



PUBLIC POLICY INNOVATIONS IN ECONOMIC GROWTH

Uslan Adinata¹, Muhammad Nadiddin Alhanif²

¹STAI Nurul Abror Al-Robbaniyin, ²STAI Nurul Abror Al-Robbaniyin Banyuwangi

e-mail: 1uzlanadinata29@gmail.com, 2alhanifdafa96@gmail.com

Abstract

This study investigates how public policy innovations catalyze national economic growth amid global disruptions and structural transformation. Unlike prior research that primarily emphasizes fiscal or monetary policies, this work positions policy innovation as a core driver of sustainable growth ecosystems. Employing an exploratory qualitative approach through a literature review of 20 peer-reviewed studies from 2021–2025, the research evaluates policy impact across strategic sectors, including digital investment, green economy, SMEs, and bureaucratic reform. Findings reveal that policies incorporating digital technology, inclusive governance, and fiscal incentives significantly enhance national productivity and economic resilience. The study contributes to the formulation of an innovation-based policy framework responsive to global economic dynamics and sustainable development challenges.

Keywords: *policy innovation, economic growth, governance, public sector reform, digitalization.*

A. Introduction

Economic growth remains a critical benchmark of national progress. However, the last decade has witnessed increasingly complex disparities in global economic performance. The COVID-19 pandemic, climate crises, technological disruptions, and geopolitical tensions have tested the resilience of many economies, prompting the need for more responsive and innovative policy approaches.

In response to these multifaceted challenges, countries can no longer rely solely on conventional instruments such as fiscal or monetary policy. Instead, innovation in public policy—grounded in data, technology, and inclusivity—has emerged as a strategic lever to build resilient and forward-looking economies.

Countries such as India, Ghana, and Indonesia have shown more stable growth trajectories during 2021–2025 by implementing institutional reforms, digitizing public services, and strengthening local innovation ecosystems (Bogojeski, 2025; Yoganandham, 2025). These policy innovations now

encompass not only regulatory reform but also co-creation processes, public participation, and inter-sectoral collaboration.

Developing countries in particular face a dual burden: the need to maintain economic stability while simultaneously undergoing structural transformation. Innovative public policies can bridge the short-term need for stabilization with long-term development objectives. For example, bioeconomy strategies and creative industry initiatives have improved economic resilience in parts of India and Eastern Europe (Covaci et al., 2025).

Digital-based innovations such as smart taxation, e-government, and data-driven budgeting have enhanced fiscal governance and public spending efficiency. Łasak (2024) observed that the integration of technological and public policy innovations accelerated green economic growth in Europe and China.

Nonetheless, implementation challenges persist, including institutional fragmentation, political resistance, and limited digital capacity. Without strong cross-sector coordination and robust evaluation mechanisms, policy innovations risk becoming reactive and inconsistent (Teoh et al., 2024). Current policy research often remains confined to sector-specific analyses, neglecting the interconnected dynamics between innovation and macroeconomic outcomes. Multisectoral models like Hexahelix have demonstrated effectiveness in reducing ICOR and improving fiscal efficiency (Qolby et al., 2025).

The urgency of this topic is reinforced by global commitments to sustainable development and digital transformation, particularly under the United Nations' 2030 Agenda. In this light, policy innovation is not merely a bureaucratic function but a strategic tool for socioeconomic resilience and inclusive growth.

This paper aims to synthesize recent empirical studies (2021–2025) to identify effective forms of policy innovation and their macroeconomic impacts, as well as challenges in implementation. It further proposes a conceptual framework linking policy innovation with economic development indicators.

B. Research Methods

This study adopts a qualitative approach utilizing a Systematic Literature Review (SLR) to analyze how policy innovation contributes to economic growth. The SLR method enables structured synthesis of empirical and conceptual findings from diverse sectors and national contexts (Snyder, 2019).

Data were collected from scholarly databases including Scopus, SpringerLink, Google Scholar, and Garuda, focusing on publications between 2021 and 2025. Inclusion criteria required studies to:

1. Address public policy innovations with direct relevance to economic growth indicators (e.g., GDP, FDI, productivity, fiscal efficiency);
2. Present national or regional-level analysis;
3. Employ empirical methods;
4. Be published in reputable journals or conferences.

From an initial pool of 74 documents, 20 core studies were selected using the PRISMA protocol. Analysis was conducted using thematic content analysis and manual coding to categorize innovations (fiscal, digital, governance, collaborative) and link them to macroeconomic variables. Data triangulation from Asia, Africa, and Europe was used to validate findings

C. Results and Discussion

This study reveals that innovations in public policy have a significant impact on economic growth, particularly through increased budget efficiency, expanded investment, and strengthened digital economic inclusion. The main findings are categorized into three clusters: types of policy innovations, their impact on economic indicators, and challenges in policy implementation.

Dominant Forms of Policy Innovation

An analysis of 20 academic articles and case studies from Indonesian local governments and other developing countries identified four dominant forms of policy innovation:

No	Innovation Category	Key Features	Implementation Examples
1	Fiscal Innovation	Green tax incentives, performance-based budgeting	Bangladesh: Zero tax for renewable energy
2	Digital Innovation	Online licensing systems, e-budgeting	Surakarta: OSS & e-tax for MSMEs
3	Inclusive Governance	Open data, online public participation	Banyuwangi: Online forum for budget planning
4	Cross-Actor Collaboration	Hexahelix models, Public Innovation Labs	Solo City: Academic partnerships for MSME regulation

Source: Adapted from Proestou et al. (2025), Qolby et al. (2025), Shamsuddin (2025)

Digital policies such as e-government and e-budgeting implemented in several Indonesian regions have demonstrably accelerated public services and increased local tax compliance. For instance, the City of Surakarta reported a 32% increase in local revenue (PAD) following the implementation of digital licensing and tax systems (Qolby et al., 2025).

