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*Research Article*

# The Study Examines Capital Expenditure, Balancing Funds, And Locally-Generated Revenue's Impact On Economic Growth In Besuki Residency

**Novi Aulia Ramadhani [1], Arief Bachtiar [2*]**

[1,2] Development Economics, Faculty of Economics and Business , University of Pembangunan Nasional "Veteran" East Java, Surabaya, East Java, Indonesia,
* Corresponding Author: e-mail : 21011010182@student.upnjatim.ac.id

**Abstract:** This study examines the impact of capital expenditure, balancing funds, and local revenue on economic growth in the former Besuki Residency area, covering Banyuwangi, Jember, Situbondo, and Bondowoso Regencies during the 2014-2024 period. Using path analysis on panel data and individual district analysis, the study investigates the direct, indirect, and mediating effects of local revenue as an intervening variable. The results show that all three independent variables significantly affect economic growth in the panel data for all four regencies. Capital expenditure has a significant direct effect only in Bondowoso Regency and overall panel data, but is insignificant in Banyuwangi, Jember, and Situbondo. Balancing funds exhibit a significant direct effect across all regions, while local revenue has a consistent direct effect in all regions and panel data. The mediating role of local revenue is inconsistent, with the indirect effect of capital expenditure through local revenue being insignificant in all regions. On the other hand, the indirect effect of balancing funds through local revenue is significant in Banyuwangi, nearly significant in Jember and Situbondo, and insignificant in Bondowoso. These findings highlight the complexity of fiscal dynamics in decentralization, where local revenue management and governance factors are crucial. The study supports previous research suggesting that central fiscal transfers are less effective without strong local revenue support. Local governments are encouraged to enhance local revenue autonomy to maximize the multiplier effect of capital expenditures and balancing funds, fostering sustainable economic growth.

**Keywords:** Balancing Funds; Capital Expenditure; Economic Growth; Fiscal Decentralization; Local Revenue.

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## 1. Introduction

The district government faces demands to increase transparency and accountability in regional financial management as a form of responsibility to the public in the current era of decentralization and regional autonomy. Implementation of regional autonomy the area is carried out by taking into account several factors, namely regarding the existence of a regional government that better understands and comprehends the needs communities in their respective areas. The existence of regional autonomy authority is intended so that regional governments can independently to develop and manage the potential of their respective regions. The right to autonomy for each region or district will provide freedom to manage and increase sources of income for progress and the welfare of the people in their region. Regional governments are given the authority to determination of the Regional Revenue and Expenditure Budget which is a form of the annual financial plan made by the local government with approval from the Regional People's Representative Council. Fiscal decentralization is related to agency theory where Michael C. Jensen & William H. Meckling (1976) stated that commitment between the principal and the agent. The agent here is appointed to be given the authority to carry out duties of the principal relating to decision-making power to agent. If it is related to the government, then the relationship between the local government and central government. Regional governments have a role in carrying out the tasks One of the things given by the central government is managing finances independently. Based on Government Regulation Number 105 of 2000, it states that all Regional expenditure and revenue in implementing autonomy are summarized and regulated The Regional Revenue and Expenditure Budget also requires financial accountability in the form of reports. financial management for regional heads. The success of regional government lies in the implementation of regional autonomy policy as seen from the financial performance of the regional government.

