THE INFLUENCE OF GROSS REGIONAL DOMESTIC PRODUCT (GRDP), LOCAL OWN-SOURCE REVENUE (PAD) AND BALANCE FUNDS ON CAPITAL EXPENDITURE ALLOCATION IN ALL PROVINCIAL GOVERNMENTS IN INDONESIA IN 2019-2021

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ABSTRACT

This research aims to determine the influence of gross regional domestic product (GRDP), local own-source revenue (PAD), and balance funds on local government capital expenditure allocation, both partially and simultaneously. The population in this study consists of all provincial governments in Indonesia, totaling 34 provincial government, from 2019 to 2021, resulting in a total sample size of 102 observations. This research uses Budget Realization Report (LRA) data for capital expenditure, PAD, and balance funds data, while GRDP data is obtained from BPS-Statistics Indonesia. Multiple linear regression technique is used for longitudinal/panel data in hypothesis testing. The results of the study indicate that GRDP does not significantly influence capital expenditure allocation, otherwise PAD and balance funds have a significant positive impact on capital expenditure allocation. This research contributes to the literature on state/regional financial management in the context of state/regional revenue and expenditure.

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia
Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

1. INTRODUCTION

The implementation of regional autonomy since 1999 has shifted the paradigm of the governance system from centralization to decentralization. The decentralization system has resulted in the transfer of power from the central government to regional governments, including the granting of rights, authority, and responsibilities to regional governments to govern and manage their territories to provide the best services to the public (Pramudya & Abdullah, 2021). The implementation of regional autonomy also provides opportunities for regional governments to further develop their potentials.

According to the Republic of Indonesia Law Number 23 of 2004 concerning Regional Governance, regional governments have Regional Revenue and Expenditure Budget (APBD) as the annual financial plan of the region used to fund the implementation of regional government affairs. Regional expenditures, which can be classified into two categories: operational and capital, are used to carry out the implementation of these affairs (Mahmudi, 2016). In 2021, on average across the 34 provinces in Indonesia, capital expenditures accounted for 14.42% of the total regional expenditures, with West Papua Province having the highest percentage at 30.28%, and West Java Province having the lowest percentage at 5.46%.

Chart 1. Comparison of Capital Expenditure to Total Regional Expenditure in 2021 in 34 Provinces in Indonesia (in Billion Rupiah)
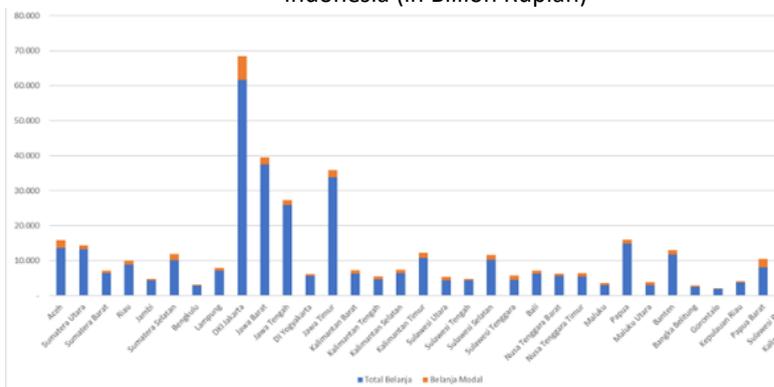
Source: Compiled by the Author (2023)

The importance of monitoring regional expenditures arises from concerns and criticisms regarding the magnitude of employee expenditures in the Regional Revenue and Expenditure Budget (APBD). Many argue that this leads to a reduction in allocations for capital expenditures, which are deemed to have a significant impact on the provision of public services to the community (Directorate General of Fiscal Balance Ministry of Finance of the Republic of Indonesia, 2012). Given the insufficient attention to capital expenditures in the regional APBD in Indonesia, regional governments should allocate their APBD for capital expenditures and not entirely exhaust it on employee and routine expenditures (Wandira, 2013). The

Republic of Indonesia Law Number 1 of 2022 concerning Financial Relations Between the Central Government and Regional Governments mandates those regions allocate a minimum of 40% of their budget for public service infrastructure spending, while the highest allocation for regional employee spending is set at 30%.

