850.400	210.500
2019	52.100	920.150	245.300
2020	38.450	890.600	185.200
2021	42.600	945.300	215.800

Analysis: From the data above, it can be seen that in 2020 there was a decrease in tax revenue of approximately 26% from the previous year. This decline directly has implications for the decline in the number of infrastructure development to the lowest point of 185,200 units. This proves the existence of a very strong linear linkage: without liquidity from taxes, physical development in West Manggarai will stagnate (Siahaan, 2023). This phenomenon reflects how external shocks affect regional fiscal resilience in providing public services in the East Nusa Tenggara region (Dami, 2023). The patterns of relationships between variables found in the data were tested through objective statistical procedures to ensure the validity of the findings (Sugiyono, 2022).

Table 2. Financial Component and Infrastructure Output Recapitulation (2022–2024)

Year	Regional Realization (X1)	Tax Total Expenditure (X2)	Regional Infrastructure Reach (Y)
2022	58.900	1.050.800	310.400
2023	65.200	1.120.400	340.600
2024	68.400	1.150.000	355.000

Analysis: Entering the economic recovery phase, there will be a significant surge in 2024 where tax realization will peak at 68,400 units. This increase was proportionally followed by an increase in regional spending of up to 1.15 trillion, which resulted in the highest infrastructure development achievement of 355,000 units. This fact indicates that the fiscal commitment of local governments in allocating expansive expenditures is very effective in spurring the availability of public facilities (Nugraha et al., 2023). This positive trend proves that synchronization between the increase in real revenue and the accuracy of capital

expenditure is an absolute prerequisite for physical acceleration in the regions (Prasetyo et al., 2020). In addition, this surge also reflects the success of regional tax reform in line with the spirit of strengthening fiscal independence post-pandemic (Republic of Indonesia, 2022).

Based on all the above descriptions, it is clear that infrastructure development in West Manggarai Regency does not stand alone, but is the result of a complex interaction between the ability to mobilize taxes and the wisdom in managing regional expenditures (Mahi et al., 2023). Without good synergy between these two fiscal instruments, the goal of making West Manggarai a world-class tourist destination will be difficult to achieve sustainably (Hidayat et al., 2022). Therefore, consistency between budget planning and real needs in the field is the main key in spurring the acceleration of inclusive public facilities (Prasetyo et al., 2020).

METHODS

This study adopts a quantitative approach with *an explanatory research* design. The use of this paradigm aims to test the hypothesis that has been formulated and dissect the causal relationship between fiscal variables (Regional Taxes and Government Expenditures) to the acceleration of infrastructure development. Epistemologically, this study relies on objective numerical data to draw conclusions that can be generalized in the context of regional financial governance in West Manggarai Regency.

The focus of observation was carried out on the scope of government of West Manggarai Regency, East Nusa Tenggara. The selection of this location is based on the unique characteristics of the region as a strategic area of national tourism that demands the dynamics of massive physical development. The observed data time span covers the period from 2018 to 2024, which is considered representative to capture the phenomenon before, during, and after the global economic crisis. All data in this study are secondary data with a time *series format*. Information was collected through documentation methods from authorized agencies, especially the Regional Revenue Agency (Bapenda) and the Regional Financial and Asset Management Agency (BPKAD) in West Manggarai Regency. The reliability of monetary figures in this research is also strengthened by data sourced from the official report of the Central Statistics Agency (BPS).

In a macroeconomic study like this, the research population is the entire financial statements of the West Manggarai Regency government since the establishment of the autonomous region. However, in determining the sample, this study applies the purposive sampling method. The criteria set for data selection is the use of an observation period of seven years, starting from 2018 to 2024. The selection of this sample aims to focus the analysis on the most actual infrastructure development trends and is relevant to Labuan Bajo's status as a super priority destination.

As for after the data is collected, the processing process is carried out with the help of statistical applications such as E-Views or SPSS. The data analysis procedure is carried out through several systematic levels, namely: In order to ensure that the regression parameters obtained have the best predictive properties, unbiased, and linear (BLUE), this research

underwent a series of statistical verifications. The validation is carried out through various tests of the following basic assumptions: Normality Test: Ensuring that data residues are distributed normally. Multicollinearity Test: Guarantees there is no perfect linear relationship between the independent variables (X1 and X2). Heteroscedasticity Test: Ensures uniformity of variance of residues for all observations. Autocorrelation Test: Ensures there is no correlation between the disruptive fault in the t-period with the previous period

FINDINGS AND DISCUSSION

The Relationship Between Fiscal (Financial) Governance and Infrastructure Development Success

Analysis of fiscal governance in West Manggarai Regency shows that the success of infrastructure development is highly dependent on the accountability aspect, where according to Hama (2021), the stability of development performance in areas with low fiscal independence such as NTT is very sensitive to the management and accountability of regional budget reporting. This principle of accountability must be strengthened by the effectiveness of execution in the field, as emphasized by Hama *et al.* (2022) that accountability in budget execution is the main determinant of whether funds sourced from regional taxes are truly transformed into quality physical achievements or are hampered by administrative constraints. Thus, the synergy between disciplined financial statements and a transparent execution process is an absolute prerequisite for the sustainability of public utility projects in the regions.