Regional original income is the root of the income obtained from the region through regional levies, regional taxes, results of managing regional assets separated and other legitimate locally-generated revenue. Locally-generated revenue is the main government revenue regions sourced from taxes and allocated for regional fiscal needs. If a region's locally-generated revenue contribution is large, then financial assistance from the central government will be provided. will be small and dependence on the central government will decrease. In the context of implementing regional autonomy, the central government provides funds balancing funds to regions. Balancing funds consist of revenue sharing funds, allocation funds general and special allocation funds. The provision of these balancing funds is intended for addressing the fiscal gap that occurs between the central government and regional governments and between regional governments. Provision of balancing funds to regional governments It is hoped that this will grow the economy in the region and gradually the government regions can be independent in covering their expenses with income from local sources from local revenue. Capital expenditure is one part of the government expenditure budget. Capital expenditure is divided into land expenditure, equipment and machinery expenditure, building expenditure and buildings, road, irrigation and network spending and other fixed asset spending. Form government expenditure in the form of capital expenditure allocations for the provision of various facilities and public facility infrastructure which is a regional fixed asset and has utility value over one year is expected to be the supporting capital for the implementation of various community economic activities. Besuki Residency has unique and interesting economic characteristics. was made the topic of thesis research because this area is a region with potential a diverse economy, which includes the agricultural, fisheries and micro, small and medium enterprises sectors. In addition Besuki also faces the challenge of development gaps between districts. opens up opportunities for in-depth analysis of resource distribution, effectiveness budget management, as well as the role of balancing funds and regional original income in encourage economic growth. Overall fiscal inequality in the former Besuki Residency area is the result of a combination of various factors, including an unfavorable economic structure balance, differences in infrastructure, fiscal capacity, quality of human resources, and governanceMachine different governments. This makes research related to the influence of government spending capital an balancing funds for economic growth with locally-generated revenue as intervening variables become relevant, considering that locally-generated revenue plays an important role as an indicator regional fiscal independence which can strengthen the influence of fiscal policy on sustainable economic growth. Based on the explanation that has been explained, the researcher is interested in taking the topic "The Influence of Capital Expenditure and Balancing Funds for Economic Growth in the Former Residency Area Besuki (Banyuwangi, Bondowoso, Jember, Situbondo Regencies) with Income Native Region as an Intervening Variable.

## 2. Preliminaries or Related Work or Literature Review

### Agency Theory

According to Jensen and Meckling (1976), the relationship agency is a contract between the principal and the agent, with sees the delegation of some decision-making authority to agents. Agency theory can also be applied to the public sector of democratic countries. have an agency relationship between the community and the government or the relationship between regional government and central government. In an agency relationship, there will be abuse between agents. and principal. The existence of such misuse can give rise to irregularities and corruption committed by the government as an agent. With that, in the management of resources carried out by the government must receive special attention and need to be monitored by stakeholders.

**Fiscal decentralization theory**

Fiscal decentralization is defined by Bird (2000) as the delegation of responsibility created within the scope of the central government to vertical agencies related to the region or local government. Delegation is a situation where The region acts as a substitute for the government in carrying out several certain functions on behalf of the government. One form of fiscal decentralization in Indonesia is in the form of funds. balance that is handed over and delegated authority for its use from central government to regional governments to regulate the amount themselves regional original income in accordance with applicable regulations. Use revenue budget originating from balancing funds and locally-generated revenue becomes regional authority to allocate it for the welfare of the community in areas that can be measured by how much per capita growth there is in each province. Fiscal decentralization discusses the financial interrelationships between strata government that is placed at different levels. Correlation theory fiscal decentralization in this research is the formation of policies Decentralization in Indonesia aims to make regions better by creating reliable human resources in all fields so that become a productive society so that society prospers.

**Regional Revenue and Expenditure Budget**

The regional revenue and expenditure budget is a financial plan the annual regional government budget in Indonesia agreed upon by the House of Representatives Regional People. APBD is a regional government financial program in form of income and expenditure budget which aims to make the region which is independent and the Regional Revenue and Expenditure Budget is determined by the regional government in each year. In the Regional Revenue and Expenditure Budget document, the amount of revenue has been projected regions, regional spending and financing that will be carried out by the government regions in one budget period.

**Locally Generated Revenue**

Regional original income is income that comes from activities regional economy determined by the regional government based on regulations that has been determined. locally-generated revenue is divided into regional taxes, regional levies, regional revenues management of separated regional assets and other regional original income legitimate. Increasing local government revenue requires a multidisciplinary approach integrated which combines economic development, tax optimization, use of technology and public transparency. This strategy will strengthen regional fiscal capacity so that public services can be improved and community welfare is improved sustainably.

**Balancing Fund**

Balancing funds are funds sourced from state budgetpp revenues, allocated to regions to finance regional needs in within the framework of implementing decentralization. Balancing funds are used for support the implementation of regional government authority in achieving goals granting autonomy to regions, namely especially improving services and improving community welfare. Provision of balanced funds to local governments so that they do not feel a gap in capabilities income in each region. Balancing funds consist of three types, namely general allocation funds which in the form of logs and can be spent by the local government without any restrictions on its use or allocation. Then the special allocation fund is a fund whose use has been determined by the central government and local governments are not authorized to determine this. Furthermore, funds for results, namely funds provided as compensation for government revenue central government originating from the regions. For the use of profit-sharing funds to be local government authority.