According to Government Regulation Number 71 of 2010 on Government Accounting Standards in Indonesia, capital expenditure refers to budget allocations for acquiring fixed assets and other assets that yield benefits over multiple accounting periods. In its utilization, the capital expenditure allocation is utilized for productive aims, which encompass infrastructure investment. Infrastructure spending is directly related to accelerating the development of public service and economic facilities in order to increase employment opportunities, reduce poverty, and reduce disparities in public services between regions (Directorate General of Fiscal Balance, Ministry of Finance of the Republic of Indonesia, 2023). Therefore, capital expenditure plays a crucial role in achieving the goals of regional autonomy, namely improving the welfare and services to the community.

Enhancements in community welfare are evidenced by economic growth, as demonstrated by the elevation of Gross Regional Domestic Product (GRDP). According to the Central Statistics Agency of the Republic of Indonesia (2023), GRDP is a crucial indicator for assessing the economic conditions in a region during a specific period, both at current and constant prices. One of the approaches to calculating GRDP is the expenditure approach, where government expenditure is one of the variables in the calculation.

A high GRDP tends to indicate the availability of greater financial resources for regional governments. With increased revenue, regional administrations have the opportunity to earmark additional funds for capital expenditure, facilitating the financing of infrastructure and regional development initiatives (Macroeconomic Framework and Key Fiscal Policy Points, 2023). Studies conducted by Alpi and Sirait (2022), Nurdiwaty et al. (2017), Ismail and Dewi (2016), Arwati and Hadiati (2013), Ardhani and Ardiyanto (2011), Putro (2011), Tuasikal (2008), as well as Darwanto and Yustikasari (2007) aim to demonstrate that economic growth, operationalized by the GRDP value, has an influence on the allocation of capital expenditure by regional governments in Indonesia.

Regional expenditure, including capital expenditure, is financed through regional revenue. According to the Republic of Indonesia Law Number 1 of 2022 concerning the Financial Relations Between the Central Government and Regional Governments, regional revenue comprises all regional rights recognized as additions to the net wealth value in the

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia
Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

respective fiscal year period. The sources of regional revenue consist of local own-source revenue (PAD), transfer income, and other lawful regional income.

Local own-source revenue (PAD) is a crucial aspect of regional governance in carrying out its government affairs (Sianturi et al., 2014). According to the Republic of Indonesia Law Number 23 of 2004, PAD comprises local taxes, regional levies, proceeds from the management of separated regional wealth, and other lawful local own-source revenue. The results of research conducted by Muttaqin et al. (2021), Jayanti (2020), Kanaiya and Mustanda (2020), Ferdiansyah et al. (2018), Nurdiwaty et al. (2017), Ismail and Dewi (2016), Fitri et al. (2014), Arwati and Hadiati (2013), and Mawarni et al. (2013) indicate that PAD has a positive and significant influence on capital expenditure. This aligns with the expectation that APBD allocation is not only entirely used for employee and routine expenditures but also for capital expenditure, particularly for infrastructure development or regional facilities (Wandira, 2013).

In addition to PAD, transfers from the central government budget (APBN) are allocated to address fiscal disparities and finance regional needs (Arwati & Hadiati, 2013). According to the Republic of Indonesia Law Number 23 of 2004, one component of central government transfer income is the balance funds, sourced from revenue-sharing funds (DBH), general allocation funds (DAU), and special allocation funds (DAK). The utilization of balance funds, particularly DAK, is directed towards financing the infrastructure and basic public service needs that have not reached certain standards or to accelerate regional development (Ferdiansyah et al., 2018). The results of research conducted by Muttaqin et al. (2021), Ferdiansyah et al. (2018), Nurdiwaty et al. (2017), Wulansari (2015), and Ferdian (2013) indicate that balance funds have a positive and significant influence on capital expenditure. This also demonstrates that the central government provides balance funds to create equity in the distribution of resources for national and public interests (Muttaqin et al., 2021).

The determinants that influence the allocation of capital expenditure by regional governments are of interest to study because capital expenditure, in the form of providing infrastructure and facilities for the community, serves as the driving force of development. Previous research has also yielded varying results regarding the influence of GRDP, local revenue (PAD), and balance funds on the allocation of capital expenditure in regional governments. Through this research, the author aims to examine the influence of GRDP, PAD, and balance funds on the allocation of capital expenditure by regional governments using a sample dataset of all provincial governments in Indonesia over a three-year period from 2019 to 2021. The results of this research are expected to provide additional insights to

policymakers in regional governments regarding the optimization of capital expenditure allocation and contribute to the literature related to state/regional financial management in the context of revenue and expenditure.