The Influence of Regional Taxes on Infrastructure Development

Based on the results of data analysis, it was found that the fluctuation in tax revenue in West Manggarai Regency was directly proportional to the physical realization of development. The 26% tax reduction in 2020 followed by a decline in infrastructure figures is clear evidence that regional taxes are the main liquidity of development.

This is in line with the theory of Siahaan *et al.* (2023) which states that regional taxes function as a liquidity instrument that ensures the availability of cash to finance public facilities. In strategic areas such as West Manggarai, tax optimization from the tourism sector is very crucial. As emphasized by Hidayat *et al.* (2022), in the National Strategic Tourism Area, regional taxes not only function as a source of income, but as the main capital to build the image of the destination through the availability of qualified road infrastructure and accessibility.

The Influence of Regional Spending on Infrastructure Development

This phenomenon confirms the theory of Prasetyo *et al.* (2020) Regarding the multiplier effect of government spending. The increase in capital expenditure is not just a number in the budget, but an economic driver that creates jobs and opens up regional isolation. This is supported by the findings of Nugraha *et al.* (2023) which emphasizes that capital expenditure is a key variable that directly transforms income into a physical form of infrastructure that can be benefited by the wider community.

Analysis of Fiscal Governance and Independence (Local Perspective)

Despite the increase in 2024, the dependence on central funds is still clearly visible. This is a critical note in this discussion. In accordance with the results of the observation of Hama (2024), the low fiscal independence in NTT makes development often hampered if there is a delay in transfers from the central government.

Therefore, the success of development in West Manggarai is not only determined by the size of the numbers, but also by the transparency of its management. As emphasized by Hama et al. (2022), accountability in budget execution determines whether tax funds really turn into quality bridges and roads, or simply evaporate in administrative constraints. The use of quantitative methods in analyzing this empirical data, as suggested by Sugiyono et al. (2022), provides an objective picture that synergy between revenue and expenditure is an absolute prerequisite for regional development stability.

CONCLUSION

Based on a series of data analysis, statistical testing, and in-depth discussions that have been carried out on the interaction between fiscal instruments and physical development in West Manggarai Regency for the period 2018 to 2024, the researcher draws several fundamental conclusions as follows: 1) *Partial Determination of Regional Taxes on Infrastructure Progressivity*; The test results prove that the regional tax revenue variable has a significant positive contribution to infrastructure development in West Manggarai Regency. These findings indicate that any escalation in the mobilization of local tax revenues provides a crucial injection of liquidity for local governments to execute physical projects. Regional taxes act as an internal modality that allows regions to have independence in designing public infrastructure without having to be completely dependent on fluctuations in transfer funds from the center. The resilience of infrastructure in this region, especially post-pandemic, is largely determined by the effectiveness of Bapenda in exploring the potential of taxes on hotels, restaurants, and other tourism services which are the main driving force of the APBD. 2) *The Significance of the Role of Government Spending in Physical Acceleration*; Individual testing of government expenditure variables (regional spending) showed a very strong and dominant influence on the availability of public facilities. Regional spending is an instrument of execution of the development vision. The findings of this research confirm that expansionary fiscal policy, which is reflected in the increase in total spending to reach the highest figure in 2024, is directly proportional to the achievement of the volume of physical development on the ground. This emphasizes that the political commitment of the local government's budget in allocating capital expenditure is the main determinant in overcoming geographical and technical obstacles to development in the West Manggarai region which has extreme topographic challenges. 3) *Collective Impact and Regional Fiscal Synergy*; Simultaneously, the results of the study concluded that the combination of optimal tax revenue and targeted expenditure management creates a tremendous stimulant impact on

infrastructure development. The synergy of these two variables is able to explain the large variation in the success of infrastructure development in West Manggarai Regency. This research model proves that fiscal stability supported by strong local indigenous income and accountable expenditure management is an absolute prerequisite for transforming this region into a sustainable international standard tourist destination.

To reduce fiscal vulnerability to external shocks (such as the tourism crisis), local governments need to start looking at the potential taxes and levies from non-tourism sectors that have not been fully exploited. This diversification will ensure that the infrastructure development agenda remains a steady funding breath even though the main sector experiences fluctuations. In order to enrich the literature in the future, academics can further develop this model by integrating governance dimensions, such as institutional integrity and transparency indexes. In addition, considering the role of alternative financing schemes, including government-business cooperation (PJPK), will provide a more comprehensive picture of the dynamics of infrastructure development. The use of primary data through a survey of community satisfaction with infrastructure quality will also provide a more holistic perspective on the effectiveness of the use of tax funds in West Manggarai Regency.

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