**Capital Expenditure**

Capital expenditure according to government regulations Number 12 of 2019 is an expenditure budget made by the government for the acquisition of fixed assets and assets others that provide a useful life of more than 1 accounting period. Expenditure capital is defined as government expenditure that will economically increase economic growth. Capital expenditure which includes infrastructure expenditure expected to be able to create a multiplier effect on economic growth which ultimately can increase regional original income in the form of taxes and regional levies. Capital expenditures can be categorized as including land capital expenditures, equipment and machinery purchases, building and construction purchases, road purchases, irrigation and network and other physical capital expenditures.

### Economic Growth

In general, economic growth is defined as an increase the ability of an economy to produce goods and Java-services. The economic growth of a region can be measured by an indicator which is called Gross Regional Domestic Product. Gross Regional Domestic Product is the total value of goods and services produced in a region certain time without considering ownership factors. According to Jhingan (2004) defining economic growth is a long-term increase in a country's ability to provide more and more types of economic goods to consumers population. Economic growth will occur if there is a tendency occurs from internal economic processes, meaning it must originate from the power of that exist within the economy itself.

## 3. Materials and Method

In this study, a quantitative approach was used using data. secondary data obtained from official sources including the Central Statistics Agency, National Statistics Reports Regional Government Finance and the Directorate General of Fiscal Balance *website* of the Ministry of Finance of the Republic of Indonesia. This research focuses on in four districts, namely Banyuwangi, Bondowoso, Jember and Situbondo. The data used includes the realization of capital expenditures, balancing funds and Gross Regional Domestic Product of the four districts for the 2014-2024 budget years. In this study There are three types of variables, namely independent variables of capital expenditure and funds balance, the dependent variable is economic growth and the intervening variable namely local original income. In this study, the classical assumption test was used, the hypothesis, path analysis test and Sobel test.

## 4. Results and Discussion

### The Direct Effect of Capital Expenditure on Economic Growth

Based on the research results, it can be seen that in Bondowoso Regency, the Capital Expenditure variable has a significant effect on economic growth. This is indicated by a significance value of 0.002 (<0.05). Meanwhile, in Banyuwangi Regency, the results show that capital expenditure has no direct effect on economic growth. This is indicated by a significance value greater than 0.05, namely 0.787. Furthermore, in Jember Regency, the results show that the capital expenditure variable also has no significant effect, as seen from a significance value of 0.410, which is greater than the 0.05 threshold. Similarly, in Situbondo Regency, the capital expenditure variable does not have a significant direct effect, as indicated by a significance value of 0.092, which is greater than 0.05. Furthermore, the panel data test results for the four regencies show a significance value of 0.000, which is less than the 0.05 threshold. Based on these results, it can be seen that capital expenditure has a significant direct effect on economic growth in the panel data for the four regencies in the former Besuki Residency.

Based on the research conducted, of the four regencies in the former Besuki Residency, only Bondowoso Regency and the panel data for all four regencies show a direct effect on economic growth. Furthermore, Banyuwangi Regency, Jember Regency, and Situbondo Regency do not have a significant direct effect on economic growth.

This phenomenon is consistent with Mardiasmo's (2018:20) agency theory, which defines that in the principal-agent relationship of regional autonomy, the regency government, as the agent, faces abuse when Regional Original Revenue is low, leading to a preference for personnel and routine spending that minimize political risk. In the former Besuki Residency, the limited regional budget exacerbates conflicts of interest, resulting in capital expenditure, which requires long-term commitment—an agency instrument—failing to boost Gross Regional Domestic Product broadly, in contrast to regions with high Regional Original Revenue that are capable of sustainable allocation.