2. THEORETICAL FRAMEWORK
2.1. Agency Theory

The relationship between the principal and the agent is a fundamental theory of agency theory, where the agent is the party delegated and authorized to make decisions, while the principal is the one granting authority (Jensen and Meckling, 1976). The principal acts to oversee and assess the tasks performed by the agent.

Differences in interests between the principal and the agent can lead to conflicts of interest, where the agent has more information than the principal, potentially leading to actions or decisions that benefit the agent. These actions can be driven by the agent's desires and interests to maximize their efforts and benefits. In this context, the principal might encounter challenges in efficiently overseeing the actions performed by the agent.

In the public sector, the agency relationship exists between the legislative and executive branches. The Regional People's Representative Council (DPRD) or legislative body acts as the principal, while the executive branch, in this case, the regional government, acts as the agent. The Regional Revenue and Expenditure Budget (APBD), which has been approved, ratified, and is in line with the Regional Government Work Plan (RKPD), serves as a means of control for the Regional People's Representative Council (DPRD) or the legislative body to oversee and review the performance of the regional government. The full transfer of balance funds from the central government to regional governments aims to assist regional governments in financing and meeting their regional needs (Indriyani & Adi, 2018).

2.2. Previous Research

Previous studies have examined the factors influencing government capital expenditure allocation and have yielded varied research findings. One study indicating that economic growth, represented by GRDP proxy, has a positive and significant influence on capital expenditure allocation was conducted by Syukri and Hinaya (2019). Conversely, studies conducted by Arwati and Hadiati (2013), Nurdiwaty et al. (2017), and Alpi and Sirait (2022) found that GRDP does not influence capital expenditure allocation.

Research on Regional Revenue (PAD) concerning capital expenditure allocation has shown positive and significant effects in studies conducted by Ferdiansyah et al. (2018), Arwati and Hadiati (2013), Nurdiwaty et al. (2017), Fitri et al. (2014), Muttaqin et al. (2021), Mawarni et al. (2013), Ismail and Dewi (2016), Jayanti (2020), Kanaiya and Mustanda (2020),

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia
Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

and Pratiwi (2019). Conversely, other findings indicating no significant impact were reported in studies conducted by Wandira (2013), Syukri and Hinaya (2019), and Alpi and Sirait (2022), while negative and significant effects were found in research conducted by Pramudya and Abdullah (2021).

Studies on balance funds concerning capital expenditure allocation also yield varied findings. Studies by Ferdiansyah et al. (2018), Nurdiwaty et al. (2017), and Muttaqin et al. (2021) found that balance funds have a positive and significant influence on capital expenditure allocation. Conversely, Ismail and Dewi (2016) found that balance funds do not affect capital expenditure allocation.

2.3. Hypothesis

The hypotheses used in this study aim to test the relationship between the dependent variable, capital expenditure allocation, and the influencing factors, which include:

1. H1, which posits that Gross Regional Domestic Product (GRDP) (X1) has a significant and proportional effect on capital expenditure allocation (Y).
2. H2, which posits that Local Own-Source Revenues (PAD) (X2) have a significant and proportional effect on capital expenditure allocation (Y).
3. H3, which posits that Balance Funds (X3) have a significant and proportional effect on capital expenditure allocation (Y).
4. H4, which posits that GRDP, PAD, and Balance Funds collectively have a simultaneous effect on capital expenditure allocation (Y).

2.4. Framework of Thought

The theoretical framework of this research hypothesis is as follows: the author suspects that each independent variable, in partial terms, has an influence on the value of capital expenditure. The author proposes hypotheses H1, H2, and H3 to represent this assumption. Additionally, the author suggests the hypothesis that all three variables collectively impact the allocation of capital expenditure, denoted as H4. The research framework for this study is illustrated as Image 1 below:

Image 1. Framework of Factors Influencing Capital Expenditure
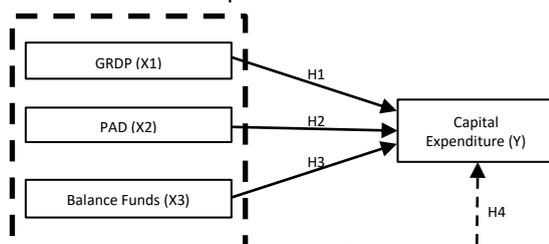
Source: Compiled by the Author (2023)