Impact of Innovation on Economic Indicators

Government reports and academic reviews reveal that public policy innovations have made tangible contributions to macroeconomic indicators. Budget efficiency has significantly improved in regions adopting performance-based budgeting through digital platforms, with an average decrease in the Incremental Capital Output Ratio (ICOR) of 25% within two years of implementation.

Region	ICOR Before Innovation	ICOR After Innovation	Efficiency Increase (%)
Banyuwangi	6.8	4.9	27.9%
Surakarta	6.1	4.4	27.8%
Sleman	5.9	4.3	27.1%

Source: Regional Performance Reports (2023), analyzed by the authors.

Simultaneously, the implementation of fiscal incentives for the digital technology and green agriculture sectors has also driven increases in foreign direct investment (FDI), as reported in Bangladesh and Nigeria (Hasan et al., 2025; Alaraba, 2025).

Comparison with Previous Studies

Compared to the findings of Proestou et al. (2025), which focused on the resilience of bioeconomic policies in Europe, this study offers a broader perspective from developing countries with heterogeneous infrastructure readiness. In the Southeast Asian context, fiscal digitalization and citizen engagement in policymaking are more prominent than transformations in the primary sector.

Additionally, Shamsuddin (2025) emphasized that the success of financial sector policy innovation heavily depends on regulatory flexibility and consumer protection. This study confirms that view and further provides evidence that collaborative, data-driven bureaucracies play a vital role in generating real economic impact beyond mere administrative reform.

Summary of Findings

- The key findings supporting the research objectives are:
- a. Public policy innovation contributes directly to economic growth by improving budget efficiency, reducing bureaucratic barriers, and stimulating investment.
 - b. Digital and participatory policies are more effective in regions with adequate institutional capacity and digital infrastructure. Gaps in digital capacity and inter-agency coordination are primary barriers to the success of policy innovation in non-urban areas.

Thus, the results of this study answer the central research question concerning the relationship between innovative policies and economic growth indicators, while also identifying the enabling conditions for effective policy implementation

D. Conclusion

This research concludes that public policy innovations play a vital role in driving economic growth, particularly through enhanced fiscal management, investment facilitation, and digital inclusion. Innovative approaches grounded in collaboration, digital transformation, and inclusivity are better equipped to address contemporary socio-economic challenges.

The study contributes a conceptual framework that integrates adaptive governance with multi-actor collaboration (Hexahelix) in local economic development. While academically enriching, the study is limited by its lack of longitudinal analysis and geographic coverage. Future research should expand on these dimensions to deepen understanding of policy innovation dynamics over time

References

- Bogojeski, P. (2025). *Application of Offset Arrangements in Defense Procurement and Economic Growth*. Knowledge-International Journal. Retrieved from <https://www.ceeol.com/search/article-detail?id=1334502>
- Covaci, B., Brejea, R., Antonescu, D., & Covaci, M. (2025). *Industry, a Pillar of the Mountain Economy: European Mountain Series Analysis (4)*. Preprints.org. <https://www.preprints.org/manuscript/202504.0426>
- Łasak, P., & van der Linden, R. (2024). *The Sino-EU Sustainable Green Technological Competition and Cooperation*. In *Sino-EU Economic Relations* (pp. 89–102). Springer. https://link.springer.com/chapter/10.1007/978-3-031-71814-4_5
- Qolby, A. A., Syahrin, M. A., & Aji, K. P. (2025). *Hexahelix Strategy to Reduce ICOR in Regional Economic Development*. Innovation of Economics. https://ejournal.unwaha.ac.id/index.php/jurnal_penelitian/article/view/5787
- Teoh, W. M. Y., Yuen, Y. Y., & Loh, J. (2024). *Fostering Future-Ready TVETpreneur Talent Framework*. SHDL Multimedia University. <https://shdl.mmu.edu.my/13193/>

- Yoganandham, G. (2025). *Recent Progress in Tamil Nadu's Economic Development (2021–2025): A Comprehensive Assessment*. ResearchGate. <https://www.researchgate.net/publication/392720823>
- Boell, S. K., & Cecez-Kecmanovic, D. (2015). *On being 'systematic' in literature reviews in IS*. *Journal of Information Technology*, 30(2), 161–173. <https://doi.org/10.1057/jit.2014.26>
- Snyder, H. (2019). *Literature review as a research methodology: An overview and guidelines*. *Journal of Business Research*, 104, 333–339. <https://doi.org/10.1016/j.jbusres.2019.07.039>
- Shamsuddin, J. (2025). *Fintech development: Lessons for Malaysia*. *Public Administration and Law Review*. <https://public.scnchub.com/palr/article/view/253>
- Snyder, H. (2019). *Literature review as a research methodology: An overview and guidelines*. *Journal of Business Research*, 104, 333–339. <https://doi.org/10.1016/j.jbusres.2019.07.039>