### The Direct Impact of Balancing Funds on Economic Growth

Research shows that in Bondowoso Regency, the balancing fund variable has a significant effect on economic growth. This is evident from the significance value of 0.036, which is less than 0.05. In Banyuwangi Regency, the significance value is less than 0.005, at 0.000. In Jember Regency, the significance value is also 0.001, which is less than 0.05. Furthermore, in Situbondo Regency, the significance value is also less than 0.05, at 0.002. Furthermore, panel data testing for the four regencies shows a significance value of 0.000, which is less than the 0.05 threshold. Therefore, it can be concluded that balancing funds have a direct and significant effect on economic growth in the panel data for the four regencies in the former Besuki Residency area.

Based on these results, the four regencies in the former Besuki Residency area—Bondowoso Regency, Banyuwangi Regency, Jember Regency, and Situbondo Regency—and panel data from the four regencies indicate that the balancing fund variable has a significant direct influence on economic growth.

This phenomenon aligns with Mardiasmo's agency theory (2018:46), which states that "central transfer funds function as a supervisory mechanism for principals over regional agents, ensuring accountability through transparent and mandatory allocation formulas." In the former Besuki Residency area, these funds mitigate moral hazard through external control by the central government, forcing local agents to allocate funds for productive infrastructure that directly increases Gross Regional Domestic Product. Unlike fluctuating Regional Original Revenue, the balancing fund is stable and scheduled, creating incentives to align the interests of national community principals with those of district agents for regional economic growth.

## The Direct Effect of Regional Original Revenue on Economic Growth

Based on the research conducted, the results for the four regencies in the former Besuki Residency area show a significance value less than the 0.05 threshold. The results for the four districts include Bondowoso Regency, which obtained a significance value of 0.044, which is smaller than the threshold of 0.05. Banyuwangi Regency obtained a significance value of 0.000 (<0.05). Jember Regency also obtained a significance value of 0.000 (0.05). Similarly, Situbondo Regency obtained a significance value of 0.000 (0.05). Furthermore, the results of the panel data test for the four districts showed The significance value is 0.000, which is less than the 0.05 threshold. These results indicate that local revenue has a direct and significant effect on economic growth in the panel data for the four regencies in the former Besuki Residency.

The results of the study, conducted in the four regencies (Bondowoso, Banyuwangi, Jember, and Situbondo), and the panel data for the four regencies, indicate that local revenue has a direct and significant effect on economic growth. This is evidenced by the significance value obtained from the test results being less than the 0.05 threshold.

Local revenue has a significant effect in all four regencies and in the panel data. These results align with Mardiasmo's (2006:113) agency theory, which states that local revenue creates vertical accountability for regional agents to local community principals through independent revenue management, such as taxes and levies. The strength of local revenue in the former Besuki Residency provides fiscal autonomy that reduces dependence on central transfers, allowing local agents to prioritize productive spending according to regional needs. This minimizes incentives for tax efficiency and revenue innovation, resulting in a larger multiplier effect on GRDP than external funding, as consistently demonstrated across districts.

## Indirect Effect of Capital Expenditure on Economic Growth Through Locally-Owned Revenue

Testing the indirect path indicates that capital expenditure has no significant effect on economic growth through the mediation of Locally-Owned Revenue in all four districts and panel data. Agency theory, according to Mardiasmo (2018:48-50), explains that infrastructure capital expenditure requires long lead times and coordination between agents, so the mediation effect through Locally-Owned Revenue is often distorted by abuses of regional autonomy. In the former Besuki Residency, fragmented capital expenditure allocations failed to increase the tax/levy base of Locally-Owned Revenue because infrastructure was not optimally utilized by the community, creating an agency time lag. Local agents with low fiscal capacity struggled to convert capital expenditure into independent revenue, hindering the mediation pathway to Gross Regional Domestic Product and confirming that without a strong initial Locally-Owned Revenue, the indirect effect of capital expenditure is minimal.

a. Banyuwangi Regency

The Sobel test results, with a statistical value of -0.9807, indicate that local revenue does not play a significant role as a mediator in the relationship between capital expenditure and economic growth. A statistical value smaller than the critical value of ±1.96 in the standard normal distribution indicates that the mediation effect is not significant at the 5% significance level. This indicates that the relationship between capital expenditure and economic growth in this study occurs more directly without a significant mediation role by local revenue.