Code	Factors Affecting Capital Expenditure	Operational Definitions/Limitations	Units	Types of Data
Y	Capital Expenditure	The value of capital expenditure obtained from the Budget Realization Report (LRA)	Rupiah	Ratio
X1	GRDP	The value of Gross Regional Domestic Product (GRDP) obtained from the Central Statistics Agency of the Republic of Indonesia (BPS)	Rupiah	Ratio
X2	PAD	The value of Local Own-source Revenue (PAD) obtained from the Budget Realization Report (LRA)	Rupiah	Ratio
X3	Balance Funds	The value of Balance Funds obtained from the Budget Realization Report (LRA)	Rupiah	Ratio

3. METHODS

3.1. Research Paradigm

In this research, the author adopts a positivist paradigm. Saunders et al. (2019) define positivism as a paradigm that focuses on the use of rules and universal laws to explain an observed social reality. Positivism views social reality, such as an organization or social entity, as a physical object or a tangible natural phenomenon. Data extraction is obtained through rigorous scientific empirical methods, ensuring that the resulting data and facts are pure and not influenced by human interpretation or bias.

3.2. Types and Sources of Data

This study primarily utilizes secondary data. Secondary data refers to data that have been collected by others for purposes other than the current research (Sekaran & Bougie, 2016). Secondary data can act as the primary source of data, offering information relevant to a particular timeframe or area, or it can be utilized for comparing findings with earlier research studies (Saunders et al., 2019).

The data for this research is sourced from the Directorate General of Fiscal Balance, Ministry of Finance website for Capital Expenditure (Y), Local Own-source Revenue (X2), and Balance Funds (X3) data. Meanwhile, data on Gross Regional Domestic Product (X1) is sourced from the website of Badan Pusat Statistik (Statistics Indonesia).

3.3. Data Collection Techniques

Data collection in this study employs a literature review technique. According to Nazir (2003), a literature review is a data collection technique that involves reviewing books, literature, notes, and various reports related to the problem under investigation. The literature review encompasses gathering data that the author will use and cite in the report. Thus, the data presented in the report are credible and verifiable.

The literature review in this study will be conducted on documents containing secondary data. According to Lee (2012, as cited in Saunders et al., 2019), secondary data documents are defined as data with a tangible presence, whether physical or digital, enabling their persistence across different locations and periods. They can be reanalyzed for varied purposes beyond their initial collection aims. Secondary data documents may manifest as written text, audio recordings, or visual media.

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia
Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

3.4. Operational Definition of Variables

The variables in this study include the dependent variable (Y), which is the value of capital expenditure allocation by provincial governments throughout Indonesia, and the independent variables (X), which are the factors influencing the capital expenditure allocation by provincial governments throughout Indonesia, as depicted in the following Table 1:

Table 1. Research Variables
Source: Compiled by the Author (2023)

3.5. Data Analysis Procedures

Multiple linear regression analysis is used to analyze the research data. Multiple linear regression analysis is a method used to predict the value of the dependent variable based on one or more independent variables (Saunders et al., 2019). This study employs the following regression model:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e_i$$

where:

Y = Capital Expenditure
X1 = Gross Regional Domestic Product (GRDP)
X2 = Local Own-source Revenue (PAD)
X3 = Balance Funds
β_0 = Constant
$\beta_1, \beta_2, \text{ and } \beta_3$ = Coefficients
e_i = Residuals

The model can be transformed into a logarithmic equation. Model transformation is performed because there are differences in the units and magnitudes of the variables. Furthermore, a logarithmic model is chosen because it can avoid heteroscedasticity, determine coefficients that show elasticity, and approximate the data scale (Ghozali, 2007). The logarithmic equation used in this study is as follows:

$$LnY = \beta_0 + \beta_1 LnX_1 + \beta_2 LnX_2 + \beta_3 LnX_3 + e_i$$

Where:

Y = Capital Expenditure
X1 = Gross Regional Domestic Product (GRDP)
X2 = Local Own-source Revenue (PAD)
X3 = Balance Funds
β_0 = Constant
$\beta_1, \beta_2, \beta_3$ = Coefficients
e_i = Residual
Ln = Natural Logarithm

Classical assumption tests and statistical tests are conducted on the regression model that has been obtained. Classical assumption tests are necessary to ensure that the regression model is accurate in estimation, unbiased, and consistent (Mardiatmoko, 2020). Tests for classical assumptions typically encompass examinations for normality, multicollinearity, heteroskedasticity, and autocorrelation.

In addition, the researcher also performs statistical tests on the regression model. Statistical tests include partial parameter tests (t-test), simultaneous parameter tests (F-test), and the measurement of the coefficient of determination (R-Square). These statistical tests are also employed to assess the hypotheses posited by the author earlier. The author uses StataMP 17 software to process the data.

4. RESULT AND DISCUSSION

4.1. Testing Factors Affecting Capital Expenditure Allocation

The researcher employs multiple linear regression analysis to determine the extent of influence of independent variables on the dependent variable. The analysis results are then used to establish the regression equation as the basis for testing the existing hypotheses. In order to derive a reliable regression equation, the researcher performs classical assumption testing and statistical analysis.

4.1.1. Descriptive Statistical Analysis Results

The study begins by employing descriptive statistical analysis for each variable to statistically describe the data. Descriptive statistics in this research involve the number of observational data, minimum and maximum values, mean, and standard deviation of each variable from 2019 to 2021. Table 2 displays the results of descriptive statistical analysis for the variables across 34 provinces in Indonesia over a 3-year timeframe, resulting in a total sample of 102 data points.

Variable	n	Minimum	Maximum	Mean	Std. Deviasi
Capital Expenditure	34	176.342.548.971	11.551.927.779.590	1.222.216.288.887	1.332.463.927.774
GRDP	34	26.597.550.000.000	1.856.075.820.000.000	324.891.226.470.588	460.739.166.297.809
PAD	34	345.208.054.042	45.707.400.003.802	4.747.053.414.631	8.024.615.160.010
Balance Funds	34	1.409.195.376.886	22.673.794.344.052	4.977.967.962.882	4.170.842.234.329
T					3
N					102

Table 2. Results of Descriptive Statistical Analysis of Variables
Source: Compiled by the Author (2023)

Capital expenditure has an average value of Rp176,342,548,971.00. The highest capital expenditure was in DKI Jakarta in 2019, amounting to Rp11,551,927,779,590.00, while the lowest was in Gorontalo in 2021, amounting to Rp176,342,548,971.00. Descriptive statistical results also show that the highest Gross Regional Domestic Product (GRDP) was in DKI Jakarta in 2021, and the lowest was in North Maluku in 2019, with an average of Rp324,891,226,470,588.00. The PAD variable is described by descriptive statistics, with the highest value in DKI Jakarta in 2021 and the lowest in West Sulawesi in 2019, with an average value of Rp4,747,053,414,631.00. Meanwhile, the highest balance funds were in DKI Jakarta in 2021 and the lowest was in Gorontalo in 2020, with an average value of Rp4,977,967,962,882.00.

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia
Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

Based on the results of descriptive statistical analysis, it can be concluded that DKI Jakarta has the highest values for all research variables, namely Capital Expenditure, GRDP, PAD, and Balance Funds, compared to other provinces. This is due to DKI Jakarta being the capital city of the nation, functioning not only as the governmental center but also as a significant economic hub. As a result, it exhibits a high GRDP and considerable fiscal capability.

4.1.2. Model Selection Results

Selecting the right model is crucial in panel data regression because it can help control the dependency between unobserved independent variables and the dependent variable, which can lead to biased estimates in traditional linear regression models (Brugger, 2021). Table 3 shows the tests to determine the best panel model for panel data regression.

Table 3. Panel Data Regression Model Testing

Comparison of Panel Data Methods	Testing Method	Prob.	Chosen Model
PLS and FE	Chow Test	0,0000	FE
PLS and RE	Lagrange Multiplier (LM) Test	0.0002	RE
FE and RE	Hausman Test	0,0000	FE

Source: Compiled by the Author (2023)

The model comparison was conducted using the Chow test to select the Partial Least Squares (PLS) or Fixed Effect (FE) model, the Lagrange Multiplier (LM) test to choose between the PLS or Random Effect (RE) model, and the Hausman test to select between the FE or RE model. Based on these tests, the Fixed Effect (FE) model is the best model.