b. Bondowoso Regency

The effect of capital expenditure as an independent variable on economic growth as a dependent variable through local revenue as an intervening variable was tested using the Sobel test. The test results showed a Sobel statistic of -0.2336 with a two-tailed probability value of 0.8153, meaning the p-value is significantly greater than the 0.05 significance level. This indicates that the mediating effect of local revenue in the relationship between capital expenditure and economic growth is not statistically significant. In other words, local revenue does not play a significant role as a mediator in influencing the relationship between capital expenditure and economic growth in this research model.

c. Jember Regency

The Sobel test results, with a statistical value of -0.3048, indicate that local revenue does not play a significant role as a mediator in the relationship between capital expenditure and economic growth. This statistical value, which is much smaller than the critical value of ±1.96 in the standard normal distribution, indicates the absence of significant mediation at the 5% significance level. Therefore, the relationship between capital expenditure and economic growth occurs more directly without mediation by Local Revenue in the context of this study.

d. Situbondo Regency

The Sobel statistic value of -1.4863 indicates that local revenue does not play a significant role as a mediator in the influence of capital expenditure on economic growth. This value is still smaller than the critical value of ±1.96 in the standard normal distribution, so mediation is not significant at the 5% significance level. Therefore, the relationship between capital expenditure and economic growth in this study occurs more directly without mediation by Local Revenue, indicating a limited role. Regional Original Revenue in translating the influence of capital expenditure into economic growth.

e. Panel Data of the Former Besuki Residency

The Sobel statistic of 0.52087 indicates that Regional Original Revenue does not play a significant role as a mediator in the influence of capital expenditure on economic growth. This value is smaller than the critical value of ±1.96 in the standard normal distribution, so mediation is not significant at the 5% significance level. This condition indicates that the relationship between capital expenditure and economic growth occurs more directly without mediation by Regional Original Revenue. This finding aligns with the research results of Nurani (2023), which showed that capital expenditure can mediate the contribution of regional financial performance to economic growth. However, the role of Regional Original Revenue as a mediator in the context of capital expenditure is not always directly significant, indicating the limitations of Regional Original Revenue in this mediation process.

**Indirect Effect of Balancing Funds on Economic Growth through Regional Original Revenue**

Balancing funds have a significant indirect effect on economic growth through Regional Original Revenue in Banyuwangi and the panel data, approaching significance in Jember/Situbondo and insignificant in Bondowoso. Mardiasmo's Agency Theory (2006:116-118) states that balancing funds function as a motivating aid that helps regions increase their own-source revenue through fiscal incentives, reducing the misalignment of interests between the central government (principal) and the regional government (agent).

a. Banyuwangi Regency
The Sobel test results, with a statistical value of 4.2708, indicate that the original-source revenue variable plays a significant role as a mediator in the relationship between balancing funds and economic growth. This statistical value, which far exceeds the critical value of ±1.96 in the standard normal distribution, indicates that the mediation of original-source revenue is significant at the 5% level of significance. Thus, the influence of balancing funds on economic growth occurs largely through the mechanism of increasing original-source revenue, indicating a meaningful indirect relationship between balancing funds and economic growth through original-source revenue.

b. Bondowoso Regency
The Sobel test results, with a statistical value of 0.2871, indicate that the original-source revenue variable does not play a significant role as a mediator in the relationship between balancing funds and economic growth. A statistical value significantly lower than the critical value in the standard normal distribution (±1.96) indicates the absence of significant mediation. This means that the balancing fund directly influences economic growth without being mediated by Regional Original Income in this research model.

c. Jember Regency
The Sobel statistic of 1.9517 is very close to the critical value of ±1.96 in the standard normal distribution, indicating that the role of regional original income as a mediator in the relationship between balancing funds and economic growth is approaching significance at the 5% level. This suggests that Regional Original Income plays a role in transmitting the influence of balancing funds to economic growth, although evidence of this mediation still needs further confirmation with a stricter significance level or a larger sample. Thus, the balancing fund does not appear to have a fully direct effect, but rather partly through the mechanism of increasing Regional Original Income.

d. Situbondo Regency
The Sobel statistic of 1.7055 indicates a mediation of local revenue in the relationship between balancing funds and economic growth, although it has not yet reached the critical value of ±1.96 in the standard normal distribution for a 5% significance level. This indicates that local revenue has the potential to act as a mediator supporting the influence of balancing funds on economic growth. However, evidence of this mediation is marginal and requires further testing to confirm its significance. In other words, the contribution of local revenue as an intermediary for the influence of balancing funds is still weak but indicates a positive trend.