4.1.3. Hypothesis Testing Results

Statistical tests are employed to conduct hypothesis testing based on the outcomes of multiple linear regression analysis. Testing for H1, H2, and H3 is carried out through partial parameter tests (t-test). Testing for H4 is performed through a simultaneous parameter test (F-test). Additionally, the coefficient of determination (R-Square) is also measured.

Table 7 presents the results of multiple linear analysis for the dependent variable, which is the allocation of capital expenditure, and the three independent variables, including Gross Regional Domestic Product (GRDP) (X1), Local Own-Source Revenue (PAD) (X2), and Balances Funds (X3). The regression equation obtained from the analysis is as follows:

$$LnY = 9{,}050368 - 0{,}1337125 LnX1 + 0{,}3040905 LnX2 + 0{,}4916031 LnX3$$

Table 7. Results of Multiple Linear Regression Analysis

LnY	Coef.	Std. Err.	z	P > |z|	[95% conf. interval]	
LnX1	-0,1337125	0,1754352	-0,76	0,446	-0,4775592	0,2101341
LnX2	0,3040905	0,1684745	1,80	0,071	-0,0261134	0,6342945
LnX3	0,4916031	0,1349475	3,64	0,000	0,2271108	0,7560953
_cons	9,050368	2,503683	3,61	0,000	4,143239	13,9575
sigma_u	0,25236078					
sigma_e	0,25277461					
rho	0,49918076	(fraction of variance due to u_i)				

Source: Compiled by the Author (2023)

The analysis between the Gross Regional Domestic Product (GRDP) variable (X1) and capital expenditure allocation (Y) resulted in a significance value (Prob > |z|) of 0.446 and a coefficient of -0.1337125. This significance value is greater than 0.10, indicating that the variable X1 does not have an influence on variable Y. Therefore, it can be concluded that H1 is not accepted.

The Local Own-Source Revenue (PAD) variable (X2) partially affects the capital expenditure allocation (Y). This is evident from the analysis results, which show a significance value (Prob > |z|) of 0.071, smaller than 0.10. The coefficient value of 0.3040905 demonstrates a positive relationship between variable X2 and variable Y. The significance value and coefficient value confirm that H2 is accepted.

The t-test results (Prob > |z|) between the Balance Funds variable (X3) and the capital expenditure allocation variable (Y) show a result of 0.000 < 0.10. It can be said that variable X3 significantly affects variable Y. The coefficient produced is 0.4916031, indicating a negative relationship between variable X3 and variable Y. Therefore, it can be concluded that H3 is accepted.

The F-test results in the multiple linear regression analysis indicate that all three independent variables collectively influence the dependent variable. Independent variables are considered to simultaneously affect the dependent variable when the Prob>F value is less than the 95% confidence level (α = 5%). Table 7 shows that Prob>chi2 has a value of 0.0000, which is below the confidence level used. Thus, it can be concluded that H4 is accepted.

The findings from the multiple linear regression analysis presented in Table 7 reveal that the formed regression equation possesses a coefficient of determination (R-Square) of 0.6556. This means that the capital expenditure allocation by 34 provinces in Indonesia is influenced by 65.56% by the variables GRDP, PAD, and Balance Funds. The remaining 34.44% is influenced by other variables outside the three existing independent variables.

4.2. Analysis of Factors Affecting Capital Expenditure Allocation

4.2.1. Influence of Gross Regional Domestic Product (GRDP) Variable on Capital Expenditure Allocation

Based on the research results, Gross Regional Domestic Product (GRDP) does not have an influence on capital expenditure allocation. This can be observed from the partial significance test results with a significance value (Prob > |z|) of 0.446 or greater

Random-effects GLS regression				Number of obs	=	102
Group variable: prov				Number of groups	=	34
R-squared:				Obs per group:		
	Within	=	0,0000	min	=	3
	Between	=	0,7500	avg	=	3,0
	Overall	=	0,6556	max	=	3
				Wald chi2(3)	=	85,50
corr (u_i, X)		=	0 (assumed)	Prob>chi2	=	0,0000

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia
Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

than the 10% confidence level, concluding that GRDP does not affect the capital expenditure.

GRDP does not affect capital expenditure allocation because it does not directly provide funds to regions. GRDP is one of the macroeconomic indicators commonly used to measure economic performance at the regional level, both in provinces and municipalities (Mawarni et al., 2013). Furthermore, economic growth is not the main reference in formulating regional budgets (APBD) and capital expenditure allocation. Instead, there are several factors, including the process of drafting the General Budget Policy (KUA) in each region, consider not only the macroeconomic situation of the region but also its social and political conditions (Alpi & Sirait, 2022). Therefore, the economic growth of a region does not necessarily lead to an increase in capital expenditure allocation.

These research findings align with previous studies conducted by Alpi and Sirait (2022), Nurdiwaty et al. (2017), Ismail and Dewi (2016), Arwati et al. (2013), Ardhani (2011), Putro (2011), Tuasikal (2008), as well as Darwanto and Yustikasari (2007), which state that GRDP or economic growth does not have an influence on capital expenditure allocation.

4.2.2. Influence of Local Own-source Revenue (PAD) Variable on Capital Expenditure Allocation

Based on the research results, local own-source revenue (PAD) has an influence on capital expenditure allocation. This is evident from the partial significance test outcomes, indicating a significance value (Prob > |z|) of 0.071 or less than the 10% confidence level, leading to the conclusion that PAD significantly affects the capital expenditure value.

Based on the regression test results, the coefficient's direction for the PAD variable shows a positive value of 0.3040905. This suggests that a 1% increase in the PAD variable would result in a 0.3040905% increase in the capital expenditure variable, holding all other variables constant. An uptick in PAD yields a favorable effect on augmenting the allocation of capital expenditure, signifying that PAD positively influences the capital expenditure allocation.

Local own-source revenue (PAD) is one of the sources of regional income used to finance regional expenses, including capital expenditure. PAD reflects the region's self-sufficiency in financing its needs without depending on the central government. Therefore, an increase in PAD collected by regional governments can enhance the capacity of regional spending, particularly in capital expenditure. PAD becomes one of the determining factors in determining the allocation of capital expenditure by provincial governments throughout Indonesia.

These research findings align with studies conducted by Muttaqin et al. (2021), Kanaiya and Mustanda (2020), Jayanti (2020), Pratiwi (2019),

Ferdiansyah et al. (2018), Nurdiwaty et al. (2017), Ismail and Dewi (2016), Fitri et al. (2014), Mawarni et al. (2013), and Arwati et al. (2013). These studies suggest that local own-source revenue (PAD) exerts a significant and positive impact on capital expenditure allocation, indicating a strong tendency for capital expenditure behavior to be greatly influenced by PAD revenue sources.

4.2.3. Influence of Balance Funds Variable on Capital Expenditure Allocation

Based on the research results, balance funds have a significant impact on the allocation of capital expenditure. This can be observed from the partial significance test results with a significance value (Prob > |z|) of 0.000, which is smaller than the 10% confidence level, concluding that balance funds have a significant influence on the value of capital expenditure.

Based on the regression test results, the coefficient's direction for balance funds variable shows a positive value of 0.4916031. This indicates that if balance funds variable increases by 1%, it will increase the capital expenditure variable by 0.4916031%, assuming all other variables remain constant. An increase in balance funds has a positive impact on increasing the allocation of capital expenditure, meaning that balance funds have a positive influence on capital expenditure allocation.

Balance funds are funds sourced from the central government's budget to regional governments to finance regional needs in the context of decentralization. According to the HKPD Law, balance funds are used to finance the implementation of regional government affairs based on the scale of priorities and regional needs that are oriented towards meeting the needs of mandatory government affairs related to basic public services, including fulfilling mandatory spending and achieving minimal service standard (SPM) targets, as well as development goals. One of these obligatory expenses is the allocation for public service infrastructure expenditure, which is mandated to be at least 40% of the total regional budget (APBD). Therefore, an increase in balance funds from the central government to provincial governments will increase the allocation of regional capital expenditure to provide public service infrastructure and facilities.

These research findings are in line with studies conducted by Alpi and Sirait (2022), Muttaqin et al. (2021), Ferdiansyah et al. (2018), Nurdiwaty et al. (2018), Juniawan and Suryantini (2018), Wulansari (2015), Ferdian (2013), and Darwanto and Yustikasari (2007), which state that balance funds consisting of revenue-sharing funds (DBH), general allocation funds (DAU), and special allocation funds (DAK) have a significant and positive influence on the allocation of capital expenditure. Thus, there is strong evidence

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia

Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

that capital expenditure behavior will be significantly influenced by revenue sources from balance funds.