e. Panel Data of the Former Besuki Residency
The Sobel statistic of 3.82885 indicates that local revenue plays a significant role as a mediator in the relationship between balancing funds and economic growth, as it has exceeded the critical value of ±1.96 in the standard normal distribution at a 5% significance level. This indicates that local revenue supports and strengthens the positive influence of balancing funds on economic growth. In other words, increasing regional balancing funds can contribute to economic growth indirectly through increasing Original Income Regions act as intermediaries, strengthening the flow of effects from balancing funds to economic growth.

## The Simultaneous Effect of Capital Expenditure, Balancing Funds, and Locally Generated Revenue on Economic Growth

Based on the research results, it was found that capital expenditure, balancing funds, and locally generated revenue simultaneously influenced economic growth in all test results. This is evident from the test results for Bondowoso Regency, which showed a significance value of 0.002, less than 0.05. Similarly, for Banyuwangi Regency, the significance value was 0.000 (0.05). Furthermore, for Jember Regency, the significance value was 0.002 (<0.05). Furthermore, for Situbondo Regency, the significance value was 0.002 (<0.05). Furthermore, panel data testing for the four regencies yielded a significance value of 0.000 (<0.05).

The results obtained from the four regencies (Bondowoso, Banyuwangi, Jember, and Situbondo) and panel data show that capital expenditure, balancing funds, and local revenue together significantly influence economic growth.

Simultaneously, capital expenditure, balancing funds, and locally-generated revenue significantly influence economic growth in all four regencies and panel data. Mardiasmo's agency theory (2006:112-115) asserts that diversification of regional revenue portfolios creates a comprehensive internal-external monitoring system, where transfer funds control agents from the central principal, locally-generated revenueprovides local incentives, and capital expenditure synergizes between the two. In the former Besuki Residency, this combination addresses abuse holistically, with balancing funds stabilizing the Regional Budget, locally-generated revenue encouraging innovation, and capital expenditure realizing infrastructure investment, generating a cumulative effect on Gross Regional Domestic Product (GDP) that is stronger than any single variable.

## 5. Conclusion and Recommendations

### Conclusion

Based on the analysis conducted in the former Besuki Residency area for the 2014-2024 period, it can be concluded that the direct effect of capital expenditure on economic growth is only significant in Banyuwangi Regency and the panel data. However, the results were insignificant in the other three regencies, namely Bondowoso, Jember, and Situbondo.

The direct effect of the Balancing Fund on economic growth in all four regencies and the panel data showed a significant effect. This is because the balancing fund from the central government remains the primary source of regional revenue, with the largest nominal amount.

The direct effect of Regional Original Income on economic growth in all four regencies and the panel data showed a significant effect. This is because regional original income is the primary source of regional revenue, indicating a region's ability to generate its own revenue.

The indirect effect of the balancing fund on economic growth through regional original income was only significant in Banyuwangi Regency and the panel data. It was not significant in Bondowoso, Jember, and Situbondo regencies because the balancing fund has a more significant direct effect on economic growth than through regional original income.

The indirect effect of capital expenditure on economic growth through regional original revenue was insignificant in the four regencies and panel data. This indicates that regional original revenue does not act as an intervening factor between capital expenditure and economic growth.

The simultaneous effect of capital expenditure, balancing funds, and regional original revenue on economic growth shows a significant effect. Collectively, all three variables influence economic growth, meaning they mutually influence economic growth.

### Recommendations

Local governments in the former Besuki Residency should improve the effectiveness of the management and utilization of regional original revenue to support the optimization of capital expenditure and balancing funds in driving economic growth. Capital expenditure planning and implementation must consider specific regional needs and accelerate implementation to ensure a significant positive impact on the local economy, especially in regencies that currently do not show a significant impact.

Further research is recommended to explore other mediating or moderating variables that could potentially influence the relationship between capital expenditure, balancing funds, and economic growth to obtain a more comprehensive picture of the mechanisms within the context of regional development. Data refinement and more detailed longitudinal analysis will help improve understanding of the dynamics of fiscal and economic relations at the regional level and support more targeted policymaking.

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