4.2.4. Influence of GRDP, PAD, and Balance Funds Variables on Capital Expenditure Allocation

According to the findings of the study, Gross Regional Domestic Product (GRDP), local own-source revenue (PAD), and balance funds collectively impact the allocation of capital expenditure in provincial governments across Indonesia during the period of 2019-2021.

This can be observed from the F-test results in the multiple linear regression analysis, which indicate that GRDP, PAD, and balance funds collectively influence the allocation of capital expenditure, as evidenced by the Prob>F value is smaller than the 95% confidence level (α = 5%), specifically, at 0.0000.

The multiple linear regression analysis also shows that the regression equation formed has a coefficient of determination (R Square) of 0.6556. This means that 65.56% of the allocation of capital expenditure by the 34 provinces in Indonesia is influenced by the variables GRDP, PAD, and balance funds. The remaining 34.44% is influenced by other variables beyond the three independent variables.

5. CONCLUSION

The conclusions drawn from this research are as follows:

1. Gross Regional Domestic Product (GRDP) does not have an influence on the allocation of capital expenditure. GRDP does not affect capital expenditure allocation because it does not provide direct funds to the regions. GRDP is generally used as an indicator of macroeconomic performance at the regional level, both at the provincial and municipal levels (Mawarni et al., 2013). Moreover, economic growth is not the primary reference in the formulation of regional budgets (APBD) and capital expenditure allocation. There are other factors, such as the general budget policy-making process (KUA) in each region, which considering not only the region's macroeconomic conditions but also its social and political conditions (Alpi & Sirait, 2022). Therefore, the economic growth of a region does not necessarily lead to an increase in capital expenditure allocation.

2. Local Own-source Revenue (PAD) has a significant and positive influence on capital expenditure allocation. An increase in PAD leads to an increase in capital expenditure allocation, indicating a positive relationship between PAD and capital expenditure allocation. PAD is one of the sources of regional income used to finance regional expenses, including capital expenditures. PAD reflects the region's financial self-sufficiency in meeting its own financial

needs without relying on the central government. Therefore, an increase in PAD collected by regional governments can enhance the region's capacity for spending, especially on capital expenditure. PAD becomes one of the determining factors in determining capital expenditure allocation in provincial governments throughout Indonesia.

3. Balance funds have a significant and positive influence on capital expenditure allocation. Balance funds come from the central government's budget to the regions to meet regional needs as part of decentralization. According to the Regional Autonomy Law (UU HKPD), balance funds are used to finance the implementation of regional government affairs based on priority scale and regional needs, focusing on fulfilling mandatory government spending related to basic public services. One of these mandatory spending categories is public service infrastructure spending, which is regulated to be at least 40% of the total regional budget (APBD) spending. Therefore, an increase in balance funds from the central government to provincial governments will enhance regional capital expenditure allocation for the provision of public service infrastructure and facilities.

4. Collectively, Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD), and Balance Funds have an influence on the allocation of capital expenditure in provincial governments throughout Indonesia for the years 2019-2021.

6. LIMITATIONS OF THE RESEARCH

The limitations and weaknesses of this study are that it only focuses on the provincial level of government, thus it inadequately represents the comprehensive condition of decentralization down to the district/city level. Subsequent researchers can investigate down to the district/city level of government.

7. RECOMMENDATION

The recommendations that can be provided based on the research findings are as follows:

1. For regional governments, it is advised to increase the allocation of capital expenditure in accordance with the mandate of the law, which requires allocating at least 40% of the total regional budget for minimum public service infrastructure spending. Additionally, optimizing Local Own-source Revenue (PAD) should be a priority to enhance the fiscal capacity of the region, ultimately leading to an increase in capital expenditure allocation.

2. For future researchers, it is recommended to consider including additional independent variables related to components of the regional

The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia

Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

budget (APBD) that were not covered in this study. Expanding the research sample to include all regional governments, including regencies and municipalities, is advisable. Additionally, extending the research duration could lead to more representative results in future studies.

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The Influence of Gross Regional Domestic Product (GRDP), Local Own-source Revenue (PAD) and Balance Funds on Capital Expenditure Allocation in All Provinces Governments in Indonesia

Daniel Parulian Simanjuntak

Jurnal Pajak dan Keuangan Negara Vol. 5, No. 1, (2024), Page 23-32

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